

Financial Statements of

**AMERICAN FEDERATION OF
MUSICIANS' AND EMPLOYERS'
PENSION WELFARE FUND
(CANADA)**

Year ended December 31, 2007



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AUDITORS' REPORT

To the Board of Trustees of American Federation of Musicians'
and Employers' Pension Welfare Fund (Canada)

We have audited the statement of net assets available for benefits of American Federation of Musicians' and Employers' Pension Welfare Fund (Canada) as at December 31, 2007 and the statement of changes in net assets available for benefits for the year then ended. These financial statements have been prepared to comply with Section 76 of the Regulations to the Pension Benefits Act (Ontario). These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, 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.

Contributions from employers are based on contribution and participation agreements with the American Federation of Musicians of the United States and Canada or its affiliated locals. We reviewed, on a test basis, contribution reports received from employers, but it was not practicable for us to extend our examination to determine that all contributions that should have been made under the various agreements had been received.

In our opinion, except for the effect of any adjustments which might have been required had employer contributions been submitted to additional verification, as described in the preceding paragraph, these financial statements present fairly, in all material respects, the net assets available for benefits as at December 31, 2007 and the changes in net assets available for benefits for the year then ended in accordance with the basis of accounting described in note 1 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Trustees of American Federation of Musicians' and Employers' Pension Welfare Fund (Canada) and the Financial Services Commission of Ontario for complying with Section 76 of the Regulations to the Pension Benefits Act (Ontario). The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

April 11, 2008

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Statement of Net Assets Available for Benefits

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Cash	\$ 4,794,511	\$ 5,956,997
Accrued investment income	3,314,642	3,051,822
Contributions due from employers	1,504,323	875,135
GST rebate receivable	36,004	38,955
Prepaid expenses	29,459	21,683
Fixed assets (note 5)	106,496	122,669
	<u>9,785,435</u>	<u>10,067,261</u>
Investments (note 3):		
Short-term notes and treasury bills	24,457,910	34,624,673
Canadian bonds	209,643,373	234,369,565
Canadian equities	192,181,424	186,956,404
Foreign equities	173,271,487	102,416,998
Foreign pooled funds	25,298,018	84,261,046
Foreign government bonds	6,878,732	1,531,034
	<u>631,730,944</u>	<u>644,159,720</u>
	<u>641,516,379</u>	<u>654,226,981</u>
Liabilities		
Accounts payable and accrued liabilities	509,863	363,890
Net assets available for benefits	\$ 641,006,516	\$ 653,863,091

Commitments (note 7)

See accompanying notes to financial statements.

On behalf of the Board of Trustees:

_____ Trustee

_____ Trustee

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Increase in net assets:		
Investment income (note 4)	\$ 23,076,689	\$ 25,133,996
Net realized gain on sales of investments	36,997,735	13,740,396
Change in net unrealized gains	–	30,660,668
Employer contributions	7,747,156	7,854,474
	<u>67,821,580</u>	<u>77,389,534</u>
Decrease in net assets:		
Pension and death benefits	17,670,822	16,469,743
Termination payments and portability transfers	312,230	417,558
Change in net unrealized gains	59,301,854	–
Administrative expenditures (Schedule)	3,393,249	2,813,517
	<u>80,678,155</u>	<u>19,700,818</u>
Increase (decrease) in net assets	(12,856,575)	57,688,716
Net assets available for benefits, beginning of year	653,863,091	596,174,375
Net assets available for benefits, end of year	<u>\$ 641,006,516</u>	<u>\$ 653,863,091</u>

See accompanying notes to financial statements.

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Notes to Financial Statements

Year ended December 31, 2007

American Federation of Musicians' and Employers' Pension Welfare Fund (Canada) (the "Fund"), registration number 0215145, is a pension trust established under an agreement and Declaration of Trust dated April 9, 1962 for the purpose of providing pension benefits to eligible employees in the music industry.

The last actuarial valuation of the Fund filed with the Financial Services Commission of Ontario was conducted by The Segal Company Ltd., as of January 1, 2005.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the accounting requirements prescribed by the Financial Services Commission of Ontario for financial statements under Section 76 of the Regulations to the Pension Benefits Act (Ontario). The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles because it excludes the actuarial liabilities of the Fund. Consequently, these financial statements do not purport to show the adequacy of the Fund's assets to meet its pension obligations.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from those estimates.

(b) Investments:

Investments are stated at fair value. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as change in net unrealized gains.

Investment purchase and sale transactions are accounted for on the trade date.

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Notes to Financial Statements (continued)

Year ended December 31, 2007

1. Significant accounting policies (continued):

Fair values of investments are determined as follows:

Bonds and equities are valued at year-end quoted market prices where available. Where quoted prices are not available, estimated fair values are calculated using comparable securities.

