

2020 Sinking Funds Financial Statements

December 31, 2020

Independent Auditor's Report

KPMG signed and dated opinion to be inserted following City Council approval

CITY OF TORONTO SINKING FUNDS
STATEMENT OF FINANCIAL POSITION

as at December 31, 2020 (in thousands of dollars)

	2020	2019
FINANCIAL ASSETS		
Cash	435,303	499,935
Accounts Receivable	389	78
Investments (Note 4)	1,744,129	1,137,522
Total Financial Assets	2,179,821	1,637,535
LIABILITIES		
Accounts Payable and Accrued Liabilities	81	81
Actuarial Requirements (Note 5)	1,980,375	1,556,839
Total Liabilities	1,980,456	1,556,920
Net Assets		
Unrestricted Surplus (Note 6)	199,365	80,615
Total Surplus	199,365	80,615
	2,179,821	1,637,535

The accompanying Notes and Appendices are an integral part of these Financial Statements.

CITY OF TORONTO SINKING FUNDS
STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED SURPLUS

for the year ended December 31, 2020 (in thousands of dollars)

	2020	2019
REVENUES		
Contributions	413,398	315,499
Investment Income (Note 7)	128,888	84,369
Total Revenue	542,286	399,868
EXPENSES		
Changes in Actuarial Requirements (Note 5)	423,536	394,441
EXCESS OF REVENUES OVER EXPENSES FOR THE YEAR	118,750	5,427
SURPLUS – BEGINNING OF YEAR	80,615	75,188
TOTAL SURPLUS – END OF YEAR	199,365	80,615

The accompanying Notes and Appendices are an integral part of these Financial Statements.

CITY OF TORONTO SINKING FUNDS
STATEMENT OF CASH FLOWS

for the year ended December 31, 2020 (in thousands of dollars)

CASH PROVIDED BY (USED IN)	2020	2019
OPERATING ACTIVITIES		
Excess of revenues over expenses for the year	118,750	5,427
Add (deduct) items not involving cash:		
Amortized discount on investments	(9,168)	(18,661)
Increase in accrued interest	(1,473)	(1,583)
Increase in accounts receivable – accrued interest on bank	(301)	-
Increase in accounts receivable – other	(10)	(8)
Decrease in unrealized gain on investments	(89,596)	3,717
Increase in actuarial requirements	423,536	394,441
Cash provided by operating activities	441,738	383,333
INVESTING ACTIVITIES		
Purchase of investments	(776,883)	(959,295)
Proceeds from maturities of investments	14,137	816,862
Proceeds from sale of investments	256,376	390,586
Cash provided by investing activities	(506,370)	(248,153)
FINANCING ACTIVITIES		
Maturity of debenture	-	(400,000)
Cash used in financing activities	-	(400,000)
(Decrease)/Increase in cash during the year	(64,632)	231,486
Cash, beginning of year	499,935	268,449
Cash, end of year	435,303	499,935

The accompanying Notes and Appendices are an integral part of these Financial Statements.

CITY OF TORONTO SINKING FUNDS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 (in thousands of dollars)

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 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 the Chartered Professional Accountants of Canada's 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) Investments

Short term investments are comprised of money market instruments, such as guaranteed investment certificates and are valued based on cost plus accrued investment/interest 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 and Changes in Unrestricted Surplus 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).

(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 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. Use of 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.

CITY OF TORONTO SINKING FUNDS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 (in thousands of dollars)

The Actuarial Requirements Liability of the Sinking Funds 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.

The average rate of return and term to maturity relate only to fixed income securities.

4. Investments

Fair value represents bid price for each investment, while face value represents the original cost of the investment at the purchase date. Sinking Fund investments will be held to maturity. In addition, the Sinking Funds were not affected by indicators, which indicated that investments were permanently impaired as at December 31, 2020 and therefore, no adjustments were recognized.

	Fair value	Face value
2020		
Debt investments issued or guaranteed by:		
Provincial Governments	1,076,993	1,255,426
City of Toronto	25,279	20,400
Other Canadian municipalities	64,616	53,047
Corporations	341,246	302,951
Total debt investments	1,508,134	1,631,824
Equity investments issued or guaranteed by:		
Corporations	235,995	14,551
Total equity investments	235,995	14,551
Total	1,744,129	1,646,375
2019		
Debt investments issued or guaranteed by:		
Provincial Governments	589,046	807,441
City of Toronto	25,860	22,278
Other Canadian municipalities	82,633	73,081
Corporations	315,806	297,006
Total debt investments	1,013,345	1,199,806
Equity investments issued or guaranteed by:		
Corporations	124,177	12,182
Total equity investments	124,177	12,182
Total	1,137,522	1,211,988

CITY OF TORONTO SINKING FUNDS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 (in thousands of dollars)

	2020	2019
Amortized cost, including accrued interest	1,628,311	1,111,300
Weighted average rate of return	2.20 %	4.86%
Average term to maturity	15.95 years	15.67 years
Excess of fair value over amortized cost	115,818	26,222

5. Actuarial Requirements

	2020	2019
Actuarial requirements, beginning of year	1,556,839	1,562,398
Add: change in actuarial liability requirements	423,536	394,441
	1,980,375	1,956,839
Less: value of debentures matured during the year	-	400,000
Actuarial requirements, end of year	1,980,375	1,556,839

6. Net Assets

	2020	2019
City of Toronto unrestricted surplus based on amortized cost	83,547	54,393
Unrealized gain on investments	115,818	26,222
Total unrestricted surplus	199,365	80,615
Total net assets	199,365	80,615

7. Investment Income

	2020	2019
Investment income	32,539	76,315
Interest income	6,753	11,771
Unrealized gain (loss) on change in fair value	89,596	(3,717)
Total investment income	128,888	84,369

CITY OF TORONTO SINKING FUNDS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 (in thousands of dollars)

8. Schedule of Projected Debenture Maturities

For the year ended December 31, 2020, the following is a list of the projected maturities of the Sinking Fund debentures, held within the City of Toronto. The list only includes years when debentures are expected to mature.

	2020
2021	650,000
2023	300,000
2024	300,000
2025	300,000
2026	300,000
2027	700,000
2029	600,000
2030	100,000
2035	400,000
2036	750,000
2039	330,000
2040	906,250
2041	450,000
2042	300,000
2044	300,000
2046	500,000
2048	300,000
2049	600,000
	<u>8,086,250</u>

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 estate assets.

CITY OF TORONTO SINKING FUNDS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 (in thousands of dollars)

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, 2020, the Sinking Funds have met their objective of having sufficient liquid resources to meet current obligations.