



STAFF REPORT ACTION REQUIRED

2014 Audited Sinking Funds Financial Statements

Date:	June 11, 2015
To:	Audit Committee
From:	Acting Treasurer
Wards:	All
Reference Number:	P:\2015\Internal Services\acc\ac15008acc (AFS20222)

SUMMARY

This report presents the City of Toronto's Sinking Funds Financial Statements for the year ended December 31, 2014 to Committee and Council for approval and provides highlights of the Sinking Funds' 2014 financial performance and financial condition as of December 31, 2014.

RECOMMENDATIONS

The Acting Treasurer recommends that:

1. City Council approve the 2014 Sinking Funds Statements as attached in Appendix A of this report.

Financial Impact

There are no financial implications as a result of this report.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

On an annual basis, the City presents the audited financial statements of the Sinking Funds to the Audit Committee. Following is the link to the 2013 Sinking Funds Statements and Council decision:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.AU16.5>

ISSUE BACKGROUND

When the City of Toronto issues debentures, the *City of Toronto Act, 2006* requires that the principal repayment must be amortized over the term-to-maturity of the debenture or an annual amount be contributed to a sinking fund. Sinking funds are required and established to ensure that adequate financing is available at a debenture's maturity. Currently, the City has four (4) separate sinking fund portfolios in support of twenty three (23) individual debenture issues. The City contributes to the sinking funds to invest and earn income for the purpose of accumulating sufficient funds to repay the sinking fund debenture debt on maturity.

COMMENTS

Sinking fund assets as at December 31, 2014 amounted to \$2.1 billion, an increase of \$76 million. These assets represent amounts held to discharge sinking fund debenture debt of \$5.0 billion (2013 - \$4.6 billion) issued by the City and maturing in various years between 2015 and 2043 (please note that the Financial Statements include a Schedule of Projection of Debenture Maturities). Additional contributions will be received during the period 2015 to 2043 from the City for debentures issued for municipal purposes and from the Toronto District School Board for a debenture that was issued for education purposes.

Unrestricted Surplus

The unrestricted surplus results from the Fund earning amounts being greater than the actuarial rate of return that was assigned to a debenture when it was issued. These funds are available to address shortfalls in earnings in future years or could be redirected by the CFO.

Unrestricted Surplus increased during the year by \$37 million to \$113 million, as 2014 expenses were \$37 million higher than 2014 revenues, offset by a net transfer of \$74 million from internally restricted surplus.

Internally Restricted Surplus

The internally restricted surplus resulted from the \$600 million that was deposited into Sinking Fund in 2010. These funds have been taken into consideration by actuarial valuations and are therefore required to meet debenture retirements.

In 2014, \$74 million was transferred to unrestricted surplus, resulting in an internally restricted surplus at year end of \$261 million (2013 - \$335 million).

The \$261 million 2014 internally restricted surplus is dedicated to meeting future funding requirements.

Revenues and Expenses

Revenues for 2014 increased by \$114 million to \$303 million (2013 - \$189 million), due to an increase in investment income of \$89 million in 2014 and an increase in contributions into the sinking funds of \$25 million.

The increase in investment income of \$89 million in 2014 is attributable to an increase in unrealized gain of \$87 million and an increase in investment and interest income by \$2 million. The weighted average yield for sinking fund investments was 4.49% (2013: 4.54%).

Expenses increased by \$21 million to \$341 million (2013 - \$320 million), due to an increase in actuarial requirements for the year.

CONTACT

Martin Willschick
Manager, Capital Markets
Corporate Finance
Tel: 416-392-8072
Email: mwillsch@toronto.ca

Shairoz Murji
Acting Director
Accounting Services
Tel: 416-397-4438
Email: smurji@toronto.ca

SIGNATURE

Mike St. Amant
Acting Treasurer

ATTACHMENTS

Appendix A: Financial Statements City of Toronto Sinking Funds December 31, 2014