Toronto Police Widows and Orphans Fund

Financial Statements

For the Year Ended December 31, 2022

INDEPENDENT AUDITOR'S REPORT

To the Superintendent of Financial Institutions Canada, and the provincial superintendents of financial institutions / insurance of Toronto Police Widows and Orphans Fund

Opinion

We have audited the financial statements of Toronto Police Widows and Orphans Fund (the "Fund"), which comprise the statement of financial position as at December 31, 2022 and the statements of income, comprehensive income (loss), fund balance and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 report. We are independent of the Fund 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.

Other Matter

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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 these financial statements.

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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 Fund's internal control.

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

- 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 Fund'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 Fund 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.

We 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.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
February 27, 2023
Toronto, Ontario

Worden Zaluski Consulting Actuaries

Appointed Actuary's Report

To the Members of Toronto Police Widows and Orphans

I have valued the policy liabilities of the Toronto Police Widows and Orphans Fund for its statement of financial position as at 31 December 2022 and their changes in the statement of revenue and expenses for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

Clayton Zaluski
Fellow, Canadian Institute of Actuaries

Winnipeg, MB

February 27, 2023

Toronto Police Widows and Orphans Fund
Statement of Financial Position
As at December 31, 2022

	2022	2021
Assets		
Cash and cash equivalents	**$ 534,152**	$ 265,636
Investments (Note 5)	**90,517,898**	124,583,529
Accrued investment income and prepaid expenses (Note 7)	**206,011**	65,428
Dues receivables	**80,485**	53,000
Income taxes recoverable (Note 20)	**152,928**	-
Furniture and equipment	**10,017**	18,883
Right-of-use assets	**43,421**	54,276
Intangible asset	**232,242**	-
	$ 91,777,154	$ 125,040,752
Liabilities and Fund Balance		
Accounts payable and accrued charges (Note 9)	**$ 179,885**	$ 133,419
Unpaid benefit claims (Note 10)	**240,810**	131,057
Income taxes payable (Note 20)	**-**	111,666
Deferred tax liability (Note 20)	**86,264**	118,971
Lease liability	**52,448**	62,921
Actuarial liabilities for insurance contracts (Note 11)	**78,852,024**	111,714,580
	79,411,431	112,272,614
Fund Balance	**12,365,723**	12,768,138
	$ 91,777,154	$ 125,040,752

Approved by the Board

Brandon Reeve
Brandon Reeve (Feb 27, 2023 15:09 EST)
Brandon Reeve Officer

Sylvi Karr
Sylvi Karr Officer

Toronto Police Widows and Orphans Fund
Statement of Fund Balance
For the Year Ended December 31, 2022

	Fund Surplus	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2020	$ 12,325,654	$ 439,510	$ 12,765,164
Total Comprehensive income for the year	20,129	(17,155)	2,974
Balance at December 31, 2021	12,345,783	422,355	12,768,138
Total comprehensive income for the year	376,538	(778,953)	(402,415)
Balance at December 31, 2022	**$ 12,722,321**	**$ (356,598)**	**$ 12,365,723**

See accompanying notes

Toronto Police Widows and Orphans Fund
Statement of Income
Year Ended December 31, 2022

	2022	2021
Revenue		
Gain (Loss) on investments (Note 6)	**$ (29,043,409)**	$ (6,393,225)
Membership dues	**1,839,034**	1,786,019
Reinsurance ceded	**(11,862)**	(12,127)
Miscellaneous income	**14,983**	1,204
Donations and other income	**8,364**	655
	(27,192,890)	(4,617,474)
Benefits		
Death benefits	**2,995,100**	2,116,384
Endowments	**599,915**	545,980
Increase (decrease) in actuarial liabilities for insurance contracts	**(32,862,556)**	(8,825,391)
	(29,267,541)	(6,163,027)
Administrative expenses		
Administrative expenses (Note 8)	**916,313**	825,258
Investment income tax	**191,086**	191,097
Investment management fee	**160,550**	158,811
Audit and accounting	**78,851**	96,825
Actuarial	**158,814**	102,674
Premium taxes	**40,300**	38,540
Legal	**35,621**	22,746
Amortization	**19,721**	23,347
	1,601,256	1,459,298
Benefits and administrative expenses (income)	**(27,666,285)**	(4,703,729)
Income before income taxes	**473,395**	86,255
Income taxes (recovered) (Note 20)		
Current	**129,565**	100,704
Deferred	**(32,708)**	(34,578)
	96,857	66,126
Net income for the year	**$ 376,538**	$ 20,129

See accompanying notes

Toronto Police Widows and Orphans Fund
Statement of Comprehensive Income (Loss)
Year Ended December 31, 2022

	2022	2021
Net income for the year	**$ 376,538**	$ 20,129
Other comprehensive income (loss)		
Unrealized gains (loss) on available-for-sale assets	**(962,790)**	290,135
Realized (gain) loss reclassified to profit or loss	**(97,010)**	(313,474)
Aggregate tax effect on items recognized in OCI	**280,847**	6,184
	(778,953)	(17,155)
Total comprehensive income (loss) for the year	**$ (402,415)**	$ 2,974

See accompanying notes

Toronto Police Widows and Orphans Fund
Statement of Cash Flows
Year Ended December 31, 2022