Short-term notes, treasury bills and term deposits maturing within one year are stated at cost, which, together with accrued interest income, approximates fair value given the short-term nature of these investments.

Guaranteed investment certificates are valued at the present value of estimated future cash flows discounted at interest rates in effect on the last business day of the year for investments of a similar type, quality and maturity.

Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the Fund's proportionate share of underlying net assets at fair values determined using closing market prices.

(c) Net realized gain on sales of investments:

The net realized gain on sales of investments is the difference between proceeds received and the average cost of investments sold.

(d) Investment income and transaction costs:

Investment income, which is recorded on the accrual basis, includes interest income and dividends.

Transaction costs that are directly attributable to the acquisition of investments are not considered significant and are recognized in the statement of changes in net assets available for benefits in the year incurred.

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Notes to Financial Statements (continued)

Year ended December 31, 2007

1. Significant accounting policies (continued):

(e) Foreign currency translation:

The fair values of foreign currency denominated investments included in the statement of net assets available for benefits are translated into Canadian dollars at year-end rates of exchange. Gains and losses arising from translation are included in the change in net unrealized gains. Foreign currency denominated transactions, as well as cost amounts included in note 3, are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

(f) Contributions:

Contributions are recorded upon the basis of reports received from the employers concerned. The accompanying financial statements reflect contributions due from employers in respect of engagements prior to December 31, 2007, as reported to April 9, 2008.

(g) Fixed assets:

Fixed assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis so as to amortize the cost of the assets over their estimated useful lives as follows:

Furniture, office and computer equipment and vehicles	5 years
Computer software	3 years

(h) Income taxes:

The Fund is a registered pension plan, as defined by the Income Tax Act (Canada), and, accordingly, is not subject to income taxes.

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Notes to Financial Statements (continued)

Year ended December 31, 2007

2. Future accounting changes:

The following summarizes a future accounting change that will be relevant to the Fund's financial statements subsequent to December 31, 2007.

Financial instruments - disclosures and presentation:

The Canadian Institute of Chartered Accountants has issued two new accounting standards on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards will be effective for the Fund commencing January 2008. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which the Fund is exposed and how it manages those risks.

3. Investments:

The following table summarizes investments at cost:

	2007	2006
Short-term notes and treasury bills	\$ 24,478,928	\$ 34,624,673
Canadian bonds:		
Government	96,098,345	126,226,629
Corporate	112,584,309	103,628,845
Canadian equities	120,241,900	105,902,381
Foreign equities	185,913,969	87,314,980
Foreign pooled funds	28,729,369	68,879,218
Foreign government bonds	6,867,798	1,464,814
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	\$ 574,914,618	\$ 528,041,540

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Notes to Financial Statements (continued)

Year ended December 31, 2007

3. Investments (continued):

Details of short-term notes and treasury bills and bonds at fair value are as follows:

	Maturity	Fair value	Average yield
Short-term notes and treasury bills	January 2008 - October 2008	\$ 24,457,910	4.02%
Canadian bonds:			
Supranationals	February 2035	\$ 501,752	4.750%
Federal	September 2008 - June 2037	54,194,786	3.750% - 8.000%
Provincial	June 2010 - June 2037	42,985,763	4.300% - 8.750%
Municipal	April 2016 - June 2033	1,155,488	4.650% - 5.900%
Corporate	September 2008 - December 2049	110,805,584	3.500% - 10.800%
		\$ 209,643,373	
Foreign bonds:			
Government	October 2008 - February 2029	6,878,732	4.125% - 5.250%

Individual investments where either the market value or book value exceeds 1% of the total for the Fund are as follows:

	Book value	Market value
Short-term notes, treasury bills and bonds:		
Government of Canada	\$ 14,564,252	\$ 15,223,627
Province of Ontario	14,688,751	15,675,045
Canadian equities:		
Bank of Nova Scotia	5,245,458	9,842,310
Manulife Financial Corp.	5,651,403	10,829,350
Royal Bank of Canada	4,621,868	8,535,990
Talisman Energy Inc.	2,780,964	6,710,327
Toronto Dominion Bank	6,065,868	10,327,700
Rogers Communications Inc.	3,817,006	8,525,605
Potash Corp. of Saskatchewan Inc.	2,439,544	7,509,549
Foreign pooled funds:		
McLean Budden American Equity Pooled Fund	28,729,369	25,298,018
Foreign short-term notes, treasury bills and bonds:		
United States Government	5,691,874	5,700,319

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Notes to Financial Statements (continued)

Year ended December 31, 2007

3. Investments (continued):

The foreign pooled funds are operated by McLean Budden, holding U.S. and foreign equities.

