

APPENDIX A

Financial Statements

City of Toronto Sinking Funds
December 31, 2012



July [x], 2013

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, 2012 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, 2012 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, 2012

	2012	2011
	\$	\$
	[in thousands]	
ASSETS		
Current		
Cash	21,071	4,669
Investments, at market value <i>[note 3]</i>	1,969,478	1,772,462
	1,990,549	1,777,131
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	33	31
Total current liabilities	33	31
Actuarial requirements <i>[note 5]</i>	1,448,247	1,144,263
Total liabilities	1,448,280	1,144,294
Net assets		
Unrestricted surplus <i>[note 4]</i>	144,467	179,593
Internally restricted surplus <i>[note 4]</i>	397,802	453,244
Total surplus	542,269	632,837
	1,990,549	1,777,131

See accompanying notes

City of Toronto Sinking Funds

STATEMENT OF OPERATIONS AND CHANGES
IN UNRESTRICTED SURPLUS

Year ended December 31, 2012

	2012	2011
	\$	\$
	[in thousands]	
REVENUES		
Contributions	157,751	133,520
Investment income <i>[note 6]</i>	55,665	151,628
	213,416	285,148
EXPENSES		
Provision for actuarial requirements <i>[note 5]</i>	303,984	274,110
(Deficiency) excess of revenues over expenses for the year	(90,568)	11,038
Surplus, beginning of year	632,837	621,799
Total surplus, end of year	542,269	632,837

See accompanying notes

City of Toronto Sinking Funds

STATEMENT OF CASH FLOWS

Year ended December 31, 2012

	2012	2011
	\$	\$
	[in thousands]	
OPERATING ACTIVITIES		
(Deficiency) excess of revenues over expenses for the year	(90,568)	11,038
Deduct items not involving cash		
Amortized discount on investments	(30,964)	(14,370)
Accrued interest	(1,119)	(1,359)
Distribution of surplus contributions	-	(12,864)
Unrealized loss (gain) on investments	17,202	(83,187)
Increase in actuarial requirements	303,984	274,110
	198,535	173,368
Changes in non-cash working capital balances related to operations		
Accounts payable and accrued liabilities	2	2
Other receivables	-	5,290
Cash used in operating activities	198,537	178,660
INVESTING ACTIVITIES		
Purchase of investments	(1,159,310)	(3,041,131)
Proceeds from maturities of investments	861,336	2,974,175
Proceeds from sale of investments	115,839	85,734
Cash used in investing activities	(182,135)	18,778
FINANCING ACTIVITIES		
Maturity of debenture	-	(200,000)
Cash used in financing activities	-	(200,000)
Net increase (decrease) in cash during the year	16,402	(2,562)
Cash, beginning of year	4,669	7,231
Cash, end of year	21,071	4,669

See accompanying notes

**SCHEDULE OF PROJECTION OF
DEBENTURE MATURITIES**

Year ended December 31, 2012

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

	\$
	[in thousands]
2013	120,000
2014	228,000
2015	300,000
2016	475,000
2017	500,000
2018	425,000
2019	400,000
2021	650,000
2040	600,000
2041	450,000
2042	300,000
	<u>4,448,000</u>

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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, 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 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. 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, 2012

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 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 FINANCIAL STATEMENTS

December 31, 2012

3. INVESTMENTS

Investments consist of the following:

	Market value	Par value
	\$	\$
	[in thousands]	
2012		
Debentures issued or guaranteed by:		
Provincial governments	1,073,283	1,215,247
City of Toronto	195,268	172,971
Other Canadian municipalities	123,479	106,773
Corporate debt	577,448	556,100
Total	1,969,478	2,051,091
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
	2012	2011
	\$	\$
	[in thousands]	
Amortized cost	1,817,432	1,604,342
Weighted average yield	4.81%	4.64%
Average term to maturity	5.02 years	5.68 years
Excess of market value over amortized cost	152,046	168,120

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

4. NET ASSETS

Total surplus consists of the following:

	2012	2011
	\$	\$
	[in thousands]	
City of Toronto unrestricted surplus	371	17,585
Toronto District School Board	(150)	584
Total unrestricted surplus based on amortized cost	221	18,169
Unrealized gain on investments	144,246	161,424
Total unrestricted surplus	144,467	179,593
Internally restricted surplus	397,802	453,244
Total net assets	542,269	632,837

5. SINKING FUND REQUIREMENTS

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

	2012	2011
	\$	\$
	[in thousands]	
Sinking fund requirements, beginning of year	1,144,263	1,070,154
Add provision for sinking fund requirements	303,984	274,109
	1,448,247	1,344,263
Less par value of debentures matured during the year	-	200,000
Sinking fund requirements, end of year	1,448,247	1,144,263

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

6. INVESTMENT INCOME

	2012	2011
	\$	\$
	[in thousands]	
Investment income	72,717	68,397
Interest income	150	44
Unrealized (loss) gain on increase in market value	(17,202)	83,187
Total Investment income	55,665	151,628

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

7. FINANCIAL INSTRUMENTS

The Funds are subject to market risk and interest rate price risk with respect to its investment portfolio. The Funds' interest bearing investments are exposed to interest rate risk. The 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 Funds manage risk by investing across a wide variety of asset classes and investment strategies.

The 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 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, 2012, the Sinking Funds has met its objective of having sufficient liquid resources to meet its current obligations.