		2022		2021
Cash provided by (used in)				
Operations				
Net income for the year	**$**	**376,538**	$	20,129
Items not affecting cash outlays				
Reinvested distributions		**(4,225,707)**		(3,547,071)
Unrealized losses on fair value through profit or loss assets		**29,352,468**		8,749,318
Realized losses on investments		**19,992,542**		1,197,496
Amortization of furniture, equipment, and right-of-use asset		**19,721**		23,347
Deferred income taxes		**(313,554)**		(40,763)
Interest on lease liability		**3,490**		4,099
		45,205,498		6,406,555
Change in working capital				
Accrued investment income and prepaid expenses		**(140,583)**		(30,629)
Dues receivables		**(27,485)**		16,470
Change in actuarial liabilities for insurance contracts		**(32,862,556)**		(8,825,391)
Unpaid benefits claim		**109,753**		36,165
Accounts payable and accrued charges		**46,464**		3,017
Receivables from investments sold		**-**		500,000
Due to related party		**-**		995
Income taxes payable/recoverable		**(264,594)**		26,443
Tax on amounts in OCI		**280,847**		6,184
		12,347,344		(1,860,191)
Investing				
Purchase of investments		**(69,581,191)**		(11,253,357)
Proceeds on sale and redemption of investments		**57,748,570**		13,688,395
Purchase of furniture and equipment		**-**		(2,814)
Purchase of intangible asset		**(232,244)**		-
		(12,064,865)		2,432,224
Financing				
Repayment on lease		**(13,963)**		(13,963)
Net change in cash and cash equivalents		**268,516**		558,070
Cash and cash equivalents (bank overdraft), beginning of year		**265,636**		(292,434)
Cash and cash equivalents, end of year	**$**	**534,152**	$	265,636

Represented by:

Cash in bank	**$**	**134,152**	$	265,636
Cash equivalents		**400,000**		-
	$	**534,152**	$	265,636

See accompanying notes

1. DESCRIPTION OF THE BUSINESS

The Toronto Police Widows and Orphans Fund (the "Fund") was incorporated under the Companies Act of Ontario as a fraternal society without share capital on May 19, 1952 and is domiciled in Canada. The Fund is regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). The Fund is maintained exclusively for the purposes of providing future benefits to its members. These benefits include providing insurance on the lives of its members, financial assistance with legal costs pertaining to the establishments of wills or power of attorney for its members, and the maintenance and disbursements of endowment entitlements to its members upon retirement from employment with the Toronto Police Service. The Fund's registered address is 2075 Kennedy Road, Suite 200, Toronto, Ontario M1T 3V3.

2. ROLE OF THE APPOINTED ACTUARY

The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice in Canada, applicable legislation and associated regulations and directives.

The Appointed Actuary is required to provide an opinion on the appropriateness of the policy liabilities as presented on the Statement of Financial Position at the fiscal year, as well as on the Fund's ability to meet all policy obligations. Examination of sufficiency and reliability of policy data and an analysis of the ability of the assets to support the policy liabilities are important elements of the work required to form this opinion.

The Appointed Actuary, in his verification of the underlying data used in the valuation, also considers the work of the external auditor. The Appointed Actuary's report outlines the scope of his work and opinion.

The Appointed Actuary is also required each year to analyze the financial condition of the Fund and prepare a report for the Board. The analysis tests the capital adequacy of the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared on a going-concern basis as an independent financial entity. The accounting policies used to prepare the financial statements comply with the requirements of OSFI which also comply with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), under the historical cost basis except certain assets that have been measured at fair value. They are prepared to assist participants and others in reviewing the financial activities for the fiscal year.

The financial statements have been authorized and approved by the Board of Directors for issue as of February 27, 2023.

Cash and Cash Equivalents

Cash and cash equivalents include cash on account, demand deposits and short-term liquid investments with original maturities of less than three months.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments

Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Bonds and debentures, fixed income pooled funds are designated as FVTPL. Investments in bonds, debentures and fixed income pooled funds designated as FVTPL are recorded at fair value, with changes in fair value recorded to income from investments. The Fund also holds investments in money market funds and guaranteed investment certificates designated at FVTPL.

Available for Sale ("AFS")

Investments in fixed income and equity pooled funds are classified as available for sale and are recorded at fair value with changes in fair value recorded in unrealized gains and losses in Other Comprehensive Income ("OCI"), net of income taxes, until disposal or the investments are impaired, at which time the cumulative gain or loss is reclassified to income from investments.

Impairment

Since bonds, debentures and fixed income pooled funds are designated as FVTPL with changes in fair value recorded to income, any reduction in the value of the assets due to impairment is already reflected in investment income. However, the impairment of assets classified as FVTPL generally affects the change in actuarial liabilities for insurance contracts due to the impact of asset impairment on future cash flows.

Investments in fixed income and equity pooled funds are designated as available for sale. These investments are tested for impairment at least on a quarterly basis. Management takes into consideration objective evidence of impairment when judging if an impairment has occurred. Management utilizes observable data about various loss events, including significant financial difficulty of the issuer, a breach of contract such as default on interest payments, a significant or prolonged decline in fair value of an investment below cost, changes with adverse effects that have taken place in the technological market, economic or legal environment in which the investees operate that may indicate that the carrying amount of the investment may not be recovered, and others. When an investment is impaired, the accumulated loss recorded in accumulated other comprehensive income is reclassified to the Statement of Income. Impairments on available for sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred.

Fair Values

Fair values of financial assets that have quoted market prices in active markets are obtained from external pricing services. Bonds and debentures are valued with reference to their readily available published bid market prices. Where published market prices are not available for the bonds and debentures a discounted cash flow valuation model is used to derive fair value.

