Toronto Police Widows and Orphans Fund

Financial Statements

For the Year Ended December 31, 2020

INDEPENDENT AUDITOR'S REPORT

To the Members 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, 2020, and the statements of income, comprehensive income, fund balance and cash flows for the year then ended, and notes to the financial statements, including 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, 2020, and 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

The financial statements of the Fund for the year ended December 31, 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on February 27, 2020.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
February 24, 2021
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, 2020 and their changes in the statement of revenue and expenses for the year ended December 31, 2020 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 24, 2021

Toronto Police Widows and Orphans Fund
Statement of Financial Position
As at December 31, 2020

	2020	2019
Assets		
Current		
Cash and cash equivalents	**$ 100**	$ 727,190
Investments	**133,435,464**	122,318,788
Receivables from investments sold	**500,000**	-
Accrued investment income and prepaid expenses	**34,799**	32,020
Dues receivables	**69,470**	34,099
Due from related party	**995**	-
	134,040,828	123,112,097
Furniture and equipment	**25,882**	22,772
Right-of-use assets	**42,336**	56,447
	$ 134,109,046	$ 123,191,316
Liabilities and Fund Balance		
Current		
Bank overdraft	**$ 292,534**	$ -
Accounts payable and accrued charges	**130,403**	340,219
Unpaid benefit claims	**94,892**	489,763
Income taxes payable	**85,223**	350,000
Deferred tax liability	**153,549**	183,000
Due to related party	**-**	24,770
Lease liability	**47,310**	53,093
Actuarial liabilities for insurance contracts	**120,539,971**	109,932,000
	121,343,882	111,372,845
Fund Balance	**12,765,164**	11,818,471
	$ 134,109,046	$ 123,191,316

Approved by the Board

C. Hamilton
Chuck Hamilton (Feb 24, 2021 16:41 EST)
Director

R. Scott Baptist
R. Scott Baptist (Feb 24, 2021 14:27 EST)
Director

See accompanying notes

Toronto Police Widows and Orphans Fund
Statement of Fund Balance
For the Year Ended December 31, 2020

	Fund Surplus	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2018	$ 9,958,499	$ 707,444	$ 10,665,943
Total Comprehensive income for the year	469,695	684,676	1,154,371
IFRS 16 adjustment	(1,843)	-	(1,843)
Balance at December 31, 2019	10,426,351	1,392,120	11,818,471
Total comprehensive income for the year	2,242,761	(1,296,068)	946,693
Balance at December 31, 2020	**$ 12,669,112**	**$ 96,052**	**$ 12,765,164**

See accompanying notes

Toronto Police Widows and Orphans Fund
Statement of Income
Year Ended December 31, 2020

	2020	2019
Revenue		
Gain on investment (Note 6)	**$ 14,974,699**	$ 18,363,225
Membership dues	**1,854,550**	1,738,579
Reinsurance ceded	**(10,075)**	(10,738)
Miscellaneous income	**8,096**	1,869
Donations and other income	**508,832**	1,367
	17,336,102	20,094,302
Benefits		
Death benefits	**2,529,246**	2,211,686
Endowments	**514,252**	635,532
Increase in actuarial liabilities for insurance contracts	**10,607,971**	15,500,080
	13,651,469	18,347,298
Administrative expenses		
Administrative fees and other	**826,889**	561,098
Investment income tax	**180,553**	186,956
Audit and accounting	**96,288**	107,015
Actuarial	**85,000**	140,395
Premium taxes	**35,440**	35,141
Legal	**21,570**	11,058
Amortization	**14,920**	11,768
	1,260,660	1,053,431
Benefits and administrative expenses	**14,912,129**	19,400,729
Income before income taxes	**2,423,973**	693,573
Income taxes (recovered) (Note 20)		
Current	**210,663**	(65,266)
Deferred	**(29,451)**	289,144
	181,212	223,878
Net income for the year	**$ 2,242,761**	$ 469,695

