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*since 1952*

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**Toronto Police Widows and  
Orphans Fund**

**Audited Financial Statements  
For the year ended December 31, 2019**

# Toronto Police Widows and Orphans Fund

**Financial Statements**  
For the year ended December 31, 2019

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## Independent Auditor's Report

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**To the Members of the  
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, 2019, and the statement of fund balance, statement of revenue and expenses, statement of comprehensive income (loss) and statement of 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, 2019, and its financial performance and its cash flows or 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.

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

Management is responsible for the preparation and fair presentation of these 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.

Those charged with governance are responsible for overseeing the Fund'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 these 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 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.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

February 27, 2020  
Toronto, Ontario

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 December 31, 2019 and their changes in the statement of revenue and expenses for the year ended December 31, 2019 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 members' obligations and the financial statements fairly present the results of the valuation.



Clayton Zaluski

Fellow, Canadian Institute of Actuaries

Winnipeg, MB

February 27, 2020

# Toronto Police Widows and Orphans Fund

## Statement of Financial Position

December 31

2019

2018

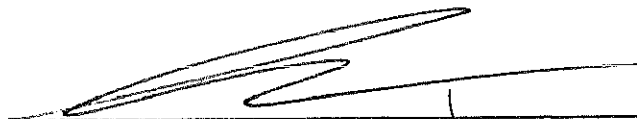
### Assets

Cash and cash equivalents	\$ 727,190	\$ 670,712
Investments (Note 5)	122,318,788	104,472,377
Accrued investment income and prepaid expenses (Note 7)	32,020	269,337
Dues receivable	34,099	51,743
Due from related party (Note 19)	-	7,722
Deferred tax assets (Note 20)	-	353,000
	<u>123,112,097</u>	<u>105,824,891</u>
Furniture and equipment	22,772	7,021
Right of use asset (Note 21)	56,447	-
	<u>\$123,191,316</u>	<u>\$105,831,912</u>

### Liabilities

Accounts payable and accrued charges (Note 9)	\$ 340,219	\$ 137,369
Unpaid benefit claims (Note 10)	489,763	127,960
Income taxes payable (Note 20)	350,000	468,720
Deferred tax liabilities (Note 20)	183,000	-
Due to related party (Note 19)	24,770	-
Lease liability (Note 21)	53,093	-
Actuarial liabilities for insurance contracts (Notes 11, 12 and 13)	109,932,000	94,431,920
	<u>111,372,845</u>	<u>95,165,969</u>
Fund balance	11,818,471	10,665,943
	<u>\$123,191,316</u>	<u>\$105,831,912</u>

Approved by the Board:

 Director

 Director

The accompanying notes are an integral part of these fund financial statements

## Toronto Police Widows and Orphans Fund Statement of Fund Balance

For the year ended December 31, 2019

	Fund Balance	Accumulated Other Comp- rehensive Income	Total
<b>Balance at December 31, 2017</b>	<b>\$ 10,818,920</b>	<b>\$ 1,316,013</b>	<b>\$ 12,134,933</b>
Total comprehensive loss for the year	(860,421)	(608,569)	(1,468,990)
<b>Balance at December 31, 2018</b>	<b>9,958,499</b>	<b>707,444</b>	<b>10,665,943</b>
Total comprehensive income for the year	469,695	684,676	1,154,371
IFRS 16 adjustment (Note 21)	(1,843)	-	(1,843)
<b>Balance at December 31, 2019</b>	<b>\$ 10,426,351</b>	<b>\$ 1,392,120</b>	<b>\$ 11,818,471</b>

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



## Toronto Police Widows and Orphans Fund Statement of Revenue and Expenses

For the year ended December 31	2019	2018
<b>Revenue</b>		
Income (loss) from investments (Note 6)	\$ 18,363,225	\$ (1,548,977)
Membership dues	1,738,579	1,757,567
Reinsurance ceded (Note 17)	(10,738)	(10,738)
Miscellaneous income	1,869	2,187
Donations and other income	1,367	2,155
	<u>20,094,302</u>	<u>202,194</u>
<b>Benefits</b>		
Death benefits	2,211,686	2,098,236
Endowments	635,532	752,090
Increase (decrease) in actuarial liabilities for insurance contracts (Note 13)	15,500,080	(2,219,360)
	<u>18,347,298</u>	<u>630,966</u>
<b>Administrative expenses</b>		
Administration fees and other (Note 8)	561,098	466,465
Investment income tax (Note 20)	186,956	168,266
Actuarial	140,395	72,092
Audit and accounting	107,015	85,597
Premium taxes (Note 20)	35,141	34,375
Depreciation	11,768	3,438
Legal	11,058	-
	<u>1,053,431</u>	<u>830,233</u>
<b>Benefits and administrative expenses</b>	<u>19,400,729</u>	<u>1,461,199</u>
<b>Income (loss) before income taxes</b>	<u>693,573</u>	<u>(1,259,005)</u>
<b>Income taxes (recovered) (Note 20)</b>		
Current	(65,266)	-
Deferred	289,144	(398,584)
	<u>223,878</u>	<u>(398,584)</u>
<b>Net income (loss) for the year</b>	<u>\$ 469,695</u>	<u>\$ (860,421)</u>