The Fund’s investments in fixed income and equity pooled funds ("Investee Funds") are subject to the terms and conditions of the respective Investee Fund’s prospectus or offering memorandum. The investments in Investee Funds are valued based on the latest available redemption price of such units for each Investee Fund, as determined by the Investee Funds’ administrators.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fair Values (Cont'd)

The Fund reviews the details of the reported information obtained from the Investee Funds and considers:

- the liquidity of the Investee Fund or its underlying investments;
- the value date of the net asset value (NAV) provided;
- any restrictions on redemptions; and
- the basis of accounting and, in instances where the basis of accounting is other than fair value, fair value information provided by the Investee Fund's advisors or fund managers.

If necessary, the Fund makes adjustments to the NAV of various Investee Funds to obtain the best estimate of fair value.

Intangible Assets

The intangible assets generated through the capitalization of software developments costs are carried on the Statement of Financial Position on a cost basis. These costs have been capitalized in accordance with International Accounting Standard 38. The assets have a finite useful life of 3 years. They are to be amortized on a straight-line basis, in accordance with the amortization of the Fund's other assets classes. Amortization is to commence once the assets are brought into use, in 2023. Amortization will be recognized within administrative expenses in the Statement of Income. There is no impairment in the carrying value of these assets.

Other

All investment transactions are recorded on the trade date. Transaction costs related to financial assets and liabilities classified as other than FVTPL are capitalized upon initial recognition.

Revenue Recognition

Revenue is recognized at an amount that reflects the consideration to which the Fund is expected to be entitled in exchange for transferring services to a customer. For each contract with a customer, the Fund: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct service to be delivered; and recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the services promised.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognitions (Cont'd)

Membership Dues

Membership dues are recognized at a point in time as revenue when due based on a fixed percentage of compensation. When membership dues revenue is recognized, the related policy liabilities are computed.

Donations

Donations are recognized as income when received.

Income from Investments

Income and capital gains distributions from fixed income and equity pooled funds held within the FVTPL and AFS portfolios are recorded in investment income.

Policy Liabilities

Policy liabilities have been calculated using the Canadian Asset Liability Method ("CALM") as permitted by IFRS 4: Insurance Contracts. Policy liabilities represent the amounts which, together with estimated future dues and investment income, will be sufficient to pay estimated future benefits and expenses for all current active and retired members of the Fund. Policy liabilities are determined using accepted actuarial practice, according to standards established by the Canadian Institute of Actuaries ("CIA").

Income Taxes

The tax expense includes both an expense for current income tax balance and an expense for deferred income tax. Current tax expense represents the expected tax payable resulting from the current year's taxable profits.

Deferred tax expense represents the movement during the year in the cumulative temporary differences between the carrying value of the Fund's asset and liabilities on the Statement of Financial Position and their values for tax purposes. Deferred tax is measured using enacted and substantively enacted tax rates. Deferred tax is charged or credited to the Statement of Income, except when it relates to items charged or credited directly to OCI, in which case the deferred tax is also recorded in OCI.

In determining the impact of taxes, the Fund is required to comply with the standards of both the CIA and those of the IASB. Actuarial standards require that the projected timing of all cash flows associated with policy liabilities, including income taxes, be included in the determination of policy liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes (Cont'd)

The policy liabilities are first computed including all related income tax effects on a discounted basis, including the effects of temporary differences which have already occurred. Deferred tax assets and/or liabilities arising from temporary differences which have already occurred are computed without discounting. These amounts are reclassified from the policy liabilities to deferred tax balances to show them separately on an undiscounted basis on the Statement of Financial Position. The net result of this reclassification is to leave the discounting effect of the deferred tax balances in the policy liabilities.

Use of Estimates

In preparing the Fund's financial statements, Management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in the areas of determining the fair value of financial instruments, the actuarial liabilities for insurance contracts and income taxes. Estimates used to calculate policy liabilities will be discussed in Note 12. Estimates used in the valuation of financial instruments will be discussed in Note 5. Income and other taxes that apply to the Fund will be discussed in Note 20.

4. CHANGES IN ACCOUNTING POLICIES

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning on or after January 1, 2023. IFRS 17 and IFRS 9 will be implemented effectively January 1, 2023 with a retrospective transition date of January 1, 2022.

IFRS 9 - Financial Instruments

IFRS 9 – Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 has been deferred to align with the effective date of IFRS 17 of January 1, 2023. The Fund qualifies for the amendment and is applying the deferral approach to allow adoption of both IFRS 9 and IFRS17 simultaneously.

4. CHANGES IN ACCOUNTING POLICIES (Cont'd)

IFRS 17 - Insurance Contracts

IFRS 17 – Insurance Contracts was issued in May 2017 and lays out a fundamentally new way of measuring and presenting insurance contracts and related financial statement items for entities that issue insurance contracts. Some of the key aspects of IFRS 17 include new models for insurance liabilities, changes to discounting and the rate being used to discount claims liabilities, and changes to deferred premium acquisition costs. On June 25, 2020, the IASB issued 'Amendments to IFRS 17' to address concerns and implementation challenges that were identified after IFRS 17 - Insurance Contracts was published in 2017. The amendments result in a deferral of application of IFRS 17 – Insurance Contracts until the annual periods beginning on or after January 1, 2023 with earlier application permitted. The IASB has also published a corresponding 'Extension of Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment to also be for the annual periods beginning on or after January 1, 2023 in order to keep the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB has also confirmed that certain other amendments proposed in the exposure draft be extended, namely the amendment on the expected recovery of insurance acquisition cash flows and has already agreed to extend the scope of the amendment related to the recovery of the losses on reinsurance contracts to apply to all reinsurance held contracts.

