2023 Sinking Funds Financial Statements

December 31, 2023

Independent auditor’s report

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

(in thousands of dollars, unless otherwise stated)

Statement of financial position

As at December 31, 2023 with comparatives to 2022

		2023		2022 Restated (Note 3, 4 and 11)
Financial assets				
Cash and cash equivalents	$	364,815	$	312,770
Accounts receivable		7,690		5,960
Investments (Note 5)		2,139,822		1,965,014
Total financial assets		**2,512,327**		**2,283,744**
Liabilities				
Accounts payable and accrued liabilities		38		81
Deferred revenue (Note 7)		41,546		-
Actuarial requirements (Note 6)		2,525,286		2,285,397
Total liabilities		**2,566,870**		**2,285,478**
Total accumulated deficit		**(54,543)**		**(1,734)**
	$	**2,512,327**	**$**	**2,283,744**

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

(in thousands of dollars, unless otherwise stated)

Statement of operations and accumulated deficit

For the year ended December 31, 2023 with comparatives to 2022

	2023	2022 Restated (Note 3 and 4)
Revenues		
Contributions	$ 471,691	$ 416,277
Investment income (Note 8)	15,308	18,793
Total revenues	**486,999**	**435,070**
Expenses		
Other expenses	(81)	-
Changes in actuarial requirements (Note 6)	539,889	473,946
Total expenses	**539,808**	**473,946**
Annual deficit	**(52,809)**	**(38,876)**
Accumulated (deficit) surplus – beginning of year	(1,734)	160,929
Adjustment for change in accounting policy (Note 3 and 4)	-	(123,787)
Adjusted accumulated (deficit) surplus – beginning of year	(1,734)	37,042
Accumulated deficit – end of year	**$ (54,543)**	**$ (1,734)**

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

(in thousands of dollars, unless otherwise stated)

Statement of cash flows

For the year ended December 31, 2023 with comparatives to 2022

	2023	2022 Restated (Note 3 and 4)
Cash flows provided by (used in):		
Operating activities		
Annual deficit	$ (52,809)	$ (38,876)
Deduct items not involving cash:		
Amortized discount on investments	-	(9,779)
	(52,809)	(48,655)
Changes in non-cash assets and liabilities:		
Accounts receivable	(1,730)	(7,164)
Accounts payable and accrued liabilities	(43)	-
Actuarial requirements	539,889	473,946
Cash provided by operating activities	**485,307**	**418,127**
Investing activities		
Purchase of investments	(748,681)	(686,377)
Proceeds from maturities of investments	88,726	35,894
Proceeds from sale of investments	526,693	273,543
Cash used in investing activities	**(133,262)**	**(376,940)**
Financing activities		
Maturity of debenture	(300,000)	-
Cash used in financing activities	**(300,000)**	**-**
Net increase in cash and cash equivalents during the year	**52,045**	**41,187**
Cash and cash equivalents – beginning of year	312,770	271,583
Cash and cash equivalents – end of year	**$ 364,815**	**$ 312,770**

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

Notes to the financial statements

For the year ended December 31, 2023

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 Funds debt when it matures. When the accumulated Sinking Funds exceeds the maturity value of the related debenture, the excess may be applied against other Sinking Funds accounts created for the same purpose.

Note 9 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

a. Basis of presentation

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

b. Use of estimates and measurement uncertainty

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

c. Investments

Investments are measured at fair value and consist mainly of government and corporate bonds, money market securities, and guaranteed investment certificates, as well as equity pooled funds. Where there is a permanent loss in value, the investment value is written down to recognize the loss, with the corresponding write-down reflected in the Statement of Operations and Accumulated Deficit.

Investment transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Unrealized gains and losses arising from a change in fair value of investments are recognized as deferred revenue until the investments mature or are sold.

Realized gains and losses arising from disposition or maturity of investments are recognized in the Statement of Operations and Accumulated Deficit.

d. Financial instruments and fair value hierarchy

The following is a list of the Sinking Funds' financial instruments and their related measurement basis:

Financial assets	Measurement basis
Cash and cash equivalents	Cost / amortized cost
Accounts receivable	Cost / amortized cost
Investments	Fair value

Financial liabilities	Measurement basis
Accounts payable and accrued liabilities	Cost / amortized cost
Actuarial requirements	Cost / amortized cost

All financial instruments must be classified in accordance with the significance of the inputs used in making fair value measurements. The fair value hierarchy prioritizes the valuation techniques used to determine the fair value of a financial instrument based on whether the inputs to those techniques are observable or unobservable:

i. Level 1 – Derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

ii. Level 2 – Derived from quoted prices for similar assets and liabilities, quoted prices in markets that are not active, or models using inputs that are observable.

iii. Level 3 – Derived using discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

The fair value of the Sinking Funds' investments as at December 31, 2023, are Level 1.

e. Revenue recognition

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

Investment income includes interest income and realized gains and losses, net of bank service charges.