## Toronto Police Widows and Orphans Fund Statement of Comprehensive Income (Loss)

For the year ended December 31	2019	2018
<b>Net income (loss) for the year</b>	<b>\$ 469,695</b>	<b>\$ (860,421)</b>
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale assets, net of income tax expense of \$257,888 (2018 - \$219,416 recovery)	715,273	(608,569)
Realized gain reclassified to profit or loss, net of income tax recovery of \$11,032 (2018 - \$nil)	(30,597)	-
<b>Total comprehensive income (loss) for the year</b>	<b>\$ 1,154,371</b>	<b>\$ (1,468,990)</b>

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

## Toronto Police Widows and Orphans Fund Statement of Cash Flows

For the year ended December 31	2019	2018
<b>Operating</b>		
Net income (loss) for the year	\$ 469,695	\$ (860,421)
Items not involving cash outlays		
Unrealized (gains) losses on fair value through profit or loss assets	(13,621,088)	3,028,843
Realized gains on FVTPL assets	(41,629)	-
Depreciation of furniture and equipment and right of use asset	11,768	3,438
Due to related party	32,492	4,333
Income taxes payable	(118,720)	(275,280)
Deferred income taxes	289,144	(398,584)
Interest on lease liability	3,356	-
	<u>(12,974,982)</u>	<u>1,502,329</u>
Change in working capital and insurance contract related balances		
Accrued investment income and prepaid expenses	237,317	(47,234)
Dues receivable	17,644	(7,925)
Change in actuarial liabilities for insurance contracts	15,500,080	(2,219,360)
Unpaid benefit claims	361,803	(77,201)
Accounts payable and accrued charges	202,850	(49,849)
	<u>3,344,712</u>	<u>(899,240)</u>
<b>Investing</b>		
Purchase of investments	(180,956,306)	(18,876,765)
Proceeds on sale and redemption of investments	177,704,144	19,443,973
Purchase of furniture and equipment	(27,518)	-
	<u>(3,279,680)</u>	<u>567,208</u>
<b>Financing</b>		
Repayment on lease	(8,554)	-
<b>Net change in cash and cash equivalents for the year</b>	<b>56,478</b>	<b>(332,032)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>670,712</b>	<b>1,002,744</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 727,190</b>	<b>\$ 670,712</b>
<b>Represented by:</b>		
<b>Cash (indebtedness)</b>	<b>\$ 477,809</b>	<b>\$ (78,814)</b>
<b>Cash equivalents</b> - cashable Government of Canada T Bills, maturing January to February 2020, yields between 0.45% to 1.66% per annum	<u>249,381</u>	<u>749,526</u>
	<b>\$ 727,190</b>	<b>\$ 670,712</b>

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

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# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2019

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### 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 was regulated by the Financial Services Commission of Ontario ("FSCO") until October 31, 2016. Effective November 1, 2016, the Fund is regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). The Fund operates exclusively for the purpose of providing insurance on the lives of its members and endowments to its members upon retirement from employment with the Toronto Police Force. The Fund balance is held exclusively for the purpose of providing future benefits to members. The Fund's registered address is 2075 Kennedy Road, Suite 200, Toronto, Ontario M1T 3V3.

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### 2. Role of the Actuary

The Fund's actuary is appointed by the Board of Directors (the "Board") of the Fund. 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 at the Statement of Financial Position date to meet all policy obligations of the Fund. 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 actuary, in his verification of the underlying data used in the valuation, also considers the work of the external auditor. The 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.

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### 3. Significant Accounting Policies

The accounting policies used to prepare the financial statements comply with the requirements of the Office of the Superintendent of Financial Institutions ("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.

These financial statements are presented in Canadian Dollars (\$CAD) unless otherwise stated.

The financial statements have been authorized and approved by the Board of Directors for issue as of February 27, 2020.