In preparation of the application of IFRS 9 and IFRS 17, the Fund has substantially completed its transition readiness exercise in collaboration with OSFI, the Appointed Actuary and insurance industry partners.

IFRS 9 - Harmonization

For IFRS 9 harmonization, the Fund shall elect certain financial assets to be classified as FVTPL. Other financial asset will be classified as amortized cost and financial liabilities will be carried at amortized cost.

For invested assets that are held by the Fund in pooled funds, the fund has determined that such pooled funds are equity investments. For certain pooled funds (i.e. equity investments held by the Fund that are classified as available for sale in applying IAS 39), the Fund has elected to retrospectively redesignate and reclassify them to be FVTPL.

The Fund has determined, as a result of its choice of accounting policy, that key financial assets will be out of scope for impairment under IFRS 9. Dues Receivable as a contract asset is deemed immaterial and limited in duration and not subject to any loss allowance or impairment consideration. For those financial instruments measured at FVTPL, any effect of impairment is duly recognized in the financial statements at time of accounting recognition and subsequent measurement.

For the Fund, insurance income and expenses will be recognized entirely through the Statement of Income under insurance service results as to align to the IFRS presentation standards.

4. CHANGES IN ACCOUNTING POLICIES (Cont'd)

IFRS 17 Transition

Upon transition to IFRS 17, the Fund will utilize the Fair Value Approach for any insurance contracts issued on or before December 31, 2021. The Fair Value Approach is a prescribed method under IFRS 17 in determining the Contract Service Margin (CSM) using the fair value of the insurance contracts less fulfillment cashflows to service the insurance contract at the transition date. The CSM represents the unearned profit that the Fund expects to earn as it provides insurance services to its members. The Fund has deemed the Fair Value Approach to be a more economical approach in terms of effort, time and cost to implement for any insurance contracts issued on or before December 31, 2021.

For insurance contracts issued on or after January 1, 2022, the general measurement model of IFRS 17 will be applied.

IFRS 17 Measurement

Insurance Contract Liabilities under IFRS 17 are comprised of Liability for Remaining Coverage ("LRC") and Liability for Incurred Claims ("LIC").

The Standard measures insurance contracts under the general model which has been adopted by the Fund. The general model is defined such that at initial recognition an entity shall measure a group of contracts as the total of the amount of fulfilment cash flows (FCF), which comprise probability-weighted estimates of future cash flows, an adjustment to reflect the time value of money (TVM) and the financial risks associated with those future cash flows and a risk adjustment for non-financial risk; and the CSM.

Upon subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the LRC and the LIC. The LRC comprises the FCF related to future services and the CSM of the group at that date. The LIC is measured as the amount of the expected present value of FCF relating to incurred claims.

IFRS 17 Discount Rate

The Fund has determined the main impact of IFRS 17 on the Fund's financial statements is due to the new discount rate applied to the LRC. Under IFRS 17, the Fund is required to apply a discount rate to reflect the characteristics of the insurance cashflows, including cashflows within the LRC and LIC. In determination of the discount rate the Fund has elected to utilize a bottom-up approach to build the discount rate curve as the sum of the risk-free rate and an illiquidity premium (ILP). This approach differs from IFRS 4 whereby the discount rate was calculated based on the investment returns of the assets supporting the liabilities, including, unlike for IFRS 17, making assumptions for yields on future asset sales and purchases.

The Fund has elected to use the Canadian Institute of Actuaries (CIA) reference curve.

4. CHANGES IN ACCOUNTING POLICIES (Cont'd)

IFRS 17 Presentation and Disclosure

For IFRS 17 presentation and disclosure the Fund shall present separately in the Statement of Financial Position the carrying amount of insurance contracts held that are liabilities. Insurance service results shall aggregate insurance revenue and insurance service expense of insurance written. This presentation will replace the previously reported balances of membership dues and benefits on the Statement of Income. Moreover, the Fund shall not disaggregate insurance finance income or expense between the profit and loss statement and other comprehensive income.

Estimated Impact of The Adoption of IFRS 17 and IFRS 9

The Fund has assessed the estimated impact that the initial application of IFRS 17 and IFRS 9 will have on its financial statements. Based on assessments undertaken to date, the Fund's total surplus is expected to increase on transition as at January 1, 2022 by $18,400,000.

The assessment above is Management's best estimate. The calculated impact of adopting IFRS 17 and IFRS 9 on January 1, 2023 and January 1, 2022 may change because:

- the Fund is continuing to refine the new accounting processes and internal controls required for applying IFRS 17 and IFRS 9;
- although parallel runs were carried out in 2022, the new systems and associated controls in place have not been operational for a more extended period;
- the Fund has not finalized certain testing and assessment of controls over its new financial reporting utility and any changes to its oversight framework;
- the new accounting policies, assumptions, judgments and estimation techniques employed are subject to change until the Fund finalizes its first financial statements that include the date of initial application.

