

The City of Toronto
2025 Sinking Funds Financial Statements

December 31, 2025

DRAFT

Independent auditor's report

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

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Statement of financial position

As at December 31, 2025 with comparatives to 2024

	2025	2024
Financial assets		
Cash and cash equivalents	\$ 303,781	\$ 162,887
Accounts receivable	8,875	7,905
Investments (Note 3)	2,892,375	2,700,941
Total financial assets	3,205,031	2,871,733
Liabilities		
Deferred revenue (Note 5)	52,804	47,033
Actuarial requirements (Note 4)	3,108,718	2,790,751
Total liabilities	3,161,522	2,837,784
Total accumulated surplus	43,509	33,949
Total liabilities and accumulated surplus	\$ 3,205,031	\$ 2,871,733

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

Statement of operations and accumulated surplus

For the year ended December 31, 2025 with comparatives to 2024

	2025	2024
Revenues		
Contributions	\$ 547,867	\$ 497,023
Investment income (Note 6)	79,660	157,057
Total revenues	627,527	654,080
Expenses		
Changes in actuarial requirements (Note 4)	617,967	565,465
Other expenses	-	123
Total expenses	617,967	565,588
Annual surplus	9,560	88,492
Accumulated (deficit) – beginning of year	33,949	(54,543)
Accumulated surplus – end of year	\$ 43,509	\$ 33,949

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

Statement of cash flows

For the year ended December 31, 2025 with comparatives to 2024

	2025	2024
Cash flows provided by (used in):		
Operating activities		
Annual surplus	\$ 9,560	\$ 88,492
Changes in non-cash assets and liabilities		
Accounts receivable	(970)	(215)
Unrealized (gain) loss on investments	(433)	(81,264)
Accounts payable and accrued liabilities	-	(38)
Deferred revenue	433	81,264
Actuarial requirements	617,967	565,465
Cash provided by operating activities	626,557	653,704
Investing activities		
Purchase of investments	(934,408)	(1,531,700)
Proceeds from maturities of investments	14,395	88,243
Proceeds from sale of investments	734,350	887,825
Cash used in investing activities	(185,663)	(555,632)
Financing activities		
Maturity of debenture	(300,000)	(300,000)
Cash used in financing activities	(300,000)	(300,000)
Net increase (decrease) in cash and cash equivalents during the year	140,894	(201,928)
Cash and cash equivalents – beginning of year	162,887	364,815
Cash and cash equivalents – end of year	\$ 303,781	\$ 162,887

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

Notes to the financial statements

For the year ended December 31, 2025

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 held in the sinking fund are restricted for fulfilling sinking fund requirements as per City of Toronto Act, 2006. 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.

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 due to the restricted nature of these investments.

c. Investments (cont.)

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

d. Financial instruments and fair value hierarchy

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

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

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

The cost / amortized cost of cash and cash equivalents and actuarial requirements approximates fair value. 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:

- Level 1 – Derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- 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.
- 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, 2025, 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

	Fair Value Hierarchy	2025	2024
Debt investments issued or guaranteed by:			
Provincial governments		\$ 1,565,953	\$ 1,511,020
Corporations	Level 1	470,965	408,049
Other Canadian municipalities		26,634	19,836
City of Toronto		16,882	17,365
Total debt investments		2,080,434	1,956,270
Equity fund investments issued or guaranteed by:			
Corporations	Level 1	645,572	579,175
Total equity fund investments		645,572	579,175
Real estate investments issued or guaranteed by:			
Corporations	Level 2	166,369	165,496
Total real estate investments		166,369	165,496
Total investments		\$ 2,892,375	\$ 2,700,941

Investments held in sinking funds are restricted for fulfilling sinking fund requirements as per City of Toronto Act, 2006. 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.

	2025	2024
Actuarial requirements – beginning of year	\$ 2,790,751	\$ 2,525,286
Add: change in actuarial liability requirements	617,967	565,465
	3,408,718	3,090,751
Less: value of debentures matured during the year	(300,000)	(300,000)
Actuarial requirements – end of year	\$ 3,108,718	\$ 2,790,751

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:

	2025			
	Opening balance	In-year unrealized gains	In-year realized losses	Ending balance
Total deferred revenue	\$ 47,033	\$ 433	\$ 5,338	\$ 52,804

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

6. Investment income

	2025	2024
Investment income	\$ 73,949	\$ 139,456
Interest income	5,711	17,601
Total investment income	\$ 79,660	\$ 157,057

7. Schedule of projected debenture maturities

For the year ended December 31, 2025, the following is a list of the projected maturities of the Sinking Funds debentures, held within the City of Toronto, with comparative figures for fiscal 2024. The list only includes years when debentures are expected to mature.

	2025	2024
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	700,000	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	700,000	500,000
2055	800,000	-
Total projected debenture maturities	\$ 11,936,250	\$ 10,736,250

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.

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 equity funds 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, 2025 would have decreased by approximately \$254,220. 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, 2025 would have increased by approximately \$254,220.

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.