

2022 Sinking Funds Financial Statements

December 31, 2022

Independent auditor's report

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

Statement of financial position

As at December 31, 2022 with comparatives to 2021

	2022	2021
Financial assets		
Cash	\$ 312,778	\$ 271,583
Accounts receivable	1,298	298
Investments (Note 4)	1,789,503	1,700,580
Total financial assets	2,103,579	1,972,461
Liabilities		
Accounts payable and accrued liabilities	81	81
Actuarial requirements (Note 5)	2,285,397	1,811,451
Total liabilities	2,285,478	1,811,532
Net assets		
Unrestricted (deficit) surplus (Note 6)	(181,899)	160,929
Total (deficit) surplus	(181,899)	160,929
	\$ 2,103,579	\$ 1,972,461

The accompanying notes and appendices are an integral part of these financial statements.

Statement of operations and changes in unrestricted (deficit) surplus

For the year ended December 31, 2022 with comparatives to 2021

	2022	2021
Revenues		
Contributions	\$ 416,277	\$ 416,524
Investment (loss) income (Note 7)	(285,159)	26,116
Total revenues	131,118	442,640
Expenses		
Changes in actuarial requirements (Note 5)	473,946	481,076
Annual deficit	(342,828)	(38,436)
Surplus, beginning of year	160,929	199,365
Total (deficit) surplus, end of year	\$ (181,899)	\$ 160,929

The accompanying notes and appendices are an integral part of these financial statements.

Statement of cash flows

For the year ended December 31, 2022 with comparatives to 2021

	2022	2021
Cash flows provided by (used in):		
Operating activities		
Annual deficit	\$ (342,828)	\$ (38,436)
Add (deduct) items not involving cash:		
Amortized discount on investments	(9,798)	(8,080)
(Decrease) increase in accrued interest	(1,503)	2,506
Decrease in accrued security lending income	(40)	-
(Increase) decrease in accounts receivable – accrued interest on bank balance	(947)	102
Increase in accounts receivable – other	(12)	(11)
Unrealized loss (gain) on investments	303,970	(7,969)
Increase in actuarial requirements	473,946	481,076
Cash provided by operating activities	422,788	429,188
Investing activities		
Purchase of investments	(691,030)	(1,420,363)
Proceeds from maturities of investments	35,894	164,432
Proceeds from sale of investments	273,543	1,313,023
Cash provided by (used in) investing activities	(381,593)	57,092
Financing activities		
Maturity of debenture	-	(650,000)
Cash used in financing activities	-	(650,000)
Increase (decrease) in cash during the year	41,195	(163,720)
Cash, beginning of year	271,583	435,303
Cash, end of year	\$ 312,778	\$ 271,583

The accompanying notes and appendices are an integral part of these financial statements.

Notes to the financial statements

For the year ended December 31, 2022

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 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.

a. 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 (Deficit) Surplus as Investment (Loss) 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).

b. 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 gains (losses) 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.

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. Many of the Sinking Funds' investments are traded in an active market. However, despite market conditions, there were no indicators which suggest that the Sinking Funds' investments were permanently impaired as at December 31, 2022. The City of Toronto (City) continues to monitor the value of its investments and corresponding liabilities which they are intended to settle.

	2022		2021	
	Fair value	Face value	Fair value	Face value
Debt investments issued or guaranteed by:				
Provincial governments	\$ 996,388	\$ 1,555,143	\$ 826,462	\$ 1,045,049
City of Toronto	19,382	19,600	23,113	19,600
Other Canadian municipalities	26,511	26,610	34,747	28,110
Corporations	271,864	304,540	280,863	260,438
Total debt investments	1,314,145	1,905,893	1,165,185	1,353,197
Equity investments issued or guaranteed by:				
Corporations	475,358	221,789	535,395	221,497
Total equity investments	475,358	221,789	535,395	221,497
Total investments	\$ 1,789,503	\$ 2,127,682	\$ 1,700,580	\$ 1,574,694

	2022	2021
Amortized cost, including accrued interest	\$ 1,969,677	\$ 1,576,793
Weighted average rate of return	0.9%	0.9%
Average term to maturity	15.25 years	17.10 years
(Loss) excess of fair value over amortized cost	\$ (180,174)	\$ 123,787

5. Actuarial requirements

	2022	2021
Actuarial requirements, beginning of year	\$ 1,811,451	\$ 1,980,375
Add: change in actuarial liability requirements	473,946	481,076
	2,285,397	2,461,451
Less: value of debentures matured during the year	-	(650,000)
Actuarial requirements, end of year	\$ 2,285,397	\$ 1,811,451

6. Net assets

	2022	2021
City of Toronto unrestricted (deficit) surplus based on amortized cost	\$ (1,725)	\$ 37,142
Unrealized (loss) gain on investments	(180,174)	123,787
Total unrestricted (deficit) surplus	(181,899)	160,929
Total net assets	\$ (181,899)	\$ 160,929

7. Investment income

	2022	2021
Investment income	\$ 11,844	\$ 15,906
Interest income	6,967	2,241
Unrealized (loss) gain on change in fair value	(303,970)	7,969
Total investment (loss) income	\$ (285,159)	\$ 26,116

8. Schedule of projected debenture maturities

For the year ended December 31, 2022, the following is a list of the projected maturities of the Sinking Fund debentures, held within the City. The list only includes years when debentures are expected to mature.

	2022
2023	\$ 300,000
2024	300,000
2025	300,000
2026	300,000
2027	700,000
2029	600,000
2030	200,000
2031	150,000
2032	300,000
2035	400,000
2036	750,000
2039	330,000
2040	1,106,250
2041	650,000
2042	835,000
2044	300,000
2046	500,000
2048	300,000
2049	600,000
2051	350,000
2052	365,000
	\$ 9,636,250

9. Risk exposure

The Sinking Funds are subject to market risk, credit risk, liquidity risk, and interest rate risk with respect to the investment portfolio. The Sinking Funds' interest bearing investments are exposed to interest rate risk. The 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.

9. Risk exposure (cont.)

As at December 31, 2022, the change in fair value of the City's Sinking Fund investments resulted in an unrealized loss for the fiscal year, representing a temporary decline in market value but no permanent decline in the value reported. There is no impairment due to the low-risk nature of the investments, the high credit ratings of the issuers, and the City's management of these investments for the intended purpose.

10. Market conditions

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, 2022, the Sinking Funds have met their objective of having sufficient liquid resources to meet current obligations.

As of April 30, 2023, the market value of the City's Sinking Funds investments that were held on December 31, 2022 has increased by an estimated \$109 million. In order to identify and mitigate potential risks affecting the City's investments, the City will continue monitoring the value of its investments to ensure that adequate liquid resources are available to support the settlement of debenture maturities.