5. INVESTMENTS

		2022 Fair Value	%		2021 Fair Value	%
Financial assets at fair value through profit or loss						
Guaranteed Income Certificates	$	**8,000,024**	**9 %**	$	-	- %
Fixed income pooled funds						
PH&N Long Corporate Bond Trust		**47,424,555**	**52 %**		35,295,950	28 %
PH&N PRisM - Long		**12,473,052**	**14 %**		43,024,370	34 %
PH&N PRisM - Medium		**3,190,273**	**3 %**		15,354,505	12 %
PH&N PRisM - Short		**3,303,455**	**4 %**		19,816,843	16 %
PH&N Money Market Funds #125		**7,811,697**	**9 %**		-	- %
		82,203,056	**91 %**		113,491,668	90 %
Available-for-sale						
PH&N Dividend Income Fund		**2,448,239**	**2 %**		3,331,832	3 %
PH&N Short Term Bond & Mtg		**-**	**- %**		2,136,043	2 %
PH&N Mortgage Pension		**2,523,821**	**3 %**		1,181,242	1 %
PH&N Bond		**3,342,782**	**4 %**		4,442,744	4 %
		8,314,842	**9 %**		11,091,861	10 %
	$	**90,517,898**	**100 %**	$	124,583,529	100 %

Fair Value Hierarchy

The following table outlines the financial instruments measured at fair value based on the following three-level fair value hierarchy:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Fair value is determined in whole or in part using a valuation technique using inputs for the asset or liability that are not based on observable market data.

	2022 Level 1	2022 Level 2	2022 Level 3	2021 Level 1	2021 Level 2	2021 Level 3
Financial assets at fair value through profit or loss	**$ -**	**$ 82,203,056**	**$ -**	$ -	$ 113,491,668	$ -
Available-for-sale financial assets	**-**	**8,314,842**	**-**	-	11,091,861	-
	$ -	**$ 90,517,898**	**$ -**	$ -	$ 124,583,529	$ -

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused their transfer. There are no transfers between Level 1 and Level 2 for the years ended December 31, 2022 and 2021. No Level 3 investments exist as at December 31, 2022 and 2021.

6. GAIN (LOSS) FROM INVESTMENTS

	2022	2021
Net gains (losses) on FVTPL investments		
Income distributions from investee funds	**$ 1,733,305**	$ 2,971,204
Capital gain distributions from investee funds	**2,108,516**	52,849
Interest income from fixed-income investments	**22,069**	334
Interest income from money market funds	**110,924**	-
Interest income accrued on GIC investments	**107,752**	-
Realized gains (losses) on investments	**(20,089,552)**	(1,510,970)
Change in unrealized gains (losses) on investments	**(13,517,318)**	(8,743,134)
Net gains on AFS investments		
Income distributions from investee funds	**298,720**	306,948
Capital gain distributions from investee funds	**85,165**	216,070
Realized gains on investments	**97,010**	313,474
	$ (29,043,409)	$ (6,393,225)

7. ACCRUED INVESTMENT INCOME AND PREPAID EXPENSES

	2022	2021
Accrued investment income	**$ 107,776**	$ -
Prepaid expenses	**98,235**	65,428
	$ 206,011	$ 65,428

8. EMPLOYEE BENEFITS

Employee payroll expense for the year was $405,242 (2021 - $346,695) and is included in administration expenses in the Statement of Income.

9. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2022	2021
Trade accounts payable and accrued charges due within one year	**$ 179,885**	$ 133,419

10. UNPAID BENEFIT CLAIMS

	2022	2021
At January 1	$ **131,057**	$ 94,892
Additions to unpaid benefit claims	**158,741**	108,617
Claims paid	**(48,988)**	(72,452)
At December 31	$ **240,810**	$ 131,057

11. NATURE AND COMPOSITION OF INSURANCE CONTRACT LIABILITIES

Under the Bylaws of the Fund, an actuarial valuation of the liabilities must be performed annually by the Appointed Actuary. The most recent actuarial valuation of the Fund was made as of December 31, 2022 by Clayton Zaluski, Fellow, Canadian Institute of Actuaries, who submitted their report dated February 27, 2023.

Policy liabilities represent the amounts which, together with estimated future dues and investment income, will be sufficient to pay estimated future benefits including enhancements to future benefits, and expenses for all current active and retired members of the Fund. Policy liabilities are determined using generally accepted actuarial practices, according to Standards of Practice established by the CIA.

The Fund provides benefits to members in accordance with its By-laws and as determined by the Board of Directors. The following schedule sets forth December 31, 2022 benefit levels:

(a) The regular amount of insurance for active members is $50,000 (2021 - $50,000); the insurance amount doubles for "in line of duty" deaths.

(b) The regular amount of insurance for retired members is $18,800 (2021 - $18,800).

(c) The regular amount of insurance for active members of $50,000 decreases to $18,800 upon retirement for 2022 (2021 - $18,800).

(d) The endowment benefit is $3,150 (2021 - $3,150).

(e) The discretionary bonus amount is 20% (2021 - 20%) for deaths.

The following table shows the regular amount of insurance (not including the endowment benefit) in force as at:

	Basic	Bonus	2022 Total
Active members	**$ 268,450,816**	**$ 53,690,163**	**$ 322,140,979**
Retired members	**90,467,664**	**18,093,533**	**108,561,197**
	$ 358,918,480	**$ 71,783,696**	**$ 430,702,176**

11. NATURE AND COMPOSITION OF INSURANCE CONTRACT LIABILITIES (Cont'd)

	Basic	Bonus	2021 Total
Active members	$ 268,821,440	$ 53,764,288	$ 322,585,728
Retired members	88,999,936	17,799,987	106,799,923
	$ 357,821,376	$ 71,564,275	$ 429,385,651

Policy liabilities are composed of the following:

	2022	2021
Active members	**$ 24,674,222**	$ 44,312,804
Retired members	**54,147,802**	67,371,776
Claims paid	**30,000**	30,000
At December 31	**$ 78,852,024**	$ 111,714,580

12. ACTUARIAL ASSUMPTIONS

In computing the policy liabilities for insurance contracts, assumptions are made with respect to mortality, investment returns, expenses, retirements and resignations.