3. Change in accounting policies

a. Transition to public sector accounting standards

Up to December 31, 2022, these financial statements were prepared under a disclosed basis of accounting rather than PSAS, to allow for the use of fair value as the measurement basis for the Sinking Funds' investments, which was not a recognized measurement approach under PSAS.

As a result of the introduction of PS 3450 – Financial Instruments, PSAS now permits the use of fair value measurement on a prospective basis and therefore, effective January 1, 2023, the Sinking Funds' financial statements have been prepared in accordance with PSAS.

Under PSAS, a change in accounting policy is applied retroactively and requires restatement of the Sinking Funds' 2022 comparative figures. The comparative figures are now presented at amortized cost, which was the recognized measurement basis for investments under PSAS, prior to January 1, 2023.

For 2022, the year of transition, adjustments are made to the opening balances as a result of the change in accounting policy as seen in Note 4.

b. PS 3450 – Financial instruments

Effective January 1, 2023, the Sinking Funds adopted PS 3450 – Financial Instruments. In accordance with transitional provisions, this standard was adopted prospectively from the date of adoption and does not impact the Sinking Funds' 2022 comparative figures. This new standard provides comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments.

Under PS 3450, all financial instruments, including investments, are included on the Statement of Financial Position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the City's accounting policy choices (see above – Financial instruments and fair value hierarchy).

c. PS 1201 – Financial statement presentation

Effective January 1, 2023, the Sinking Funds adopted PS 1201 – Financial Statement Presentation. No significant changes were required as a result of implementing this new standard.

d. PS 2601 – Foreign currency translation

The Sinking Funds also adopted PS 2601 – Foreign Currency Translation, effective January 1, 2023. No significant changes were required as a result of implementing this new standard.

(in thousands of dollars, unless otherwise stated)

4. Accounting changes

Effective January 1, 2023 the Sinking Funds' financial statements were prepared in accordance with PSAS including the prospective adoption of PS 3450 – Financial instruments resulting in the following restatement of the 2022 comparative figures:

	December 31, 2022		
	As previously reported	**Adjustments**	**As restated**
Statement of financial position			
Financial assets	$ 2,103,579	$ 180,165	$ 2,283,744
Liabilities	2,285,478	-	2,285,478
Accumulated deficit	**(181,899)**	**180,165**	**(1,734)**
Statement of operations and accumulated deficit			
Revenues	131,118	303,952	435,070
Expenses	473,946	-	473,946
Annual deficit	(342,828)	303,952	(38,876)
Accumulated surplus – beginning of year	160,929	-	160,929
Adjustment for change in accounting policy	-	(123,787)	(123,787)
Accumulated deficit – end of year	**(181,899)**	**180,165**	**(1,734)**
Statement of cash flows			
Annual deficit	(342,828)	303,952	(38,876)
Amortized discount on investments	(9,798)	19	(9,779)
Unrealized loss on investments	303,970	(303,970)	-
Accounts receivable	(2,502)	(4,662)	(7,164)
Actuarial requirements	473,946	-	473,946
Purchase of investments	(691,030)	4,653	(686,377)
Proceeds from maturities of investments	35,894	-	35,894
Proceeds from sale of investments	273,543	-	273,543
Net increase in cash and cash equivalents during the year	**41,195**	**(8)**	**41,187**
Cash and cash equivalents – beginning of year	271,583	-	271,583
Cash and cash equivalents – end of year	**312,778**	**(8)**	**312,770**

(in thousands of dollars, unless otherwise stated)

5. Investments

	2023	2022 Restated (Note 3, 4 and 11)
Debt investments issued or guaranteed by:		
Provincial governments	$ 1,239,076	$ 1,170,341
City of Toronto	10,905	20,669
Other Canadian municipalities	24,273	27,092
Corporations	319,007	312,745
Total debt investments	**1,593,261**	**1,530,847**
Equity investments issued or guaranteed by:		
Corporations	546,561	434,167
Total equity investments	**546,561**	**434,167**
Total investments	**$ 2,139,822**	**$ 1,965,014**

The weighted average yield on the cost of the bond investment portfolio during the year was 1.2% (2022 – 0.9%). Average term to maturity on investments in the portfolio range is 12.6 years (2022 – 15.3 years).

The Toronto Investment Board manages the funds not immediately required by the City, as well as managing the City's investments in accordance with the City's investment standards and Council-approved investment policy.

6. Actuarial requirements

The actuarial requirements liability of the Sinking Funds represents the amounts levied during the year as set out in the Sinking Funds debenture by-laws plus interest accrued, compounded at the Sinking Funds rates of 3.5%, or 4% 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.