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# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2019

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### 3. Significant Accounting Policies - (Continued)

#### *Financial Instruments*

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

Bonds and debentures and fixed income mutual funds are designated as FVTPL. Investments in bonds, debentures and fixed income mutual funds designated as FVTPL are recorded at fair value, with changes in fair value recorded to income from investments. FVTPL investments were designated as such upon adoption of IFRS (if held previously) or upon initial recognition.

##### Available for Sale ("AFS"):

Investments in mutual 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 and debentures and fixed income mutual 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 impacts the change in actuarial liabilities for insurance contracts due to the impact of asset impairment on future cash flows.

Investments in mutual 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, which includes 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 Revenue and Expenses. 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. All mutual funds are valued with reference to their readily available published bid market prices based on the net asset value as determined by the investment manager of the funds. 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, debentures a discounted cash flow valuation model is used to derive fair value.

Due to their short term nature, the carrying values of cash and cash equivalents, accrued investment income, dues receivables, due to/from related party, accounts payable and accrued charges and unpaid benefit claims are deemed to be equal to their fair values.

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# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2019

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### 3. Significant Accounting Policies - (Continued)

#### *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.

#### *Cash and Cash Equivalents*

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

#### *Revenue Recognition*

##### Membership Dues

Membership dues are recognized as revenue when due. When membership dues revenue is recognized, the related policy liabilities are computed.

##### Donations

Donations are recognized as income when received.

##### Income from Investments

Interest from FVTPL investments in bond and debentures and dividends from fixed income mutual funds and available for sale investments in mutual funds, are recorded in investment income.

Investment income from bonds and debentures is recognized as earned using the coupon rate as a close approximation of the effective rate. Dividend income from mutual funds is recorded on the ex-dividend date.

#### *Policy Liabilities*

Policy liabilities have been calculated using the Canadian Asset Liability Method as permitted by IFRS 4 Insurance Contracts and 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 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 assets 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 Revenue and Expenses, except when it relates to items charged or credited directly to OCI, in which case the deferred tax is also recorded in OCI.

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# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2019

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### 3. Significant Accounting Policies - (Continued)

#### *Income Taxes - (Continued)*

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.

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. Note 12 sets out estimates used to calculate policy liabilities and Note 5 describes estimates used in the valuation of financial instruments. Note 20 describes the income and other taxes that apply to the Fund.

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### 4. Changes in Accounting Policies

#### *Future Accounting Changes*

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. The technical aspects of the IFRS 17 are complex and will require specific consultation on the situation to determine the exact impact. On June 26, 2019, the International Accounting Standards Board ("IASB") issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard to January 1, 2022. In addition, the IASB extended to January 1, 2022 the exemption for insurers to apply the financial instrument standard, IFRS 9 - Financial Instruments, to keep the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020. Due to the responses received from stakeholders during the comment period of the exposure draft, the IASB is considering a deferral beyond January 1, 2022 for the effective date of IFRS 17. The IASB has confirmed that certain amendments proposed in the exposure draft - 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 losses on reinsurance contracts to apply to all reinsurance held contracts. The Fund continues to assess the impact of this standard.

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# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2019

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#### 4. Changes in Accounting Policies - (Continued)

*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, 2022. The Fund qualifies for the amendment and is applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17 simultaneously. The Fund continues to evaluate the impact for the adoption of this standard with the adoption of IFRS 17.

*IFRS 3 - Business Combinations* - In October 2018 the IASB has provided additional guidance as to where an entity acquired a business or a group of assets. The amendments will be applied prospectively to all business combinations and asset acquisitions for which the date of acquisition is on or after January 1, 2020.

*IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors* - In October 2018 the IASB has issued amendments to clarify the definition of "material" and to align with the definition used in the Conceptual Framework and the standards themselves. The amendments will be applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

##### *Changes in Accounting Policies*

Effective January 1, 2019, the Fund adopted IFRS 16 Leases which replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard prescribes new guidance for identifying leases as well as the accounting, measurement and presentation of leases by the lessee. Under IFRS 16, the Fund recognizes a right-of-use asset and a lease liability at the commencement date on the Statement of Financial Position. Adoption of IFRS 16 has been disclosed in Note 21.

Effective January 1, 2019, the Fund applied IFRIC 23 Uncertainty over Income Tax Treatments which clarifies how to apply the recognition and measurement requirements of IAS 12 Income Taxes, when there is uncertainty over income tax treatments. The application of the interpretation of the standard did not have a significant impact on the Fund's financial statements.