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these estimates, to allow for possible deterioration in experience, and to provide greater comfort that the policy liabilities are adequate to pay future benefits, the Appointed Actuary is required to include in each assumption a margin that falls within a range defined in accepted actuarial practice, in compliance with Standards of Practice of the Canadian Institute of Actuaries ("CIA"). The Appointed Actuary has advised that in his professional judgment, the fund maintains margins in aggregate, at the middle of the range of accepted practice. The ultimate cost of future benefits will inevitably vary from current estimates. Estimates are adjusted as additional information becomes known. All changes in estimates are charged to expenses in the period in which they occur.

The methods for arriving at the most important of these assumptions are outlined below:

Mortality

The Appointed Actuary performs an annual mortality study. The limited exposure does not justify using the Fund's experience directly. Mortality rates are credibility blended with industry mortality experience. Recent experience has been within assumed levels.

The Fund has experienced a consistent series of favourable claims results, however should mortality deteriorate by 10.0% for all future years, the approximate impact would be a $2,013,000 increase (2021 - $1,637,000 increase) in the actuarial liabilities for insurance contracts.

12. ACTUARIAL ASSUMPTIONS (Cont'd)

Investment Returns

The fixed income pooled funds are deemed to back actuarially calculated liabilities; the pooled fund investments classified as available-for-sale and the other assets are deemed to back the Fund balance. The projected cash flow from fixed income pooled funds was combined with future reinvestment rates derived from scenario testing in accordance with the Canadian Asset Liability Method ("CALM") to determine the valuation rate of returns.

As at December 31, 2022, should interest rates of the bonds and debentures and the underlying investments in the fixed income pooled funds decrease by 1% (2021 - 1%), with other variables held constant, the approximate impact would be a $3,078,000 increase (2021 - $5,797,000 decrease) in the actuarial liabilities for insurance contracts.

As at December 31, 2022, should interest rates of the bonds and debentures and the underlying investments in the fixed income pooled funds increase by 1% (2021 - 1%), with other variables held constant, the approximate impact would be a $2,901,000 decrease (2021 - $3,732,000 increase) in the actuarial liabilities for insurance contracts.

Expenses

(i) Administrative expenses

Per policy expenses are based on the Fund's experience and are updated annually. Inflation is not applied to be consistent with the modelling of the premiums and benefits, which do not include inflation for 2022 and 2021.

(ii) Investment expenses

Investment expenses are based on the Fund's experience and are updated annually.

The margin for adverse deviations for expenses is equal to 10% (2021 - 10%).

Should future expenses increase by 10%, the approximate impact would be a $787,000 increase (2021 - $951,000 increase) in the actuarial liabilities for insurance contracts.

Withdrawal from Service

Withdrawal rates are derived from actual experience obtained in prior years.

Retirement

The probability of a member retiring at each attained age is derived from actual experience obtained in prior years.

The incidence of retirement has varied recently based principally upon external factors. Disability is addressed within the retirement assumption. The Fund can withstand such year-to-year variations and differing incidences of retirement may impact cash flow, but has minimal impact on the actuarial liabilities for insurance contracts.

12. ACTUARIAL ASSUMPTIONS (Cont'd)

Retirement (Cont'd)

As at December 31, 2022, if resignation rates decreased by 10% (2021 - 10%), the approximate impact would be a $156,000 increase (2021 - $320,000 increase) in the actuarial liabilities for insurance contracts.

As at December 31, 2022, if retirement rates increased by 10% (2021 - 10%), the approximate impact would be a $69,000 increase (2021 - $28,000 increase) in the actuarial liabilities for insurance contracts.

Dues

Although member benefits are not commensurate with an increase in dues, such dues increases are available through the Toronto Police Service collective bargaining agreement.

In future, lower yields could occur along with higher taxation. As such, the Fund may need to not only increase dues to assist in funding increased benefits, but in a worst-case scenario, may need either higher dues without benefit escalations, or may possibly need to exercise the ability and right to reduce present benefits. Current benefit levels are a minimum target but their continuation is an expectation and not a guarantee.

Provision for Adverse Deviation

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognize uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the policy liabilities are adequate to pay for future benefits, actuaries are required to include a margin for adverse deviation in each assumption. A range of allowable margins is prescribed by the CIA.

The Fund maintains margins near the middle of the allowable range. A higher margin is used for expenses due to the higher level of uncertainty around future expense levels.

In dollar amounts, by component, statutory reserves include the following provisions for adverse deviation.

	2022	2021
Interest rate		
C1 risk - risk of asset defaults	**$ 1,353,000**	$ 1,206,000
C3 risk - risk of losses due to change in interest rates	**1,134,000**	3,652,000
Fixed income credit spread	**2,644,000**	814,000
Mortality	**2,644,000**	2,419,000
Expense		
Unit cost	**720,000**	870,000
Investment expense	**282,000**	443,000
Retirement and withdrawal rate	**308,000**	432,000
	$ 9,085,000	$ 9,836,000

13. CHANGE IN POLICY LIABILITIES

		2022		2021
		(Million)		(Million)
Actuarial liabilities at beginning of year	**$**	**111.7**	$	120.5
Change in prevailing market rates and reinvestment strategy		**(33.3)**		(10.4)
Increase in dues		**(0.3)**		(0.4)
Withdrawal/Retirement Rate Changes		**(0.2)**		(0.2)
Normal changes		**1.0**		1.3
Change in actuarial assumptions and methods				
Expenses		**-**		0.9
	$	**78.9**	$	111.7

14. FINANCIAL RISK MANAGEMENT

Investment Policies

The Fund's objective of managing financial risk is to reduce financial risk where possible in balance with ensuring sufficient return on financial investments. The Fund has established investment policies and goals that reflect its obligations, and as such, has directed its professional external investment managers to invest primarily in fixed income pooled funds which hold high equality, long-term fixed income assets (government and corporate bonds and debentures) combined with a limited proportion of equity pooled funds. The Fund has also directed its professional external investment mangers to invest in money market funds and guaranteed investment certificates in order to align with the upcoming requirements under IFRS17.

