

## 2024 Sinking Funds Financial Statements

December 31, 2024

DRAFT

**Independent auditor’s report**

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

DRAFT

## Statement of financial position

As at December 31, 2024 with comparatives to 2023

	2024	2023
<b>Financial assets</b>		
Cash and cash equivalents	\$ 162,887	\$ 364,815
Accounts receivable	7,905	7,690
Investments (Note 3)	2,700,941	2,139,822
<b>Total financial assets</b>	<b>2,871,733</b>	<b>2,512,327</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	-	38
Deferred revenue (Note 5)	47,033	41,546
Actuarial requirements (Note 4)	2,790,751	2,525,286
<b>Total liabilities</b>	<b>2,837,784</b>	<b>2,566,870</b>
<b>Total accumulated surplus (deficit)</b>	<b>33,949</b>	<b>(54,543)</b>
<b>Total liabilities and accumulated surplus (deficit)</b>	<b>\$ 2,871,733</b>	<b>\$ 2,512,327</b>

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

## Statement of operations and accumulated surplus (deficit)

For the year ended December 31, 2024 with comparatives to 2023

	2024	2023
<b>Revenues</b>		
Contributions	\$ 497,023	\$ 471,691
Investment income (Note 6)	157,057	15,308
<b>Total revenues</b>	<b>654,080</b>	<b>486,999</b>
<b>Expenses (income)</b>		
Changes in actuarial requirements (Note 4)	565,465	539,889
Other expenses	123	(81)
<b>Total expenses</b>	<b>565,588</b>	<b>539,808</b>
<b>Annual surplus (deficit)</b>	<b>88,492</b>	<b>(52,809)</b>
Accumulated (deficit) – beginning of year	(54,543)	(1,734)
<b>Accumulated surplus (deficit) – end of year</b>	<b>\$ 33,949</b>	<b>\$ (54,543)</b>

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

# Statement of cash flows

For the year ended December 31, 2024 with comparatives to 2023

	2024	2023
<b>Cash flows provided by (used in):</b>		
<b>Operating activities</b>		
Annual surplus (deficit)	\$ 88,492	\$ (52,809)
Changes in non-cash assets and liabilities:		
Accounts receivable	(215)	(1,730)
Accounts payable and accrued liabilities	(38)	(43)
Actuarial requirements	565,465	539,889
<b>Cash provided by operating activities</b>	<b>653,704</b>	<b>485,307</b>
<b>Investing activities</b>		
Purchase of investments	(1,531,700)	(748,681)
Proceeds from maturities of investments	88,243	88,726
Proceeds from sale of investments	887,825	526,693
<b>Cash used in investing activities</b>	<b>(555,632)</b>	<b>(133,262)</b>
<b>Financing activities</b>		
Maturity of debenture	(300,000)	(300,000)
<b>Cash used in financing activities</b>	<b>(300,000)</b>	<b>(300,000)</b>
<b>Net (decrease) increase in cash and cash equivalents during the year</b>	<b>(201,928)</b>	<b>52,045</b>
Cash and cash equivalents – beginning of year	364,815	312,770
<b>Cash and cash equivalents – end of year</b>	<b>\$ 162,887</b>	<b>\$ 364,815</b>

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

# Notes to the financial statements

For the year ended December 31, 2024

## 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 7 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. 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 Surplus (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 Surplus (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, 2024, are Level 1 and Level 2.

## 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. Investments

	2024	2023
<b>Debt investments issued or guaranteed by:</b>		
Provincial governments	\$ 1,511,020	\$ 1,239,076
Corporations	408,049	319,007
Other Canadian municipalities	19,836	24,273
City of Toronto	17,365	10,905
<b>Total debt investments</b>	<b>1,956,270</b>	<b>1,593,261</b>
<b>Equity investments issued or guaranteed by:</b>		
Corporations	579,175	546,561
<b>Total equity investments</b>	<b>579,175</b>	<b>546,561</b>
<b>Real estate investments issued or guaranteed by:</b>		
Corporations	165,496	-
<b>Total real estate investments</b>	<b>165,496</b>	<b>-</b>
<b>Total investments</b>	<b>\$ 2,700,941</b>	<b>\$ 2,139,822</b>

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.

### 4. 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.

	2024	2023
Actuarial requirements – beginning of year	\$ 2,525,286	\$ 2,285,397
Add: change in actuarial liability requirements	565,465	539,889
	3,090,751	2,825,286
Less: value of debentures matured during the year	(300,000)	(300,000)
<b>Actuarial requirements – end of year</b>	<b>\$ 2,790,751</b>	<b>\$ 2,525,286</b>

### 5. 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:

	2024			
	Opening balance	In-year unrealized gains	In-year realized (gains)	Ending balance
<b>Total deferred revenue</b>	<b>\$ 41,546</b>	<b>\$ 81,264</b>	<b>\$ (75,777)</b>	<b>\$ 47,033</b>

  

	2023			
	Opening balance	In-year unrealized (losses)	In-year realized losses	Ending balance
<b>Total deferred revenue</b>	<b>\$ -</b>	<b>\$ (8,962)</b>	<b>\$ 50,508</b>	<b>\$ 41,546</b>

**6. Investment income**

	2024	2023
Investment income (loss)	\$ 139,456	\$ (6,980)
Interest income	17,601	22,288
<b>Total investment income</b>	<b>\$ 157,057</b>	<b>\$ 15,308</b>

**7. Schedule of projected debenture maturities**

For the year ended December 31, 2024, the following is a list of the projected maturities of the Sinking Funds debentures, held within the City of Toronto (2023 for comparison). The list only includes years when debentures are expected to mature.

	2024	2023
2024	\$ -	\$ 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	335,000
2034	500,000	-
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	1,150,000
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	715,000
2054	500,000	-
<b>Total projected debenture maturities</b>	<b>\$ 11,036,250</b>	<b>\$ 10,336,250</b>

**8. 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.



## 8. 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, 2024 would have decreased by approximately \$241,911. 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, 2024 would have increased by approximately \$241,911.

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.