

## APPENDIX A

Financial Statements

**City of Toronto Sinking Funds**  
December 31, 2018

## ***Independent Auditor's Report***

*PriceWaterhouseCoopers (PwC) signed and dated opinion to be inserted following City Council approval*

**CITY OF TORONTO SINKING FUNDS**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2018**  
**(IN THOUSANDS DOLLARS)**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	268,449	1,631
Investments [Note 4]	1,369,148	1,741,064
<b>Total Current Assets</b>	<b>1,637,597</b>	<b>1,742,695</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Accounts Payable and Accrued Liabilities	11	16
<b>Total Current Liabilities</b>	<b>11</b>	<b>16</b>
Actuarial Requirements [Note 5]	1,562,398	1,604,283
<b>Total Liabilities</b>	<b>1,562,409</b>	<b>1,604,299</b>
<b>Net Assets</b>		
Unrestricted Surplus [Note 6]	20,585	30,442
Internally Restricted Surplus [Note 6]	54,603	107,954
<b>Total Surplus</b>	<b>75,188</b>	<b>138,396</b>
	<b>1,637,597</b>	<b>1,742,695</b>

**CITY OF TORONTO SINKING FUNDS**  
**STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED SURPLUS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(IN THOUSANDS DOLLARS)**

	<b>2018</b>	<b>2017</b>
	\$	\$
<b>REVENUES</b>		
Contributions	291,463	282,920
Investment Income [Note 7]	28,444	38,130
	<b>319,907</b>	<b>321,050</b>
<b>EXPENSES</b>		
Change in Actuarial Requirements [Note 6]	383,115	381,186
<b>Deficiency of revenues over expenses for the year</b>	<b>(63,208)</b>	<b>(60,136)</b>
Surplus, beginning of year	138,396	198,532
<b>Total surplus, end of year</b>	<b>75,188</b>	<b>138,396</b>

**CITY OF TORONTO SINKING FUNDS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(IN THOUSANDS DOLLARS)**

<b>CASH PROVIDED BY (USED IN)</b>	<b>2018</b>	<b>2017</b>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Deficiency of revenues over expense for the year	(63,208)	(60,136)
<i>Add (Deduct) items not involving cash:</i>		
Amortized discount on investments	(34,767)	5,695
Increase in accrued interest	53	2,374
Unrealized loss on investments	24,895	22,313
Increase in actuarial requirements	383,115	381,186
	<b>310,088</b>	<b>351,432</b>
<i>Changes in non-cash working capital balances related to operations:</i>		
(Decrease) in accounts payable and accrued liabilities	(5)	(7)
<b>Cash provided by operating activities</b>	<b>310,083</b>	<b>351,425</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(856)	(360,105)
Proceeds from maturities of investments	377,773	388,984
Proceeds from sale of investments	4,818	54,310
<b>Cash provided by (used in) investing activities</b>	<b>381,735</b>	<b>83,189</b>
<b>FINANCING ACTIVITIES</b>		
Maturity of debenture	(425,000)	(500,000)
<b>Cash used in financing activities</b>	<b>(425,000)</b>	<b>(500,000)</b>
<b>Increase (decrease) in cash during the year</b>	<b>266,818</b>	<b>(65,386)</b>
Cash, beginning of year	1,631	67,017
<b>Cash, end of year</b>	<b>268,449</b>	<b>1,631</b>

**CITY OF TORONTO SINKING FUNDS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(IN THOUSANDS DOLLARS)**

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**1. PURPOSE OF SINKING FUNDS**

The City of Toronto Sinking Funds [the Sinking Funds] accumulate amounts through periodic contributions, which are calculated such that the contributions and interest earnings will be sufficient to retire the principal amount of the Sinking Fund debt when it matures. When the accumulated Sinking Fund exceeds the maturity value of the related debenture, the excess may be refunded or applied against other Sinking Fund accounts created for the same purpose.

Note 8 in these financial statements contains the schedule of projected debenture maturity amounts.

The City of Toronto Sinking Funds are governed under the City of Toronto Act, 2006 and are exempt from income taxes under Section 149(1) of the Income Tax Act (Canada).

**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 to better reflect their ability to meet debt obligations. The significant accounting policies are summarized below.

**(i) Financial instruments**

The Sinking Funds financial assets include cash, short-term and long-term investments. Cash is recorded at amortized cost, which approximates fair value. Short term investments are comprised of money market instruments, such as guaranteed investment certificates and are valued based on cost plus accrued income. The Sinking Funds invest in debentures issued or guaranteed by Provincial and Municipal governments and corporate bonds; the fair value of investments recorded in the financial statements is based on the latest bid prices and the change in fair value is included in the Statement of Operations as Investment Income. Investment transactions are recorded on a settlement date basis and transaction costs are expensed as incurred.

The Sinking Funds' investment activities expose it to a range of financial risks, including market risk, credit risk, and liquidity risk (Note 9).