## Toronto Police Widows and Orphans Fund Notes to Financial Statements

December 31, 2019

### 5. Investments

	2019		2018	
	Fair Value		Fair Value	
<b>Financial assets at fair value through profit or loss</b>				
Bonds and debentures				
Canadian Federal				
Maturing beyond 5 years	\$ -		\$ 9,151,321	9%
Maturing within 5 years	-		1,269,499	1%
Canadian Provincial				
Maturing beyond 5 years	-		63,655,204	61%
Maturing within 5 years	-		2,257,002	2%
Canadian Municipal and Public Authorities				
Maturing beyond 5 years	-		7,694,249	7%
Maturing within 5 years	-		277,312	0%
Canadian Corporate				
Maturing beyond 5 years	14,184	0%	11,136,824	11%
Fixed income mutual funds				
PH&N Long Corporate Bond Trust	34,822,419	28%	-	0%
PH&N PRisM - Long	56,832,633	46%	-	0%
PH&N PRisM - Medium	6,778,410	6%	-	0%
PH&N PRisM - Short	15,385,058	13%	-	0%
	<b>113,832,704</b>	<b>93%</b>	95,441,411	91%
<b>Available-for-sale</b>				
Mutual Funds	8,486,084	7%	9,030,966	9%
	<b>\$122,318,788</b>	<b>100%</b>	<b>\$104,472,377</b>	<b>100%</b>
Bonds and debentures maturing beyond one year				
	<b>\$ 14,184</b>		<b>\$ 95,441,411</b>	

Cash interest received during the year was \$4,241,437 (2018 - \$1,300,912). Dividends received in cash during the year was \$594,388 (2018 - \$316,715). Dividend income, interest income and taxes on income are considered operating activities in the Statement of Cash Flows.

The Fund's mutual fund investments classified as available-for-sale consist of a dividend income fund representing 100% (2018 - 77%) and a mortgage pension fund representing nil% (2018 - 23%) of total fair value, respectively.

## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

### 5. Investments - (Continued)

#### *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.

	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets at fair value through profit or loss</b>	<b>\$ 2,064,949</b>	<b>\$ 111,767,755</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 95,441,411</b>	<b>\$ -</b>
<b>Available-for-sale financial assets</b>	<b>8,392,737</b>	<b>93,347</b>	<b>-</b>	<b>6,817,844</b>	<b>413,298</b>	<b>1,799,824</b>
	<b>\$ 10,457,686</b>	<b>\$ 111,861,102</b>	<b>\$ -</b>	<b>\$ 6,817,844</b>	<b>\$ 95,854,709</b>	<b>\$ 1,799,824</b>

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, Level 2 and Level 3 for the years ended December 31, 2019 and 2018. The Level 3 assets are mortgages which are valued by a third-party vendor using industry-accepted methodologies which include unobservable inputs. Mortgages are valued by discounting future cash flows using a discount rate equal to the risk-free rate plus an appropriate risk spread premium. The spread premium is derived by the vendor from their risk rating program and a monthly spread matrix. This quantitative rules-based approach reviews a number of risk factors to assess the market risk, credit risk and liquidity premiums to arrive at a total credit score for each mortgage. Among the inputs are the borrowers' financial statements, rent roll and operating statements, the most recent property inspection report and the terms of the mortgage itself. The Fund disposed of all mutual fund investments classified as available-for-sale that held Level 3 assets.

## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

### 5. Investments - (Continued)

The reconciliation of financial instruments measured at fair value using unobservable inputs (Level 3) is as follows:

	2019	2018
Balance, beginning of year	\$ 1,799,824	\$ 1,704,043
Net purchases	859,540	364,866
Net sales	(2,682,325)	(266,297)
Realized losses	(1,088)	(642)
Unrealized losses	24,049	(2,146)
	<b>\$ -</b>	<b>\$ 1,799,824</b>

### 6. Income (loss) from Investments

	2019	2018
Interest		
Bonds and debentures designated as FVTPL	\$ 4,236,595	\$ 1,291,392
Cash and cash equivalents	8,409	11,276
	<b>4,245,004</b>	<b>1,302,668</b>
Change in value of assets designated as FVTPL	13,621,088	(3,028,843)
Realized gains (losses) on FVTPL assets	41,629	-
	<b>17,907,721</b>	<b>(1,726,175)</b>
Dividends on available-for-sale assets	594,388	316,715
	<b>18,502,109</b>	<b>(1,409,460)</b>
Less: investment management fees	(138,884)	(139,517)
	<b>\$ 18,363,225</b>	<b>\$ (1,548,977)</b>

### 7. Accrued Investment Income and Prepaid Expenses

	2019	2018
Accrued investment income	\$ 825	\$ 225,505
Prepaid expenses	31,195	43,832
	<b>\$ 32,020</b>	<b>\$ 269,337</b>

## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

### 8. Employee Benefits

Employee payroll expense for the year was \$196,972 (2018 - \$192,277) and is included in administration fees and other expenses in the Statement of Revenue and Expenses.

