

APPENDIX A

Financial Statements

City of Toronto Sinking Funds
December 31, 2014



July [XX], 2015

Independent Auditor's Report

**To the Members of Council of
City of Toronto**

We have audited the accompanying financial statements of the City of Toronto Sinking Funds, which comprise the statement of financial position as at December 31, 2014 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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, 2014 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 to the Members of Council. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Members of Council and management and should not be used by any other parties.

Chartered Accountants, Licensed Public Accountants

**CITY OF TORONTO SINKING FUNDS
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014**

	2014	2013
	\$	\$
	[in thousands]	
ASSETS		
Current		
Cash	5,741	4,374
Accounts receivable	-	1,000
Investments <i>[note 3]</i>	2,129,881	2,054,615
Total current assets	2,135,622	2,059,989
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	39	36
Total current liabilities	39	36
Actuarial requirements <i>[note 5]</i>	1,761,472	1,648,391
Total liabilities	1,761,511	1,648,427
Net assets		
Unrestricted surplus <i>[note 4]</i>	113,491	76,557
Internally restricted surplus <i>[note 4]</i>	260,620	335,005
Total surplus	374,111	411,562
	2,135,622	2,059,989

See accompanying notes

**CITY OF TORONTO SINKING FUNDS
STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	2014	2013
	\$	\$
	[in thousands]	
REVENUES		
Contributions	189,672	164,100
Investment income <i>[note 6]</i>	113,958	25,337
	303,630	189,437
EXPENSES		
Provision for actuarial requirements <i>[note 5]</i>	341,081	320,144
(Deficiency) of revenues over expenses for the year	(37,451)	(130,707)
Surplus, beginning of year	411,562	542,269
Total surplus, end of year	374,111	411,562

See accompanying notes

**CITY OF TORONTO SINKING FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	2014	2013
	\$	\$
	[in thousands]	
OPERATING ACTIVITIES		
(Deficiency) excess of revenues over expense for the year	(37,451)	(130,707)
Deduct items not involving cash		
Amortized discount on investments	(18,165)	(15,657)
Increase (decrease) in accrued interest	947	(450)
Unrealized (gain) loss on investments	(36,240)	50,961
Increase in actuarial requirements	341,081	320,144
	250,172	224,291
Changes in non-cash working capital balances related to operations		
Increase in accounts payable and accrued liabilities	3	3
Decrease (Increase) in other receivables	1,000	(1,000)
Cash used in operating activities	251,175	223,294
INVESTING ACTIVITIES		
Purchase of investments	(389,024)	(444,189)
Proceeds from maturities of investments	213,977	255,028
Proceeds from sale of investments	153,239	69,170
Cash used in investing activities	(21,808)	(119,991)
FINANCING ACTIVITIES		
Maturity of debenture	(228,000)	(120,000)
Cash used in financing activities	(228,000)	(120,000)
Net increase (decrease) in cash during the year	1,367	(16,697)
Cash, beginning of year	4,374	21,071
Cash, end of year	5,741	4,374

See accompanying notes.

**CITY OF TORONTO SINKING FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. PURPOSE OF SINKING 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 (*Appendix B - Schedule Of Projection Of Debenture Maturities*) 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 Funds are governed under the *City of Toronto Act, 2006 (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 Canadian Public Sector Accounting Standards, except that investments are recorded at fair value. The significant accounting policies are 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, accounts receivable and investments. Cash and accounts receivable are recorded at amortized cost, which approximates fair value. The value of investments recorded in the financial statements is the fair value based on the latest bid prices. The Sinking Funds’ investment activities expose it to a range of financial risks, including market risk, credit risk, and, liquidity risk. The Sinking Funds manage these risks utilizing a balanced approach of investments through debentures issued or guaranteed by provincial and municipal governments and by corporate bonds. The Sinking Funds do not invest in equity or foreign investments. The Sinking Funds' 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 Sinking Funds invest in high quality investments easily disposed of in an active market.