	2023	2022
Actuarial requirements – beginning of year	$ 2,285,397	$ 1,811,451
Add: change in actuarial liability requirements	539,889	473,946
	2,825,286	2,285,397
Less: value of debentures matured during the year	(300,000)	-
Actuarial requirements – end of year	**$ 2,525,286**	**$ 2,285,397**

7. Deferred revenue

Deferred revenue consists of unrealized gains and losses arising from the change in fair value on investments. The following table provides a summary of significant components of the deferred revenue balance:

	2023			
	Opening balance	In-year unrealized (losses)	In-year realized losses	Ending balance
Total deferred revenue	**$ -**	**$ (8,962)**	**$ 50,508**	**$ 41,546**

(in thousands of dollars, unless otherwise stated)

8. Investment income

	2023	2022 Restated (Note 3 and 4)
Investment (loss) income	$ (6,980)	$ 11,826
Interest income	22,288	6,967
Total investment income	**$ 15,308**	**$ 18,793**

9. Schedule of projected debenture maturities

For the year ended December 31, 2023, the following is a list of the projected maturities of the Sinking Funds debentures, held within the City of Toronto (2022 for comparison). The list only includes years when debentures are expected to mature.

	2023	2022
2023	$ -	$ 300,000
2024	300,000	300,000
2025	300,000	300,000
2026	300,000	300,000
2027	700,000	700,000
2029	600,000	600,000
2030	200,000	200,000
2031	150,000	150,000
2032	300,000	300,000
2033	335,000	-
2035	400,000	400,000
2036	750,000	750,000
2039	330,000	330,000
2040	1,106,250	1,106,250
2041	650,000	650,000
2042	1,150,000	835,000
2044	300,000	300,000
2046	500,000	500,000
2048	300,000	300,000
2049	600,000	600,000
2051	350,000	350,000
2052	715,000	365,000
Total projected debenture maturities	**$ 10,336,250**	**$ 9,636,250**

10. Risk management

The Sinking Funds are subject to a range of financial risks including credit risk, liquidity risk, and market risk (which includes interest rate risk and other price risk) with respect to the investment portfolio. The Sinking Funds' overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Sinking Funds' financial performance.

a. Credit risk

Credit risk on financial instruments is the risk of financial loss occurring as a result of default or insolvency of a counterparty on its obligations to the Sinking Funds. The Sinking Funds are subject to credit risk with respect to fixed income investments.

The fair value of the investments in debt securities represents the maximum credit risk exposure at the date of the financial statements. Credit risk is managed by the Sinking Funds' internal investment managers, as well as third-party investment managers, which are responsible for regular monitoring of credit exposures. The credit quality of financial assets is generally assessed by reference to external credit ratings where available, or to historical information about counterparty default rates. The Sinking Funds further mitigate credit risk by limiting the investment portfolio to investments at the investment grade.

10. Risk management (cont.)

b. Liquidity risk

Liquidity risk is the risk that the Sinking Funds will be unable to settle or meet commitments as they come due. These commitments include payment of the funding obligations of the Sinking Funds. To manage liquidity risk, the Sinking Funds invest in a broader range of marketable securities, including equities and fixed income instruments that are actively traded and can be easily converted to cash.

c. Market risk

Market risk is the risk that the fair value of future cash flows of investments will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk encompasses a variety of financial risks, such as foreign currency risk, interest rate risk, and other price risk. The Sinking Funds are subject to market risk primarily through interest rate risk and other price risk.

i. Interest rate risk:

Interest rate risk is the risk that either future cash flows or the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Sinking Funds are exposed to the risk of fluctuation in the fair value of their fixed income investments due to changes in interest rates. The Sinking Funds invest in debt instruments with varying terms to maturity. Debt instruments in the long-term investment portfolio are traded frequently at a high volume and rarely held to maturity – these have a greater sensitivity to changes in interest rates, which can cause fluctuations in fair value. For every 1% increase in the public market interest rates, the fair value of the fixed income investments held by the Sinking Funds as at December 31, 2023 would have decreased by approximately $202,523. For every 1% decrease in the public market interest rates, the fair value of the fixed income investments held by the Sinking Funds as at December 31, 2023 would have increased by approximately $202,523.

This fixed income investment sensitivity is mitigated by the liabilities of the Sinking Funds which have a similar duration and will have an opposite change in value under the same circumstances. Overall, due to the matching of the assets and liabilities, public market interest rate fluctuations will have a minimal impact on the net value of the Sinking Funds.

ii. Other price risk:

Other price risk refers to the risk that the fair value of financial instruments or future associated cash flows will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

The Sinking Funds are exposed to other price risk due to investments in a variety of marketable securities, including equities and fixed income instruments. Risk and volatility of investment returns are mitigated through diversification of investments. To minimize other price risk, the Sinking Funds operate within the constraints of an investment policy. Compliance to this policy is monitored by management, the Toronto Investment Board, and City Council.

11. Comparative figures

Certain 2022 comparative figures have been regrouped from the financial statements previously presented, to conform with the presentation adopted in 2023.