Risk Management

Management has developed policies and procedures to enable it to respond to various business risks of the Fund. The Risk Committee reviews the Fund's overall risk management policies and recommends approval of these policies to the Board. The Audit Committee reviews overall internal controls and recommends approval of the financial statements to the Board.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, currency risk and other price risks.

14. FINANCIAL RISK INSTRUMENTS (Cont'd)

Interest Rate Risk

Interest rate risk is the risk of economic losses or gains arising from the disinvestment or reinvestment of cash flows. If the assets supporting the liabilities do not match the timing and amount of the liabilities, interest rate losses or gains may occur due to changing interest rates in the future. To manage and control the interest rate risk, the Fund maintains an appropriate matching policy for its liabilities. The Fund updated its investment policy in 2022 to align with the upcoming requirements under IFRS 17. The fund is largely still invested in fixed income pooled funds, but also introduced guaranteed investment certificates to support the IFRS 17 contractual service margin liability.

For death and endowment benefits, where the timing and amount of the benefit obligations can only be estimated, the assets are maintained with duration approximately equal to that of the liabilities.

The value of FVTPL bonds and debentures, the underlying assets in the fixed income pooled funds and actuarial liabilities for insurance contracts are affected by changes in interest rates. Please refer to Note 12 for sensitivity to changes in interest rates for the actuarial liabilities for insurance contracts.

Equity Price Risk

The Fund invests in equity pooled funds, which in turn generally invest in listed equity investments. While the underlying investments in the equity pooled funds are susceptible to equity price risk, the risk to the Fund is indirect in nature. Such investments are designated as available-for-sale investments and do not support the actuarial liabilities for insurance contracts in Note 12. If the unit price of the Fund's equity pooled funds were to increase or decrease by 10%, with all other variables being held constant, the impact on the Fund Balance would be approximately $244,800 (2021 - $333,200). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Credit Risk

Credit risk is the risk of financial losses resulting from the non-payment of receivables or investments. Management of this risk is performed by regular monitoring of its receivables and investment credit quality. The Fund's Investment Policy requires all fixed income investments, including the underlying fixed income investments held within the fixed income pooled funds, to be rated "BBB" or higher at time of purchase and not more than 20% of those investments may be in "BBB" or lower rate securities.

The Fund has not made explicit provision in its Statement of Financial Position for credit losses on any assets which are used to support the policy liabilities. Management believes that no assets are currently impaired and no provision is warranted as at December 31, 2022.

14. FINANCIAL RISK INSTRUMENTS (Cont'd)

Maximum Exposure to Credit Risk

The Fund's maximum credit exposure related to financial instruments is summarized in the following tables. Maximum credit exposure is the carrying value of the asset net of any allowance for losses.

	2022	2021
Cash and cash equivalents	$ 534,152	$ 265,636
Dues receivable	80,485	53,000
	$ 614,637	$ 318,636

Concentration of Credit Risk

Concentration of credit risk arises from exposure to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics, such as groups of debtors in the same economic or geographic regions or in similar industries. The financial instrument issuers have similar economic characteristics so that their ability to meet contractual obligations may be impacted similarly by changes in the economic or political conditions. The Fund mitigates this risk through setting exposure limits and diversification requirements via its Investment Policy pooled funds mitigates this risk through setting exposure limits and diversification requirements via its Investment Policy.

Management considers credit quality per instrument type as an indication of the relative concentration of credit risk. The Fund is also exposed to credit risk from bonds held within the pooled funds. The maximum exposure to this credit risk is set out in the table below:

	2022	2021
FVTPL bonds, debentures and fixed income pooled funds		
AAA	$ 11,365,513	$ 11,338,382
AA	15,122,956	62,628,858
A	28,285,153	24,734,070
BBB	19,312,116	14,790,359
BB	117,295	-
Cash	35,749	-
	$ 74,238,782	$ 113,491,669

Capital and Liquidity Risk

Capital and liquidity risk include, not meeting the minimum capital requirements or its financial obligations as set out by the Fund and OSFI. The Board and Management regularly review various capital adequacy tests and cash flow requirements to ensure that sufficient funds are available to satisfy the capital requirements of the Board and its regulators.

14. FINANCIAL RISK INSTRUMENTS (Cont'd)

Capital and Liquidity Risk (Cont'd)

It is expected that the Fund will be able to meet all of its contractual requirements as its liabilities fall due, including, if necessary, by selling its liquid bonds, debentures and fixed income pooled funds prior to their maturity. All of the Fund's financial liabilities, other than policy liabilities, are due within one year.