Toronto Police Widows and Orphans Fund
Statement of Comprehensive Income
Year Ended December 31, 2020

	2020	2019
Net income for the year	**$ 2,242,761**	$ 469,695
Other comprehensive income (loss)		
Unrealized gains on available-for-sale assets, inclusive of income tax recovery of $271,328 (2019 - $257,888 expense)	**(1,023,878)**	715,273
Realized gain reclassified to profit or loss, inclusive of income tax recovery of $72,130 (2019 - $11,032)	**(272,190)**	(30,597)
	(1,296,068)	684,676
Total comprehensive income for the year	**$ 946,693**	$ 1,154,371

Toronto Police Widows and Orphans Fund
Statement of Cash Flows
Year Ended December 31, 2020

		2020		2019
Cash provided by (used in)				
Operations				
Net income for the year	$	**2,242,761**	$	469,695
Items not affecting cash outlays				
Reinvested distributions		**(6,914,227)**		(5,490,264)
Unrealized (gains) losses on fair value through profit or loss assets		**(4,329,888)**		13,371,114
Realized gains on investments		**(525,000)**		(24,533,977)
Amortization of furniture, equipment, and right-of-use asset		**29,031**		11,768
Income taxes payable		**(264,777)**		(118,720)
Deferred income taxes		**(29,451)**		289,144
Interest on lease liability		**3,032**		3,356
		(9,788,519)		(15,997,884)
Change in working capital				
Accrued investment income and prepaid expenses		**(2,779)**		237,317
Dues receivables		**(35,371)**		17,644
Change in actuarial liabilities for insurance contracts		**10,607,971**		15,500,080
Unpaid benefits claim		**(394,871)**		361,803
Accounts payable and accrued charges		**(209,816)**		202,850
Receivables from investments sold		**(500,000)**		-
Due to related party		**(25,765)**		32,492
		(349,150)		354,302
Investing				
Purchase of investments		**(27,917,145)**		(180,727,595)
Proceeds on sale and redemption of investments		**27,273,516**		180,465,843
Purchase of furniture and equipment		**(18,030)**		(27,518)
		(661,659)		(289,270)
Financing				
Repayment on lease		**(8,815)**		(8,554)
Net change in cash and cash equivalents (bank overdraft)		**(1,019,624)**		56,478
Cash and cash equivalents, beginning of year		**727,190**		670,712
Cash and cash equivalents (bank overdraft), end of year	$	**(292,434)**	$	727,190

Represented by:				
Cash in bank	$	**100**	$	477,809
Cash equivalents - cashable Government of Canada T Bills, maturing January to February 2020, yields between 0.45% to 1.66 per annum		**-**		249,381
Bank overdraft		**(292,534)**		-
	$	**(292,434)**	$	727,190

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 Financial Services Commission of Ontario ("FSCO") regulated the Fund until October 31, 2016. The Office of the Superintendent of Financial Institutions ("OSFI") regulates the Fund effective November 1, 2016. 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 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. 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 24, 2021.

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, and 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. FVTPL investments were designated as such upon adoption of IFRS (if held previously) or upon initial recognition.

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 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. 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fair Values (Cont'd)

- 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 valuation 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.

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.

<u>Membership Dues</u>
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.

<u>Donations</u>
Donations are recognized as income when received.

<u>Income from Investments</u>
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").

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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

Future Accounting Changes

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. The technical aspects of the IFRS 17 standards are complex and require specific consultation on the situation to determine the exact impact. On June 25, 2020, the International Accounting Standards Board ("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 to fixed expiry date of the amendment also to the annual periods beginning on or after January 1, 2023 in order to keep the alignment of the effective dates for IRS 9 and IFRS 17. The IASB has also confirmed that certain other amendments proposed in the exposure draft, namely the amendment on the expected recover 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. The Fund continues to assess the impact of this standard on its financial reporting obligations and its impact on Fund performance.