### 9. Accounts Payable and Accrued Charges

	2019	2018
Trade accounts payable and accrued charges due within one year	<b>\$ 340,219</b>	<b>\$ 137,369</b>

Included in accounts payable and accrued charges is remuneration for the Board of Directors of \$46,984 (2018 - \$5,902 ) (Note 19).

### 10. Unpaid Benefit Claims

	2019	2018
Movements in carrying amount		
At January 1	\$ 127,960	\$ 205,161
Additions to unpaid benefits claims	489,763	127,960
Claims paid	(127,960)	(205,161)
At December 31	<b>\$ 489,763</b>	<b>\$ 127,960</b>
Within one year	<b>\$ 489,763</b>	<b>\$ 127,960</b>

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## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

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### **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 an appointed valuation actuary. The most recent actuarial valuation of the Fund was made as of December 31, 2019 by Clayton Zaluski, Fellow, Canadian Institute of Actuaries, who submitted his report dated February 27, 2020.

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 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, 2019 benefit levels:

- a) The regular amount of insurance for active members is \$40,500 (2018 - \$40,500); the insurance amount doubles for "in line of duty" deaths.
- b) The regular amount of insurance for retired members is \$18,700 (2018 - \$18,700).
- c) The regular amount of insurance for active members of \$40,500 decreases to \$18,700 upon retirement for 2019 and 2018.
- d) The endowment benefit is \$3,150 (2018 - \$3,150).
- e) The bonus amount is 20% (2018 - 20%) for deaths.

## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

### 11. Nature and Composition of Insurance Contract Liabilities - (Continued)

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

	<b>2019</b>		
	<b>Basic</b>	<b>Bonus</b>	<b>Total</b>
Active members	\$226,100,304	\$ 45,220,061	\$271,320,365
Retired members	85,584,952	17,116,990	102,701,942
	<b>\$311,685,256</b>	<b>\$ 62,337,051</b>	<b>\$374,022,307</b>
	<b>2018</b>		
	<b>Basic</b>	<b>Bonus</b>	<b>Total</b>
Active members	\$223,150,592	\$ 44,630,118	\$267,780,710
Retired members	83,521,408	16,704,282	100,225,690
	<b>\$306,672,000</b>	<b>\$ 61,334,400</b>	<b>\$368,006,400</b>

Policy liabilities are composed of the following:

	<b>2019</b>	<b>2018</b>
Active members	\$ 42,912,000	\$ 35,273,040
Retired members	66,990,000	59,128,880
Other reserves and provisions	30,000	30,000
	<b>\$109,932,000</b>	<b>\$ 94,431,920</b>

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# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2019

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### 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 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. The 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*

Mortality was assumed to be 75% (2018 - 75%) of the CIA 97-04 ultimate aggregate sex distinct mortality table. In addition, a probability of accidental death was included equal to 0.01% (2018 - 0.01%). The margin for adverse deviations is equal to 9.375 divided by the expectation of life at attained age (2018 - 9.375 divided by the expectation of life at attained age).

In 2019, experience was approximately equal to 60.6% (2018 - 66.1%) of expected. Experience over the last five years has been 61.5% of the current expected assumption.

The Fund has experienced a consistent series of favourable claims results, however should mortality deteriorate by 10% for all future years, the approximate impact would be a \$1,736,000 increase (2018 - \$1,885,000 increase) in the actuarial liabilities for insurance contracts.

#### *Investment Returns*

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

As at December 31, 2019, should interest rates of the bonds and debentures and the underlying investments in the fixed income mutual funds decrease by 1% (2018 - 1%), with other variables held constant, the approximate impact would be a \$5,543,000 decrease (2018 - \$5,985,000 decrease) in the actuarial liabilities for insurance contracts.

As at December 31, 2019, should interest rates of the bonds and debentures and the underlying investments in the fixed income mutual funds increase by 1% (2018 - 1%), with other variables held constant, the approximate impact would be a \$4,224,000 increase (2018 - \$3,629,000 increase) in the actuarial liabilities for insurance contracts.

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

**December 31, 2019**

### 12. Actuarial Assumptions - (Continued)

#### *Investment Returns - (Continued)*

As at December 31, 2019, should equity prices decrease by 20% (2018 - 20%), with other variables held constant, the approximate impact would be a \$nil (2018 -\$1,713,000 increase) in the actuarial liabilities for insurance contracts.

