



**STAFF REPORT  
ACTION REQUIRED**

**2015 Audited Sinking Funds Financial Statements**

<b>Date:</b>	June 14, 2016
<b>To:</b>	Audit Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2016\Internal Services\acc\ac16006acc (AFS 22022)

**SUMMARY**

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This report presents the City of Toronto’s Sinking Funds Financial Statements for the year ended December 31, 2015 to Committee and Council for approval and provides highlights of the Sinking Funds' 2015 financial performance and financial condition as of December 31, 2015.

**RECOMMENDATIONS**

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**The Treasurer recommends that:**

1. City Council approve the 2015 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.

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**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 2014 Sinking Funds Statements and Council decision:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU3.6>

## **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 six (6) separate sinking fund portfolios in support of twenty five (25) 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, 2015 amounted to \$2.1 billion, a decrease of \$11 million. These assets represent amounts held to discharge sinking fund debenture debt of \$5.4 billion (2014 - \$5.0 billion) issued by the City and maturing in various years between 2016 and 2044 (please note that the Financial Statements include a Schedule of Projection of Debenture Maturities). Additional contributions will be received during the period 2016 to 2044 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 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 Deputy City Manager & Chief Financial Officer.

Unrestricted Surplus decreased during the year by \$9 million to \$104 million, as 2015 expenses were \$71 million higher than 2015 revenues, offset by a net transfer of \$62 million from internally restricted surplus.

### **Internally Restricted Surplus**

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

In 2015, \$62 million was transferred to unrestricted surplus, resulting in an internally restricted surplus at year end of \$198 million (2014 - \$261 million). The internally restricted surplus is dedicated to meeting future funding requirements.

## Revenues and Expenses

Revenues for 2015 decreased by \$15 million to \$289 million (2014 - \$304 million), due to a decrease in investment income of \$50 million and an increase in contributions into the sinking funds of \$35 million.

The decrease in investment income of \$50 million in 2015 is attributable to a decrease in unrealized gain of \$47.5 million and a decrease in investment and interest income by \$2.5 million. The weighted average yield for sinking fund investments was 4.39% (2014: 4.49%).

Expenses increased by \$19 million to \$360 million (2014 - \$341 million), due to an increase in actuarial requirements for the year.

## CONTACT

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## SIGNATURE

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Mike St. Amant  
Treasurer

## ATTACHMENTS

Appendix A: Financial Statements City of Toronto Sinking Funds December 31, 2015