(a) Investment risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate, market and foreign currency risk. The Fund has formal policies and procedures that establish target asset mix. The Fund's policies also require diversification of investments within categories and set limits on exposure to individual investments.

(b) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by the Fund. The Fund manages this risk by holding primarily debt issued by the Government of Canada, Province of Ontario and Canadian corporate bonds, and by staggering the terms of the securities held.

(c) Market risk:

Market risk arises as a result of trading in equities, pooled funds and fixed income securities. Fluctuations in the market expose the Fund to a risk of loss. The Fund mitigates this risk through controls to monitor and limit concentration levels.

(d) Foreign currency risk:

Foreign currency risk arises from gains and losses due to fluctuations in foreign currency exchange rates on the Fund's foreign equities, pooled funds and government bonds.

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Notes to Financial Statements (continued)

Year ended December 31, 2007

4. Investment income:

	2007	2006
Short-term notes and treasury bills	\$ 1,189,167	\$ 1,766,316
Canadian bonds	10,988,231	12,015,710
Canadian equities	3,452,810	3,056,644
Foreign equities and pooled funds	8,250,190	8,566,983
Foreign government bonds	167,522	44,963
Foreign exchange losses	(1,572,916)	(343,571)
Unrealized gain on derivative contracts (note 6)	490,446	-
Other	111,239	26,951
	\$ 23,076,689	\$ 25,133,996

5. Fixed assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and office equipment	\$ 44,713	\$ 15,499	\$ 29,214	\$ 19,616
Computer software and equipment	141,403	96,036	45,367	62,447
Vehicles	42,736	10,821	31,915	40,606
	\$ 228,852	\$ 122,356	\$ 106,496	\$ 122,669

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Notes to Financial Statements (continued)

Year ended December 31, 2007

6. Derivative financial instruments:

Derivatives are financial contracts, the value of which is derived from the value of underlying assets or exchange rates. The Fund utilizes such contracts to enhance investment returns and for managing exposure to foreign currency volatility. The Fund holds forward foreign exchange contracts to sell foreign currencies in the future. Futures and forwards are contractual obligations either to buy or to sell a specified amount of equity indices or foreign currencies at predetermined future dates and prices. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. Forwards are customized contracts transacted in the over-the-counter market.

At December 31, 2007, the Fund has the following derivative contracts outstanding:

(a) Currency forwards:

Amount	Currency	Fair value	Exchange rate	Expiration
1,611,000	Euro	\$ 83,527	1.49	March 2008
794,664,000	JPY	344,052	0.93	March 2008
1,587,000	CHF	55,167	0.91	March 2008

The fair value of these derivative contracts, \$482,746, is included in accrued investment income on the statement of net assets available for benefits.

(b) Equity futures:

The Fund holds equity index futures with a total cost of approximately \$632,000 and fair value of approximately \$7,700.

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Notes to Financial Statements (continued)

Year ended December 31, 2007

7. Commitments:

At December 31, 2007, the Fund is committed under an operating lease for rental of office space until 2016, which requires minimum rental payments as follows (excluding taxes and operating costs):

2008	\$ 40,800
2009	40,800
2010	40,800
2011	42,840
2012	48,960
Thereafter	183,600
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	\$ 397,800

8. Fair values of financial assets and financial liabilities:

The fair values of investments are as described in note 1(b). The fair values of other financial assets and liabilities, being cash, accrued investment income, contributions due from employers, GST rebate receivable and accounts payable and accrued liabilities, approximate their carrying values due to the short-term nature of these financial instruments.

AMERICAN FEDERATION OF MUSICIANS' AND EMPLOYERS' PENSION WELFARE FUND (CANADA)

Schedule of Administrative Expenditures

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Investment manager fees	\$ 1,626,554	\$ 1,201,363
Salaries	627,599	576,864
Custodian fees	258,970	159,539
Office rent and operating	116,158	103,311
Legal fees	94,587	103,016
Dues, fees and licenses	78,456	76,590
Actuarial services	78,000	88,913
Data processing	73,448	68,967
Goods and services tax	72,007	77,910
Investment consulting fees	71,023	30,000
Amortization	49,219	73,861
Accounting fees	31,200	27,000
Education and development	27,985	22,453
Audit	24,500	28,750
Insurance	23,320	22,909
Office supplies	21,336	23,693
Translation and newsletter	20,728	7,774
Trustees' meetings	17,922	13,372
Members/locals education	15,070	40,720
Postage	12,153	15,476
Telephone	12,031	11,830
Travel and conference	10,525	15,998
Staff development	10,027	4,517
Bank charges	8,246	8,252
Printing	6,715	4,204
Automobile	1,926	2,335
Miscellaneous	1,905	1,240
Advertising and promotion	1,639	2,660
	\$ 3,393,249	\$ 2,813,517