

APPENDIX A

Financial Statements

City of Toronto Sinking Funds

December 31, 2011



July [x], 2012

Independent Auditor's Report

**To the Chair of the
City of Toronto Sinking Funds Committee**

We have audited the accompanying financial statements of the City of Toronto Sinking Funds, which comprise the balance sheet as at December 31, 2011 and the statements of operations and changes in unrestricted surplus, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the City of Toronto Sinking Funds as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in note 2 to the financial statements..

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes the basis of accounting. The financial statements are prepared for management and the Sinking Fund Committee. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Sinking Fund Committees, Members of Council and management and should not be used by any other parties.

Chartered Accountants, Licensed Public Accountants

City of Toronto Sinking Funds

BALANCE SHEET

As at December 31, 2011

	2011	2010
	\$	\$
	[in thousands]	
ASSETS		
Current		
Cash	4,669	7,231
Other Receivables	-	5,290
Investments, at market value <i>[note 3]</i>	1,772,462	1,692,325
	1,777,131	1,704,846
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	31	29
Distributions payable <i>[note 4]</i>	-	12,864
Total current liabilities	31	12,893
Actuarial requirements <i>[note 5]</i>	1,144,263	1,070,154
Total liabilities	1,144,294	1,083,047
Net assets		
Unrestricted surplus <i>[note 4]</i>	179,593	109,657
Internally restricted surplus <i>[note 4]</i>	453,244	512,142
Total surplus	632,837	621,799
	1,777,131	1,704,846

See accompanying notes

City of Toronto Sinking Funds

STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED SURPLUS

Year ended December 31, 2011

	2011	2010
	\$	\$
	[in thousands]	
REVENUES		
Contributions	133,520	749,800
Investment income	151,628	81,996
	285,148	831,796
EXPENSES		
Provision for actuarial requirements <i>[note 5]</i>	274,110	288,439
Excess of revenues over expenses for the year	11,038	543,357
Surplus, beginning of year	621,799	87,905
Distribution of surplus contributions <i>[note 4]</i>	-	(9,463)
Adjusted surplus, beginning of year	621,799	78,442
Total surplus, end of year	632,837	621,799

See accompanying notes

City of Toronto Sinking Funds

STATEMENT OF CASH FLOWS

Year ended December 31, 2011

	2011	2010
	\$	\$
	[in thousands]	
OPERATING ACTIVITIES		
Excess of revenues over expenses for the year	11,038	543,357
Deduct items not involving cash		
Amortized discount on investments	(14,370)	(22,952)
Accrued interest	(1,359)	(150)
Distribution of surplus contributions	(12,864)	-
Unrealized gain on investments	(83,187)	(27,691)
Increase in actuarial requirements	274,110	288,439
Maturity of debenture	(200,000)	(260,000)
	(26,632)	521,003
Changes in non-cash working capital balances related to operations		
Accounts payable and accrued liabilities	2	9
Other receivables	5,290	(5,290)
Cash used in operating activities	(21,340)	515,722
INVESTING ACTIVITIES		
Purchase of investments	(3,041,131)	(7,475,729)
Proceeds from maturities of investments	2,974,175	6,863,969
Proceeds from sale of investments	85,734	101,669
Cash used in investing activities	18,778	(510,091)
Net increase (decrease) in cash during the year	(2,562)	5,631
Cash, beginning of year	7,231	1,600
Cash, end of year	4,669	7,231

See accompanying notes

**SCHEDULE OF PROJECTION OF
DEBENTURE MATURITIES**

Year ended December 31, 2011

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

	\$
	[in thousands]
2012	120,000
2013	228,000
2014	300,000
2015	475,000
2016	500,000
2017	425,000
2018	400,000
2019	150,000
2021	600,000
2041	650,000
	<u>3,848,000</u>

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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 will 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 City of Toronto Sinking Fund is governed under the *City of Toronto Act, 1997 (No. 2) Statutes of Ontario, 1997, Chapter 26* and is exempt from income taxes under section 149(1) of the Canada Income Tax Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the significant accounting policies summarized below.

Revenue recognition

Contributions are recognized as revenue in the year receivable. Interest income is recorded when earned.

Financial instruments

Financial assets include cash and investments. The value of investments recorded in the financial statements is valued based on the latest bid prices. The Fund's investment activities expose it to a range of financial risks, including market risk, credit risk, and, liquidity risk. The Fund manages these risks utilizing a balanced approach of investments through debentures issued or guaranteed by provincial and municipal governments and by corporate bonds. The Fund does not invest in equity or foreign investments, thus reducing market risks. The Fund's investment in fixed income securities is exposed to credit risk, the maximum risk exposure being the cost of these investments. Liquidity risk is managed by ensuring the Fund invests in high quality investments easily disposed of in an active market.

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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

While investments are purchased with the intention of holding them until maturity, for accounting purposes 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 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 judgement is applied is with respect to the actuarial requirements of the Sinking Funds. The provision for actuarial requirements of the sinking fund for the year represents the amounts levied during the year as set out in the sinking fund debenture bylaws plus interest accrued 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. The excess of revenue over these requirements for the year is included in the fund balance.

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

3. INVESTMENTS

Investments consist of the following:

	Market value	Par value
	\$	\$
	[in thousands]	
2011		
Debentures issued or guaranteed by:		
Provincial governments	1,044,209	1,214,080
City of Toronto	168,079	146,944
Other Canadian municipalities	130,674	110,525
Corporate debt	429,500	411,887
Total	1,772,462	1,883,436
2010		
Debentures issued or guaranteed by:		
Provincial governments	951,855	1,218,930
City of Toronto	151,172	138,574
Other Canadian municipalities	127,178	114,965
Corporate debt	462,120	452,096
Total	1,692,325	1,924,565
	2011	2010
	\$	\$
	[in thousands]	
Amortized cost	1,604,342	1,608,751
Weighted average yield	4.64%	4.00%
Average term to maturity	5.68 years	6.08 years
Excess of market value over amortized cost	168,120	83,575

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

4. NET ASSETS

Total surplus consists of the following:

	2011	2010
	\$	\$
	[in thousands]	
City of Toronto unrestricted surplus	17,585	30,099
Toronto District School Board	584	1,296
Total unrestricted surplus based on amortized cost	18,169	31,395
Unrealized gain on investments	161,424	78,262
Internally restricted surplus	453,244	512,142
Total net assets	632,837	621,799

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 \$5,986 [2010-\$5,845] that were available to be distributed as a result of the maturity of three debt issues in 2011 [2010-two debt issues]. 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 was approved by the City of Toronto Council in April 2009. In March 2010, the City of Toronto Sinking Funds Committee approved the distribution of the 2008 surplus amount of \$9,463, which was approved by the City of Toronto Council in June 2010. These distributions were paid in 2011.

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

5. SINKING FUND REQUIREMENTS

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

	2011	2010
	\$	\$
	[in thousands]	
Sinking fund requirements, beginning of year	1,070,154	1,041,715
Add provision for sinking fund requirements	274,109	288,439
	1,344,263	1,330,154
Less par value of debentures matured during the year	200,000	260,000
Sinking fund requirements, end of year	1,144,263	1,070,154

6. 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, 2011, the Sinking Funds has met its objective of having sufficient liquid resources to meet its current obligations.