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 the Fund continues to evaluate the impact for the adoption of these standards with the adoption of IFRS 17.

Current Accounting Changes

IFRS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies

Effective January 1, 2020, the Fund adopted IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, which clarify the definition of "material" and align the definition used in the Conceptual Framework and the standards themselves. These amendments will be applied prospectively.

5. INVESTMENTS

	2020 Fair Value	%	2019 Fair Value	%
Financial assets at fair value through profit or loss				
Bonds and debentures				
Canadian Corporate				
Maturing beyond 5 years	**$ -**	**0 %**	$ 14,184	0 %
Fixed income mutual funds				
PH&N Long Corporate Bond Trust	**38,632,635**	**28 %**	34,822,419	28 %
PH&N PRisM - Long	**51,303,986**	**39 %**	56,832,633	46 %
PH&N PRisM - Medium	**11,334,169**	**8 %**	6,778,410	6 %
PH&N PRisM - Short	**20,060,967**	**15 %**	15,385,058	13 %
	121,331,757	**90 %**	113,832,704	93 %
Available-for-sale				
PH&N Dividend Income Fund	**3,645,098**	**3 %**	8,486,084	7 %
PH&N Bond Fund	**4,840,677**	**4 %**	-	0 %
PH&N Short-term Bond and Mortgage	**3,617,932**	**3 %**	-	0 %
	12,103,707	**10 %**	8,486,084	7 %
	$ 133,435,464	**100 %**	$ 122,318,788	100 %

Cash interest received during the year was $Nil (2019 - $4,241,437). Dividends received in cash during the year was $Nil (2019 - $594,388). Dividend income, interest income and taxes on income are considered operating activities in the Statement of Cash Flows.

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.

	2020 Level 1	2020 Level 2	2020 Level 3	2019 Level 1	2019 Level 2	2019 Level 3
Financial assets at fair value through profit or loss	**$ -**	**$ 121,331,757**	**$ -**	$ 2,064,949	$ 111,767,755	$ -
Available-for-sale financial assets	**-**	**12,103,707**	**-**	8,392,737	93,347	-
	$ -	**$ 133,435,464**	**$ -**	$ 10,457,686	$ 111,861,102	$ -

5. INVESTMENTS (Cont'd)

Fair Value Hierarchy (Cont'd)

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, 2020 and 2019. 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 properly 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.

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

	2020	2019
Balance, beginning of year	**$ -**	$ 1,799,824
Net purchases	**-**	859,540
Net sales	**-**	(2,682,325)
Realized losses	**-**	(1,088)
Unrealized losses	**-**	24,049
	$ -	$ -

6. INCOME (LOSS) FROM INVESTMENTS

	2020	2019
Net gains (losses) on FVTPL investments		
Income distributions from investee funds	**$ 3,574,156**	$ 2,534,905
Capital gain distributions from investee funds	**6,044,395**	2,360,971
Interest income from fixed-income investments	**3,517**	1,710,098
Realized gains (losses) on investments	**252,810**	24,492,348
Change in unrealized gains (losses) on investments	**4,329,888**	(13,371,114)
Net gains on AFS investments		
Income distributions from investee funds	**320,648**	322,116
Capital gain distributions from investee funds	**177,096**	272,272
Realized gains on investments	**272,189**	41,629
	$ 14,974,699	$ 18,363,225

7. ACCRUED INVESTMENT INCOME AND PREPAID EXPENSES

		2020		2019
Accrued investment income	**$**	**-**	$	825
Prepaid expenses		**34,799**		31,195
	$	**34,799**	$	32,020

8. EMPLOYEE BENEFITS

Employee payroll expense for the year was $214,710 (2019 - $196,972) and is included in administration fees and other expenses in the Statement of Income.

9. ACCOUNTS PAYABLE AND ACCRUED CHARGES

		2020		2019
Trade accounts payable and accrued charges due within one year	**$**	**130,403**	$	340,219

Included in accounts payable and accrued charges is remuneration for the Board of Directors of $Nil (2019 - $46,984) (Note 19).