**CITY OF TORONTO SINKING FUNDS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**IN THOUSANDS DOLLARS**

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**(ii) Revenue recognition**

Contributions are recognized as revenue in the year receivable. Interest income is recorded when earned.

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

**3. MANAGEMENT ESTIMATES**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and deficit/surplus at the reporting date and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. In particular, there is significant judgement applied in determining actuarial requirements for Sinking Funds.

The Actuarial Requirements Liability of the Sinking Funds for the year represents the amounts levied during the year as set out in the Sinking Funds debenture bylaws plus interest accrued, compounded at the Sinking Fund rates of 3.5%, 4%, or 5% per annum on debt issued in 1997 and after; and 2.0%, and 2.5% per annum on debt issued in 2015 and after. These actuarial requirement liabilities are presented at amortized cost, which approximates fair value.

**CITY OF TORONTO SINKING FUNDS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**(IN THOUSANDS DOLLARS)**

**4. INVESTMENTS**

Fair value represents bid price for each financial instrument, while Face value represents the original cost of the investment at the purchase date.

	<b>Fair value</b>	<b>Face value</b>
	<b>\$</b>	<b>\$</b>
<b>2018</b>		
<b>Debt investments issued or guaranteed by:</b>		
Provincial Governments	1,027,182	1,198,513
City of Toronto	93,574	86,397
Other Canadian municipalities	216,754	198,867
Corporations	31,638	31,769
<b>Total</b>	<b>1,369,148</b>	<b>1,515,546</b>
<b>2017</b>		
<b>Debt investments issued or guaranteed by:</b>		
Provincial Governments	1,222,136	1,414,983
City of Toronto	124,076	106,108
Other Canadian municipalities	237,175	219,294
Corporations	157,677	156,915
<b>Total</b>	<b>1,741,064</b>	<b>1,897,300</b>
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Amortized cost</b>	<b>1,336,599</b>	<b>1,683,567</b>
<b>Weighted average yield</b>	<b>3.79%</b>	<b>3.84%</b>
<b>Average term to maturity</b>	<b>6.38 years</b>	<b>5.97 years</b>
<b>Excess of fair value over amortized cost</b>	<b>32,549</b>	<b>57,497</b>



**CITY OF TORONTO SINKING FUNDS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**(IN THOUSANDS DOLLARS)**

**5. ACTUARIAL REQUIREMENTS**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Actuarial Requirements, beginning of year</b>	1,604,283	1,723,097
Add change in Actuarial liability requirements	383,115	381,186
	<u>1,987,398</u>	<u>2,104,283</u>
Less value of debentures matured during the year	425,000	500,000
<b>Actuarial Requirements, end of year</b>	<b><u>1,562,398</u></b>	<b><u>1,604,283</u></b>

**6. NET ASSETS**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
City of Toronto unrestricted deficit based on amortized cost	(9,354)	(24,393)
Unrealized gain on investments	29,939	54,835
Total unrestricted surplus	<u>20,585</u>	<u>30,442</u>
Internally restricted surplus	54,603	107,954
<b>Total net assets</b>	<b><u>75,188</u></b>	<b><u>138,396</u></b>

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NOTES TO THE FINANCIAL STATEMENTS  
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(IN THOUSANDS DOLLARS)**

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**7. INVESTMENT INCOME**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Investment income	50,886	59,758
Interest income	2,453	685
Unrealized loss on change in fair value	(24,895)	(22,313)
<b>Total investment income</b>	<b>28,444</b>	<b>38,130</b>

**CITY OF TORONTO SINKING FUNDS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(IN THOUSANDS DOLLARS)**

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**8. SCHEDULE OF PROJECTED DEBENTURE MATURITIES**

For the year ended December 31, 2018, the following is a list of the projected maturities of the Sinking Fund debentures, held within the City of Toronto:

	\$
2019	400,000
2021	650,000
2023	300,000
2024	300,000
2025	300,000
2026	300,000
2027	700,000
2035	400,000
2036	750,000
2040	600,000
2041	450,000
2042	300,000
2044	300,000
2046	500,000
2048	300,000
	<u>6,550,000</u>

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**9. RISK EXPOSURE**

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

The Sinking Funds hold investments in fixed income securities issued by corporations and government entities and as such have fixed income credit risk. The Sinking Funds mitigate this risk by limiting the investment portfolio to investments in BBB grade or higher.

The Sinking 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 Sinking Funds invest in securities that are actively traded.

With the creation of the City's Investment Board and new investment policy as at January 1, 2018, through provincial regulation 610/06, sinking fund contributions can be invested in a broader range of asset classes including fixed income, equities and real assets.

**10. 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. The need for sufficient liquid resources is considered in the investment process. As at December 31, 2018, the Sinking Funds have met their objective of having sufficient liquid resources to meet current obligations.