As at December 31, 2019, should equity prices increase by 20% (2018 - 20%), with other variables held constant, the approximate impact would be a \$nil (2018 -\$1,224,000 decrease) in the actuarial liabilities for insurance contracts.

#### Expenses

##### i) Administrative expenses

Annual expenses were assumed to be \$52.00 (2018 - 48.00) per insured life. Inflation is not applied to be consistent with the modelling of the premiums and benefits, which do not include inflation for 2019 and 2018.

##### ii) Investment expenses

0.210% for new corporate and provincial bonds (2018 - 0.210%).

Not applicable for equity type assets (available-for-sale mutual funds) (2018 - 0.210%).

The margin for adverse deviations for expenses is equal to 10% (2018 - 10%).

Should future expenses increase by 10%, the approximate impact would be a \$918,000 increase (2018 - \$779,000 increase) in the actuarial liabilities for insurance contracts.

#### *Withdrawal from Service*

The following table gives specimen figures used in determining the probability of a member withdrawing from service within a twelve-month period. The provision for adverse deviations is equal to 12.5% (2018 - 12.5%).

Attained age	Probability of member withdrawing from service within twelve months %
25 and less	3.5
30	2.5
35	2.3
40	1.7
45	1.0
50	0.6
55	0.4
60 and over	-



## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

### 12. Actuarial Assumptions - (Continued)

#### *Retirement*

The following table gives specimen figures used in determining the probability of a member retiring. The provision for adverse deviations is equal to 12.5% (2018 - 12.5%).

Attained age	Probability of member retiring from service within twelve months %
Less than 40	-
45	0.1
50	3.7
51	4.6
52	4.5
53	6.0
54	9.7
55	12.7
56	16.7
57	17.4
58	18.4
59	19.4
60	21.6
61	20.8
62	18.4
63	18.7
64	25.5
65	100.0

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.

The Fund evaluates its exposure to changes in the assumptions underlying the policy liabilities. The most recent evaluation was completed as at December 31, 2019.

As at December 31, 2019, if resignation rates decreased by 10% (2018 - 10%), the approximate impact would be a \$321,000 increase (2018 - \$246,000 increase) in the actuarial liabilities for insurance contracts.

As at December 31, 2019, if retirement rates increased by 10% (2018 - 10%), the approximate impact would be a \$60,000 increase (2018 - \$103,000 increase) in the actuarial liabilities for insurance contracts.

## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

### 12. Actuarial Assumptions - (Continued)

#### *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 are expected 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*

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

	2019	2018
Interest rate		
- C1 risk - risk of asset defaults	\$ 1,244,544	\$ 892,504
- market value risk of equity investments	-	6,109,744
- C3 risk - risk of losses due to change in interest rates	5,504,944	4,465,800
- Fixed income credit spread	883,952	565,008
Mortality	2,703,264	2,874,392
Expense		
- Unit cost	840,320	712,712
- Investment expense	446,432	228,928
Retirement and withdrawal rate	533,448	481,096
	\$ 12,156,904	\$ 16,330,184

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## Toronto Police Widows and Orphans Fund Notes to Financial Statements

December 31, 2019

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### 13. Change in Policy Liabilities

	2019	2018
	Millions	Millions
Actuarial liabilities at beginning of year	\$ 94.4	\$ 96.7
Change in prevailing market rates and investment strategy	13.9	(4.0)
Changes in force	1.5	1.2
Increase in dues	(0.7)	-
Increase in endowment	-	0.5
Change in actuarial assumptions and methods		
Expenses	0.8	-
Mortality	-	(0.2)
Default rates	-	0.2
	\$ 109.9	\$ 94.4

Management considers the carrying amount is a reasonable approximation of fair value.

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### 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 mutual funds which hold high quality, long-term fixed income assets (government and corporate bonds and debentures) combined with a limited proportion of mutual funds.

#### *Risk Management*

Management has developed policies and procedures to enable it to respond to various business risks of the Fund. The Board reviews and approves the Fund's overall risk management policies. 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.

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# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2019

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### 14. Financial Risk Management - (Continued)

#### *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's strategy for managing this risk has not changed since the prior year; however, the future reinvestment strategy was updated in 2019 which resulted in investing in primarily fixed income mutual funds rather than individual bonds and debentures.

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 values of FVTPL bonds and debentures, the underlying assets in the fixed income mutual 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 mutual funds, which in turn generally invest in listed equity investments. While the underlying investments in the mutual 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 mutual funds were to increase or decrease by 10%, with all other variables being held constant, the impact on the Fund Balance would be approximately \$900,000. 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 mutual 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 rated 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, 2019.

