

2021 Sinking Funds Financial Statements

December 31, 2021

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, 2021 (in thousands of dollars)

	2021	2020
FINANCIAL ASSETS		
Cash	271,583	435,303
Accounts Receivable	298	389
Investments (Note 4)	1,700,580	1,744,129
Total Financial Assets	1,972,461	2,179,821
LIABILITIES		
Accounts Payable and Accrued Liabilities	81	81
Actuarial Requirements (Note 5)	1,811,451	1,980,375
Total Liabilities	1,811,532	1,980,456
Net Assets		
Unrestricted Surplus (Note 6)	160,929	199,365
Total Surplus	160,929	199,365
	1,972,461	2,179,821

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, 2021 (in thousands of dollars)

	2021	2020
REVENUES		
Contributions	416,524	413,398
Investment Income (Note 7)	26,116	128,888
Total Revenue	442,640	542,286
EXPENSES		
Changes in Actuarial Requirements (Note 5)	481,076	423,536
Annual (Deficit)/Surplus	(38,436)	118,750
SURPLUS – BEGINNING OF YEAR	199,365	80,615
TOTAL SURPLUS – END OF YEAR	160,929	199,365

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, 2021 (in thousands of dollars)

CASH PROVIDED BY (USED IN)	2021	2020
OPERATING ACTIVITIES		
Annual (deficit)/surplus	(38,436)	118,750
Add (deduct) items not involving cash:		
Amortized discount on investments	(8,080)	(9,168)
Increase/(decrease) in accrued interest	2,506	(1,473)
Decrease/(increase) in accounts receivable – accrued interest on bank	102	(301)
Increase in accounts receivable – other	(11)	(10)
Decrease in unrealized gain on investments	(7,969)	(89,596)
Increase in actuarial requirements	481,076	423,536
Cash provided by operating activities	429,188	441,738
INVESTING ACTIVITIES		
Purchase of investments	(1,420,363)	(776,883)
Proceeds from maturities of investments	164,432	14,137
Proceeds from sale of investments	1,313,023	256,376
Cash provided by investing activities	57,092	(506,370)
FINANCING ACTIVITIES		
Maturity of debenture	(650,000)	-
Cash used in financing activities	(650,000)	-
Decrease in cash during the year	(163,720)	(64,632)
Cash, beginning of year	435,303	499,935
Cash, end of year	271,583	435,303

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, 2021 (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, equity, 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.

Annual investment activities expose the Sinking Funds 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 these 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, 2021 (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 are held to maturity. In addition, there were no indicators which suggested that the Sinking Funds' investments were permanently impaired as at December 31, 2021 and therefore, no adjustments were recognized.

	Fair value	Face value
2021		
Debt investments issued or guaranteed by:		
Provincial Governments	826,462	1,045,049
City of Toronto	23,113	19,600
Other Canadian municipalities	34,747	28,110
Corporations	280,863	260,438
Total debt investments	1,165,185	1,353,197
Equity investments issued or guaranteed by:		
Corporations	535,395	221,497
Total equity investments	535,395	221,497
Total	1,700,580	1,574,694
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

CITY OF TORONTO SINKING FUNDS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021 (in thousands of dollars)

	2021	2020
Amortized cost, including accrued interest	1,576,793	1,628,311
Weighted average rate of return	0.9%	2.20 %
Average term to maturity	17.10 years	15.95 years
Excess of fair value over amortized cost	123,787	115,818

5. Actuarial Requirements

	2021	2020
Actuarial requirements, beginning of year	1,980,375	1,556,839
Add: change in actuarial liability requirements	481,076	423,536
	2,461,451	1,980,375
Less: value of debentures matured during the year	(650,000)	-
Actuarial requirements, end of year	1,811,451	1,980,375

6. Net Assets

	2021	2020
City of Toronto unrestricted surplus based on amortized cost	37,142	83,547
Unrealized gain on investments	123,787	115,818
Total unrestricted surplus	160,929	199,365
Total net assets	160,929	199,365

7. Investment Income

	2021	2020
Investment income	15,906	32,539
Interest income	2,241	6,753
Unrealized gain on change in fair value	7,969	89,596
Total investment income	26,116	128,888

CITY OF TORONTO SINKING FUNDS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021 (in thousands of dollars)

8. Schedule of Projected Debenture Maturities

For the year ended December 31, 2021, 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.

	2021
2023	300,000
2024	300,000
2025	300,000
2026	300,000
2027	700,000
2029	600,000
2030	200,000
2031	150,000
2035	400,000
2036	750,000
2039	330,000
2040	1,106,250
2041	650,000
2042	300,000
2044	300,000
2046	500,000
2048	300,000
2049	600,000
2051	350,000
	<u>8,436,250</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 exposed to risk from 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, as well as investing 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, 2021 (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, 2021, the Sinking Funds have met their objective of having sufficient liquid resources to meet current obligations.