The City of Toronto

2024 Sinking Funds Financial Statements

December 31, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Members of the City Council of the City of Toronto

Opinion

We have audited the financial statements of the City of Toronto Sinking Funds (the Entity), which comprise:

- the statement of financial position as at December 31, 2024
- the statement of operations and accumulated surplus (deficit) for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2024, and its results of operations and its cash flows for the year then ended in accordance with the basis of accounting described in Note 2 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

July 23, 2025

(in thousands of dollars, unless otherwise stated)

Statement of financial position

As at December 31, 2024 with comparatives to 2023

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

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 surplus (deficit)

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

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

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, 2024 with comparatives to 2023

	2024	2023
Cash flows provided by (used in):		
Operating activities		
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
Cash provided by operating activities	**653,704**	**485,307**
Investing activities		
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
Cash used in investing activities	**(555,632)**	**(133,262)**
Financing activities		
Maturity of debenture	(300,000)	(300,000)
Cash used in financing activities	**(300,000)**	**(300,000)**
Net (decrease) increase in cash and cash equivalents during the year	**(201,928)**	**52,045**
Cash and cash equivalents – beginning of year	364,815	312,770
Cash and cash equivalents – end of year	**$ 162,887**	**$ 364,815**

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.

(in thousands of dollars, unless otherwise stated)

3. Investments

	2024	2023
Debt investments issued or guaranteed by:		
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
Total debt investments	**1,956,270**	**1,593,261**
Equity investments issued or guaranteed by:		
Corporations	579,175	546,561
Total equity investments	**579,175**	**546,561**
Real estate investments issued or guaranteed by:		
Corporations	165,496	-
Total real estate investments	**165,496**	**-**
Total investments	**$ 2,700,941**	**$ 2,139,822**

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 4.0% 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)
Actuarial requirements – end of year	**$ 2,790,751**	**$ 2,525,286**

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**
Total deferred revenue	**$ 41,546**	**$ 81,264**	**$ (75,777)**	**$ 47,033**

	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)

6. Investment income

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

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		-
Total projected debenture maturities	**$**	**11,036,250**	**$**	**10,336,250**

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.