#### *Maximum Exposure to Credit Risk*

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

## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

### 14. Financial Risk Management - (Continued)

	2019	2018
Available for sale investments	\$ 8,486,084	\$ 9,030,966
Cash and cash equivalents	727,190	670,712
FVTPL bonds, debentures and fixed income	113,832,704	95,441,411
Accrued interest receivable	825	225,505
Dues receivable	34,099	51,743
Due from TPAAA	-	7,722
	<b>\$123,080,902</b>	<b>\$105,428,059</b>

#### *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. Management considers credit quality per instrument type as an indication of the relative concentration of credit risk:

	2019	2018
FVTPL bonds, debentures and fixed income mutual funds		
AAA	\$ 13,013,468	\$ 10,420,820
AA	61,090,683	41,446,390
A	24,303,470	39,889,542
BBB	15,425,083	3,684,659
	<b>\$113,832,704</b>	<b>\$ 95,441,411</b>

#### *Contractual Maturities of Bonds, Debentures and Fixed Income Mutual Funds*

The contractual maturities of bonds, debentures and fixed income mutual funds as at December 31, 2019 are shown in Note 5. Actual maturities could differ from contractual maturities because of the borrower's right to call or extend or right to prepay obligations, with or without prepayment penalties.

#### *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.

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 mutual funds prior to their maturity. All of the Fund's financial liabilities, other than policy liabilities, are due within one year.

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

**December 31, 2019**

### 15. Insurance Risk Management

The objective of the Fund's insurance risk management approach is to ensure that policies 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.

	<b>Less than 1 year</b>	<b>1 - 5 years</b>	<b>5+ years</b>
Actuarial liabilities			
<b>2019</b>	<b>2,262,692</b>	<b>8,780,246</b>	<b>184,642,648</b>
2018	2,155,822	8,452,832	184,037,258

The Fund accepts insurance risk through its insurance contracts 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 insurance. Management of pricing 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.

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.

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## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

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### 15. Insurance Risk Management - (Continued)

#### *Insurance Pricing Risk - (Continued)*

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.

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### 16. Capital Management

The Fund's capital base consists of the Fund balance of \$11,818,471 (2018 - \$10,665,943) 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, 2019 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.

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### 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 (2018 - \$10,000,000) coverage per incident after a \$600,000 (2018 - \$600,000) deductible.

The Fund also contracts for reinsurance when three or more members are deployed into an 'A' risk area.

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### 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 amounted to \$10,840 (2018 - \$10,630).

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

**December 31, 2019**

### 19. Related Party Receivable and Transactions

Toronto Police Amateur Athletic Association ("TPAAA") is considered a related party for the purposes of these financial statements. TPAAA shares key personnel, office space, and resources with the Fund and provides donations to the Fund. The amount due to TPAAA of \$24,770 (2018 - \$7,722 due from) is non-interest bearing, unsecured and due on demand. During the year, the Fund received donation revenue of \$nil (2018 - \$nil) from TPAAA.

Remuneration of key management personnel for the year was \$105,180 (2018 - \$96,057).

Remuneration for the Board of Directors for the year was \$131,206 (2018 - \$80,092).

### 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 \$186,956 (2018 - \$168,266) 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:

	2019	2018
Income (loss) before income taxes	<b>\$ 693,573</b>	<b>\$ (1,259,005)</b>
Provision for (recovery of) income taxes at applicable statutory rate of 26.5% (2018 - 26.5%)	<b>\$ 183,797</b>	<b>\$ (333,636)</b>
Increase (decrease) resulting from:		
Net non-taxable income	<b>(88,468)</b>	<b>(66,036)</b>
Net tax rate difference due to provincial minimum tax	<b>107,606</b>	<b>-</b>
Non-deductible amounts and other	<b>20,943</b>	<b>1,088</b>
Income taxes	<b>\$ 223,878</b>	<b>\$ (398,584)</b>

The income taxes are comprised of the following components:

	2019	2018
Current tax:		
Current year tax expense	<b>\$ (65,266)</b>	<b>\$ -</b>
Deferred tax:		
Origination/reversal of temporary differences	<b>289,144</b>	<b>(398,584)</b>
	<b>\$ 223,878</b>	<b>\$ (398,584)</b>



## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

### 20. Income and Other Taxes - (Continued)

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

	2019	2018
Income taxes payable	\$ 350,000	\$ 468,720
Deferred tax liability (assets):		
Investments and other	\$ 13,000	\$ -
Actuarial liabilities for insurance contracts	184,000	(353,000)
Lease liability	(14,000)	-
	\$ 183,000	\$ (353,000)

The aggregate tax effect of available-for-sale investments accounted for in OCI is an income tax expense of \$246,856 (2018 - \$219,416 recovery). The total amount of tax payable within one year of the Statement of Financial Position date is \$350,000 (2018 - \$468,000).

