

## **2018 Audited Sinking Funds Financial Statements**

**Date:** June 10, 2019  
**To:** Audit Committee  
**From:** Controller  
**Wards:** All

### **SUMMARY**

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The City of Toronto (City) maintains portfolios of sinking funds in order to build up funds used to repay City debt when it matures. Sinking fund contributions are invested; the investment earnings help reduce the amount of City own-source cash used to repay amounts borrowed.

This report presents the City of Toronto's Sinking Funds Financial Statements for the year ended December 31, 2018 and provides highlights of the Sinking Funds' 2018 financial performance as of December 31, 2018.

The Sinking Fund financial statements are audited by PricewaterhouseCoopers (PwC). The City received an unqualified audit opinion and no internal control recommendations related to the 2018 Sinking Fund financial statements.

### **RECOMMENDATIONS**

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The Controller recommends that:

1. City Council approve the 2018 Sinking Funds Statements as attached in Appendix A of this report.

### **FINANCIAL IMPACT**

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

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

## **DECISION HISTORY**

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On an annual basis, the City presents the audited financial statements of the City's Sinking Funds to Audit Committee and Council for approval.

## **COMMENTS**

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When the City issues debentures (debt), the City of Toronto Act, 2006 requires that the principal repayment be amortized over the term-to-maturity of the debenture or that an annual amount be contributed to a Sinking Fund. When a sinking fund is established, the annual contribution and the investment earnings on those contributions accumulate to repay City debt when it matures. The City follows its Council approved investment policy when investing sinking fund contributions.

The 2018 weighted average rate of return for Sinking Fund investments was 3.79% (2017 – 3.84%).

Currently, the City has five (5) separate sinking fund portfolios supporting twenty eight (28) individual debenture issues at varying stages of maturity. Sinking fund assets as at December 31, 2018 amounted to \$1.6 billion, a decrease of \$105 million from 2017. These assets represent amounts held to discharge City debt of \$6.5 billion (2017 - \$6 billion) maturing between 2019 and 2048.

These Sinking Fund financial statements are prepared in accordance with Public Sector Accounting Standards, except for investments which are recorded at fair value to better reflect their ability to meet debt retirement obligations. Preparation of the financial statements is the responsibility of City management, who are required to ensure that proper internal controls are applied to ensure fair presentation.

### **Statement of Financial Position**

The sinking fund statement of financial position outlines the assets and liabilities of the fund, which represents the financial position at the end of the stated fiscal year.

Total Current Assets are comprised of cash holdings and investments made with contributions to the sinking funds. These balances vary depending on debt repayment, cash injections and investment decisions. Investments are recorded at fair value.

Total Current Liabilities consist mainly of the actuarial requirements of the sinking fund to reach the required debt repayment value at maturity. The actuarial requirements liability at December 31, 2018 amounted to \$1.5 billion, a decrease of \$ 42 million from the prior year end balance. Although the value required to repay cumulative debt in the future increased by \$2 million, it is offset by a reduction in debt maturities.

Net Assets are comprised of two amounts, unrestricted surplus and internally restricted 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 Chief Financial Officer and Treasurer.

In 2010, a \$600 million contribution was made to the sinking funds, which created the internally restricted surplus. This contribution has been drawn down through the enactment of specific debenture by-laws in order to help with maturity obligations.

The unrestricted surplus decreased during the year by \$10 million, and internally restricted surplus decreased by \$53 million as a result of an increase in 2018 fund expenses over 2018 revenues of \$63 million. The decrease is mainly due to the difference between of actuarial requirements and actual earnings.

### **Statement of Operations and Changes in Unrestricted Surplus**

The Statement of Operations shows the annual revenues and expenses of the sinking funds and reports the annual surplus or deficit from the financial activity during the stated fiscal year. The total surplus reconciles to the unrestricted and internally restricted total on the Statement of Financial Position.

In 2018, there are two sources of revenue for sinking funds – contributions represent the cash contributions made by the City to support actuarial requirements for future debt repayment and investment earnings represent income from investing sinking fund balances. Revenues for 2018 decreased by \$1.1 million to \$319.9 million (2017 - \$321 million), due to a decrease in investment income of \$9.7 million offset by an increase in contributions into the Sinking funds of \$8.5 million.

The decrease in investment income of \$9.7 million in 2018 is attributable to an increase in unrealized loss from the change in market value of \$2.6 million and a decrease in investment and interest income by \$7.1 million. Two factors impacted the decrease in investment and interest income, the investment principal balance decreased due to maturities in the year and lower investment activities, and the average rate of return is lower by 0.05%.

When the balance required to meet debt maturity requirements, the liability, increases, and the amount is expensed. The \$383.1 million ((2017 - \$381.20 million) expense in 2018 represents the increase in this amount for the year.

### **Statement of Cash Flows**

The statement of cash flows reports the changes in the cash balance throughout the year, with cash being used to support investing and financing activities, and to fund operations.

### **Audit Results**

The Sinking Fund financial statements are audited by PricewaterhouseCoopers (PwC), who is responsible for applying sufficient and adequate audit testing in order to provide an opinion on the fair presentation of the financial statements.

In performing their work, PwC may recommend adjustments to the balances, or can comment on process or internal control improvement.

For the 2018 Sinking Fund financial statements, no recommendations were made.

The PwC 2018 Year End report to the Audit Committee is presented with the financial statements.

## **CONTACT**

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## **SIGNATURE**

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Andrew Flynn  
Controller

## **ATTACHMENTS**

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Appendix A: Financial Statements City of Toronto Sinking Funds December 31, 2018