10. UNPAID BENEFIT CLAIMS

		2020		2019
Active members	**$**	**489,763**	$	127,960
Additions to unpaid benefits claims		**94,892**		489,763
Claims paid		**(489,763)**		(127,960)
At December 31	**$**	**94,892**	$	489,763

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, 2020 by Clayton Zaluski, Fellow, Canadian Institute of Actuaries, who submitted his report dated February 24, 2021.

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

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, 2020 benefit levels:

(a) The regular amount of insurance for active members is $40,500 (2019 - $40,500); the insurance amount doubles for "in line of duty" deaths.

(b) The regular amount of insurance for retired members is $18,700 (2019 - $18,700).

(c) The regular amount of insurance for active members of $40,500 decreases to $18,700 upon retirement for 2020 and 2019.

(d) The endowment benefit is $3,150 (2019 - $3,150).

(e) The bonus amount 20% (2019 - 20%) for deaths.

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

	Basic	**Bonus**	**2020 Total**
Active members	**$ 276,612,224**	**$ 55,322,445**	**$ 331,934,669**
Retired members	**87,279,984**	**17,455,997**	**104,735,981**
	$ 363,892,208	**$ 72,778,442**	**$ 436,670,650**

	Basic	Bonus	2019 Total
Active members	$ 226,100,304	$ 45,220,061	$ 271,320,365
Retired members	85,584,952	17,116,990	102,701,942
	$ 311,685,256	$ 62,337,051	$ 374,022,307

Policy liabilities are composed of the following:

	2020	2019
Active members	**$ 50,994,787**	$ 42,912,000
Additions to unpaid benefits claims	**69,515,184**	66,990,000
Claims paid	**30,000**	30,000
At December 31	**$ 120,539,971**	$ 109,932,000

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. The Appointed Actuary has advised that in his professional judgement, 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 $1,488,000 increase (2019 - $1,736,000 increase) in the actuarial liabilities for insurance contracts.

Investment Returns

The bonds and debentures and 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 bonds, debentures and fixed income pooled 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, 2020, should interest rates of the bonds and debentures and the underlying investments in the fixed income pooled funds decrease by 1% (2019 - 1%), with other variables held constant, the approximate impact would be a $7,223,000 decrease (2019 - $5,543,000 decrease) in the actuarial liabilities for insurance contracts.

As at December 31, 2020, should interest rates of the bonds and debentures and the underlying investments in the fixed income pooled funds increase by 1% (2019 - 1%), with other variables held constant, the approximate impact would be a $4,344,000 increase (2019 - $4,224,000 increase) in the actuarial liabilities for insurance contracts.

12. ACTUARIAL ASSUMPTIONS (Cont'd)

Investment Returns (Cont'd)

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 2020 and 2019.

(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% (2019 - 10%).

Should future expenses increase by 10%, the approximate impact would be a $941,000 increase (2019 - $918,000 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.

As at December 31, 2020, if resignation rates decreased by 10% (2019 - 10%), the approximate impact would be a $381,000 increase (2019 - $321,000 increase) in the actuarial liabilities for insurance contracts.

As at December 31, 2020, if retirement rates increased by 10% (2019 - 10%), the approximate impact would be a $66,000 increase (2019 - $60,000 increase) in the actuarial liabilities for insurance contracts.

12. ACTUARIAL ASSUMPTIONS (Cont'd)

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.