**CITY OF TORONTO SINKING FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Financial Instruments (continued)

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 investment income and interest income; net of bank service charges, audit fees and unrealized gain/(loss) on the increase/decrease in market value of the investments.

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 by-laws plus interest accrued thereon compounded at the sinking fund rate of 6% per annum on debt issued from 1993 to 1996 and 3.5%, 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 THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

3. INVESTMENTS

Investments consist of the following:

	Fair value	Book value
	\$	\$
	[in thousands]	
2014		
Debentures issued or guaranteed by:		
Provincial governments	1,239,246	1,377,642
City of Toronto	180,876	160,305
Other Canadian municipalities	132,287	114,868
Corporate debt	577,472	562,223
Total	2,129,881	2,215,038

2013		
Debentures issued or guaranteed by:		
Provincial governments	1,198,305	1,386,422
City of Toronto	198,078	182,181
Other Canadian municipalities	143,454	131,440
Corporate debt	514,778	496,270
Total	2,054,615	2,196,313

	2014	2013
	\$	\$
	[in thousands]	
Amortized cost	1,993,063	1,953,090
Weighted average yield	4.49%	4.54%
Average term to maturity	4.48 years	4.99 years
Excess of market value over amortized cost	136,818	101,525

**CITY OF TORONTO SINKING FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

4. NET ASSETS

Total surplus consists of the following:

	2014	2013
	\$	\$
	[in thousands]	
City of Toronto unrestricted surplus (deficit)	(15,509)	(15,757)
Toronto District School Board	(525)	(971)
Total unrestricted surplus (deficit) based on amortized cost	(16,034)	(16,728)
Unrealized gain on investments	129,525	93,285
Total unrestricted surplus	113,491	76,557
Internally restricted surplus	260,620	335,005
Total net assets	374,111	411,562

5. SINKING FUND REQUIREMENTS

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

	2014	2013
	\$	\$
	[in thousands]	
Sinking Fund requirements, beginning of year	1,648,391	1,448,247
Add provision for Sinking Fund requirements	341,081	320,144
	1,989,472	1,768,391
Less par value of debentures matured during the year	228,000	120,000
Sinking Fund requirements, end of year	1,761,472	1,648,391

**CITY OF TORONTO SINKING FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

6. INVESTMENT INCOME

	2014	2013
	\$	\$
	[in thousands]	
Investment income	77,365	75,920
Interest income	353	378
Unrealized gain (loss) on increase in market value	36,240	(50,961)
Total investment income	113,958	25,337

7. FINANCIAL INSTRUMENTS

The Sinking Funds are subject to market risk, credit risk, and interest rate price risk with respect to its investment portfolio. The Sinking Funds' interest bearing investments are exposed to interest rate risk. The Sinking Funds' investments are at risk due to fluctuations in market prices whether changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The Sinking Funds manage risk by investing across a wide variety of asset classes and investment strategies.

The Sinking Funds hold investments in fixed income securities issued by corporations and government entities and such have fixed income credit risk. The Sinking Funds mitigate this risk by limiting the investment portfolio to investments in BBB grade or higher.

The Sinking Funds' liquidity risk is the risk of being unable to settle or meet commitments as they come due. These commitments include payment of the funding obligations of the Sinking Funds. Liquidity risk is managed by ensuring the Sinking Funds invest in high quality investments easily disposed of in an active market.

8. 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, 2014, the Sinking Funds has met its objective of having sufficient liquid resources to meet its current obligations.

CITY OF TORONTO SINKING FUNDS
APPENDIX B - SCHEDULE OF PROJECTION OF DEBENTURE MATURITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

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

	\$
	[in thousands]
2015	300,000
2016	475,000
2017	500,000
2018	425,000
2019	400,000
2021	650,000
2023	300,000
2024	300,000
2040	600,000
2041	450,000
2042	300,000
2044	300,000
	<u>5,000,000</u>