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

	2019	2018
Current income taxes (recovery)	\$ (65,266)	\$ -
Deferred income taxes expense (recovery)	289,144	(398,584)
Investment income tax	186,956	168,266
Premium taxes	35,141	34,375
	\$ 445,975	\$ (195,943)

### 21. Adoption of New Accounting Standard

Effective January 1, 2019, the Fund adopted IFRS 16 - Leases. IFRS 16 replaces the existing suite of standards and interpretations on leases: IAS 17 Leases (IAS 17), IFRIC 4 Determining whether an Arrangement contains a Lease (IFRIC 4), SIC 15 Operating Leases – Incentives (SIC 15), SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease (SIC 27).

The Fund has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in fund balance at January 1, 2019. The Fund has not restated comparative information presented, which has been presented as previously reported under IAS 17, Leases ("IAS 17") and other related interpretations.

As a lessee, the Fund previously classified a lease as either an operating or finance lease based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Fund. An operating lease was treated as an off-balance sheet item with payments recognized in the Statement of Revenue and Expenses over the life of the lease. Under IFRS 16, as a lessee, the Fund will recognize right-of-use asset and lease liability for most leases that are not short-term or of low dollar value, resulting in the leases being brought on to the Statement of Financial Position.

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# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2019

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### 21. Adoption of New Accounting Standard - (Continued)

#### *Accounting Policy under IFRS 16*

At inception of a contract, the Fund assesses whether a contract is, or contains, a lease under IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Fund is deemed to control the use of an identified asset when; a) the contract involves the use of an identified asset; b) the Fund has the right to obtain substantially all of the economic benefits during the period of use, and; c) has the right to direct its use.

The Fund recognizes a right-of-use asset at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairments. The right-of-use asset may be adjusted for any remeasurements of the lease liability. The lease liability is measured at the present value of future lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method, decreased by lease payments made. The lease liability is remeasured when there is a change in future lease payments arising from a change in discount or index rate, change in estimate of the amount expected to be payable under a residual value guarantee, or changes in the assessment of whether a purchase, extension or termination option is reasonably certain to be exercised or not.

#### *Transition Impact on Financial Statements*

At transition from IAS 17 to IFRS 16, the lease liability was measured at the present value of the remaining lease payments. The Fund used its implicit borrowing rate as at January 1, 2019 to discount the future lease payments. Right-of-use asset was measured at an amount equal to what their net carrying value as of January 1, 2019 would have been if IFRS 16 was applied at the commencement dates.

The following practical expedients were applied when transitioning operating leases under IAS 17 to IFRS 16:

- The Fund did not recognize right-of-use assets and liabilities for leases with a lease term of less than 12 months
- The Fund did not recognize right-of-use assets and liabilities for leases of low dollar value
- The Fund excluded initial direct costs related to right-of-use asset

#### *Current Period Impact*

As a result of transition to IFRS, the Fund recognized right-of-use asset of \$63,503 and lease liability of \$58,291 at the transition date. The discount rates used to calculate the present value of the lease liability was 6%. The Fund's incremental borrowing rate is approximately 6%. The Fund also recognized an adjustment that increased the opening fund balance by \$1,843 resulting from the adoption of IFRS 16.

## Toronto Police Widows and Orphans Fund Notes to Financial Statements

**December 31, 2019**

### 21. Adoption of New Accounting Standard - (Continued)

The aggregate lease liability recognized in the Statement of Financial Position at January 1, 2019 and the Fund's operating lease commitment at December 31, 2018 can be reconciled as follows:

Operating lease commitments at December 31, 2018	\$ 170,000
Effect of discounting those lease commitments at an annual rate of 6%	(15,150)
Commitment outside the scope of IFRS 16	<u>(96,550)</u>
	<u>\$ 58,300</u>

#### Right of Use Asset

#### Property

At January 1, 2019	\$ 63,503
Amortization	<u>(7,056)</u>
At December 31, 2019	<u>\$ 56,447</u>

#### Lease Liability

At January 1, 2019	\$ 58,291
Interest	3,356
Lease Repayments	<u>(8,554)</u>
At December 31, 2019	<u>\$ 53,093</u>

#### Maturity analysis

2020	\$ 5,800
2021	6,400
2022	6,800
2023	7,500
2024	8,300
Thereafter	<u>18,293</u>
	<u>\$ 53,093</u>