15. INSURANCE RISK MANAGEMENT

The objective of the Fund's insurance risk management approach is to ensure that polices are priced appropriately to reflect the future benefits expected to be paid on insurance policies. The Fund's insurance activities are primarily concerned with the pricing, acceptance and management of insurance risks from its members. In accepting risk, the Fund is committing to the payment of claims and therefore these risks must be understood and controlled.

Maturity Profile of Policy Liabilities

The following table shows details of the expected maturity profile of the Fund's undiscounted obligations with respect to its estimated cash flows of recognized insurance contract liabilities. The Fund's strategy for managing liquidity risk arising from insurance contracts is to invest in high quality assets that are readily convertible into cash.

	Less than 1 year	1 - 5 years	5+ years
Actuarial liabilities			
2022	**$ 2,823,695**	**$ 10,884,468**	**$ 180,241,665**
2021	$ 2,704,433	$ 10,231,796	$ 186,086,149

The Fund accepts insurance risk through its insurance contract where it assumes the risk of loss from persons that are directly subject to the underlying loss. The Fund is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Fund manages its risk via its underwriting and reinsurance strategy within an overall risk management framework.

Reinsurance is purchased to mitigate the effect of catastrophic events to the Fund. Reinsurance policies are written with a registered reinsurer and approved by the Board. See reinsurance disclosure in Note 17.

Insurance Pricing Risk

Insurance pricing risk is the risk that actual experience will not develop as estimated in the initial pricing of the insurance. Management of pricing the membership dues involves prudent review of new benefits, benefit changes, benefit design, claims and regular monitoring of experience results. All benefits and prices are subject to annual review and price adjustment. Pricing is based on assumptions which are based on trends and past experience.

15. INSURANCE RISK MANAGEMENT (Cont'd)

Insurance Pricing Risk (Cont'd)

The process of determining policy liabilities necessarily involves the risk that the actual results will deviate from the best estimates made. The risk will vary in proportion to the length of the estimation period and the potential volatility of each component comprising the liabilities. To recognize uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include a margin in each assumption. Please refer to the actuarial assumptions section of the notes for further details.

Regulatory capital is also managed (though not exclusively) by reference to the insurance risk to which the Fund is exposed.

The premiums received that relate to the life and endowment products cannot be separated and therefore the concentration of insurance risk is centered on subscribing members.

16. CAPITAL MANAGEMENT

The Fund's capital base consists of the Fund balance of $12,365,723 (2021 - $12,768,138) and is structured to meet and exceed the Fund's regulatory capital requirements. OSFI has established a capital adequacy requirement for fraternal societies such as the Fund known as Life Insurance Capital Adequacy Test ("LICAT").

For Canadian regulatory reporting purposes, capital is defined by OSFI in its LICAT guideline. The Fund's LICAT ratio as at December 31, 2022 met the minimum levels that would require any regulatory or corrective action by OSFI.

The management of the Fund is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board reviews and approves all capital transactions undertaken by management.

17. REINSURANCE

The Fund annually contracts for reinsurance to minimize the exposure in the event of catastrophic loss. The policy carries catastrophic loss coverage up to a maximum of $10,000,000 (2021 - $10,000,000) coverage per incident after a $600,000 (2021 - $600,000) deductible.

The Fund also contracts for reinsurance when members are deployed internationally.

18. FUNDS HELD IN TRUST

The Fund holds amounts in trust for certain beneficiaries of deceased members. As such amounts do not belong to the Fund and the Fund cannot access them, they are not included in the accompanying Statement of Financial Position. At year-end, amounts held in trust were $Nil (2021 - $11,147).

19. REMUNERATION

Remuneration of key management personnel for the year was $198,833 (2021 - $346,695). Remuneration of the Board of Directors, which includes retainer fees and meeting attendance fees, for the year was $144,188 (2021 - $131,106).

20. INCOME AND OTHER TAXES

The Fund is subject to income taxes under Part I and Part XII.3 of the Federal Income Tax Act and under the Ontario Corporations Tax Act. A provision for investment income tax of $191,086 (2021 - $191,097) is required under Part XII.3. This tax is 15% of the taxable Canadian life investment income of a life insurer which is determined by a formula prescribed in the Income Tax Act.

The following table reconciles the difference between income taxes that would result solely by applying statutory rates to pre-tax income and the income taxes actually provided in the financial statements:

		2022		2021
Income before income taxes	**$**	**473,395**	$	86,255
Statutory rate		**26.5 %**		26.5 %
Expected income tax expense	**$**	**125,450**	$	22,858
Increase (decrease) resulting from:				
Net non-taxable income		**(33,324)**		-
Non-deductible amounts and other		**4,731**		414
Other		**-**		71,248
Aggregate tax effect on items recognized in OCI		**-**		6,184
Deferred tax		**-**		(34,578)
Income tax expense	**$**	**96,857**	$	66,126

The current and deferred tax (assets) liabilities are comprised of the following components:

		2022		2021
Income taxes (payable) recoverable	**$**	**152,928**	$	(111,666)
Deferred tax liability (assets):				
Investments and other	**$**	**(875)**	$	499
Actuarial liabilities for insurance contracts		**89,531**		120,763
Lease liability		**(2,392)**		(2,291)
	$	**86,264**	$	118,971

20. INCOME AND OTHER TAXES (Cont'd)

The Fund is subject to numerous taxes, the most significant of which are reflected below:

	2022	2021
Current income taxes	**$ 129,565**	$ 94,520
Deferred income taxes	**(32,708)**	(31,578)
Investment income tax	**191,086**	191,097
Premium taxes	**40,300**	38,540
	$ 328,243	$ 292,579

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with current year presentation.