	2020	2019
Interest rate		
C1 risk - risk of asset defaults	**$ 1,689,000**	$ 1,244,544
C3 risk - risk of losses due to change in interest rates	**4,942,000**	5,504,944
Fixed income credit spread	**736,000**	883,952
Mortality	**2,328,000**	2,703,264
Expense		
Unit cost	**878,359**	840,320
Investment expense	**466,641**	446,432
Retirement and withdrawal rate	**479,000**	533,448
	$ 11,519,000	$ 12,156,904

13. CHANGE IN POLICY LIABILITIES

		2020 (Million)		2019 (Million)
Actuarial liabilities at beginning of year	**$**	**109.9**	$	94.4
Change in prevailing market rates and investment strategy		**7.3**		13.9
Changes in force		**1.6**		1.5
Increase in dues		**(0.3)**		(0.7)
Withdraw with services		**0.2**		-
Normal changes		**1.1**		-
Change in actuarial assumptions and methods				
Expenses		**0.7**		0.8
	$	**120.5**	$	109.9

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

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 equality, long-term fixed income assets (government and corporate bonds and debentures) combined with a limited proportion of equity pooled 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.

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's strategy for managing this risk has not changed since the prior year; however, the future reinvestment strategy was updated in 2020 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 value 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 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 Funds 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 $302,500 (2019 - $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 rate "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, 2020.

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. Maximum credit exposure is the carrying value of the asset net of any allowance for losses.

		2020		2019
Cash and cash equivalents	**$**	**100**	$	727,190
FVTPL bonds, debentures and fixed income		**-**		14,184
Accrued interest receivable		**-**		825
Dues receivable		**69,470**		34,099
Due from related party		**995**		-
	$	**70,565**	$	776,298

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:

		2020		2019
FVTPL bonds, debentures and fixed income mutual funds				
AAA	**$**	**17,120,461**	$	13,013,468
AA		**59,943,826**		61,090,683
A		**27,319,026**		24,303,470
BBB		**16,948,444**		15,425,083
Cash and cash equivalents	**$**	**121,331,757**	$	113,832,704

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, 2020 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.

14. FINANCIAL RISK INSTRUMENTS (Cont'd)

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.

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.

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			
2020	**$ 2,545,487**	**$ 9,591,909**	**$ 186,803,475**
2019	$ 2,262,692	$ 8,780,246	$ 184,642,648

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.

15. INSURANCE RISK MANAGEMENT (Cont'd)

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.

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 $12,765,164 (2019 - $11,818,471) 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, 2020 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 (2019 - $10,000,000) coverage per incident after a $600,000 (2019 - $600,000) deductible.

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

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, amount held in trust amount to $11,017 (2019 - $10,840).

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 from TPAAA of $995 (2019 - $24,770 due from) is non-interest bearing, unsecured and due on demand. During the year, the Fund received donation revenue $Nil (2019 - $Nil) from TPAAA.

Remuneration of key management personnel for the year was $122,433 (2019 - $105,180).

Remuneration of the Board of Directors for the year was $66,394 (2019 - $131,206).

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 $180,553 (2019 - $186,956) 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:

	2020	2019
Income before income taxes	**$ 2,423,973**	$ 693,573
Statutory rate	**26.5 %**	26.5 %
Expected income tax recovery	**$ 642,353**	$ 183,797
Increase (decrease) resulting from:		
Net non-taxable income	**(513,076)**	(88,468)
Net tax rate difference due to provincial minimum tax	**-**	107,606
Non-deductible amounts and other	**2,757**	20,943
True-up	**49,178**	-
Income tax expense	**$ 181,212**	$ 223,878

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

	2020	2019
Income taxes payable	**$ 81,633**	$ 350,000

20. INCOME AND OTHER TAXES (Cont'd)

	2020	2019
Deferred tax liability (assets):		
Investments and other	**$ 1,212**	$ 13,000
Actuarial liabilities for insurance contracts	**151,035**	184,000
Lease liability	**1,302**	(14,000)
	$ 153,549	$ 183,000

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

	2020	2019
Current income taxes (recovery)	**$ 210,663**	$ (65,266)
Deferred income taxes expense	**(29,451)**	289,144
Investment income tax	**180,553**	186,956
Premium taxes	**35,440**	35,141
	$ 397,205	$ 445,975

21. COMPARATIVE FIGURES

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