

# **Toronto Police Widows and Orphans Fund**

**Financial Statements**

**For the Year Ended December 31, 2021**

## 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, 2021 and the statements of income, comprehensive income, fund balance and cash flow 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, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *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 28, 2022  
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 31 December 2021 and their changes in the statement of revenue and expenses for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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



Clayton Zaluski

Fellow, Canadian Institute of Actuaries

Winnipeg, MB

February 28, 2022

**Toronto Police Widows and Orphans Fund**  
**Statement of Financial Position**  
**As at December 31, 2021**

	2021	2020
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents (Note 3)	\$ 265,636	\$ 100
Investments (Note 5)	124,583,529	133,435,464
Receivables from investments sold	-	500,000
Accrued investment income and prepaid expenses (Note 7)	65,428	34,799
Dues receivables	53,000	69,470
Due from related party	-	995
	<b>124,967,593</b>	<b>134,040,828</b>
<b>Furniture and equipment</b>	<b>18,883</b>	<b>25,882</b>
<b>Right-of-use assets</b>	<b>54,276</b>	<b>42,336</b>
	<b>\$ 125,040,752</b>	<b>\$ 134,109,046</b>

**Liabilities and Fund Balance**

<b>Current</b>		
Bank overdraft	\$ -	\$ 292,534
Accounts payable and accrued charges (Note 9)	133,419	130,403
Unpaid benefit claims (Note 10)	131,057	94,892
Income taxes payable (Note 20)	111,666	85,223
Deferred tax liability (Note 20)	118,971	153,549
Lease liability	62,921	47,310
Actuarial liabilities for insurance contracts (Note 11)	111,714,580	120,539,971
	<b>112,272,614</b>	<b>121,343,882</b>
<b>Fund Balance</b>	<b>12,768,138</b>	<b>12,765,164</b>
	<b>\$ 125,040,752</b>	<b>\$ 134,109,046</b>

Approved by the Board

*Brandon Reeve*

[Brandon Reeve \(Feb 28, 2022 14:12 EST\)](#)

Officer

*Sylvia Karr*

Officer

**Toronto Police Widows and Orphans Fund**  
**Statement of Fund Balance**  
**For the Year Ended December 31, 2021**

	Fund Surplus	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2019	\$ 10,426,351	\$ 1,392,120	\$ 11,818,471
Total Comprehensive income for the year	1,899,303	(952,610)	946,693
Balance at December 31, 2020	12,325,654	439,510	12,765,164
Total comprehensive income for the year	20,129	(17,155)	2,974
<b>Balance at December 31, 2021</b>	<b>\$ 12,345,783</b>	<b>\$ 422,355</b>	<b>\$ 12,768,138</b>

# Toronto Police Widows and Orphans Fund

## Statement of Income

Year Ended December 31, 2021

	2021	2020
<b>Revenue</b>		
Gain (loss) on investment (Note 6)	\$ (6,552,036)	\$ 14,974,699
Membership dues	1,786,019	1,854,550
Reinsurance ceded	(12,127)	(10,075)
Miscellaneous income	1,204	8,096
Donations and other income	655	508,832
	<b>(4,776,285)</b>	17,336,102
<b>Benefits</b>		
Death benefits	2,116,384	2,529,246
Endowments	545,980	514,252
Increase (decrease) in actuarial liabilities for insurance contracts	(8,825,391)	10,607,971
	<b>(6,163,027)</b>	13,651,469
<b>Administrative expenses</b>		
Administrative fees and other	825,258	826,889
Investment income tax	191,097	180,553
Audit and accounting	96,825	96,288
Actuarial	102,674	85,000
Premium taxes	38,540	35,440
Legal	22,746	21,570
Amortization	23,347	14,920
	<b>1,300,487</b>	1,260,660
<b>Benefits and administrative expenses (income)</b>	<b>(4,862,540)</b>	14,912,129
<b>Income before income taxes</b>	<b>86,255</b>	2,423,973
<b>Income taxes (recovered) (Note 21)</b>		
Current	100,704	554,121
Deferred	(34,578)	(29,451)
	<b>66,126</b>	524,670
<b>Net income for the year</b>	<b>\$ 20,129</b>	<b>\$ 1,899,303</b>

**Toronto Police Widows and Orphans Fund**  
**Statement of Comprehensive Income**  
**Year Ended December 31, 2021**

	<b>2021</b>	2020
<b>Net income for the year</b>	<b>\$ 20,129</b>	\$ 1,899,303
<b>Other comprehensive income (loss)</b>		
Unrealized gains (loss) on available-for-sale assets	<b>290,135</b>	(1,023,878)
Realized (gain) loss reclassified to profit or loss	<b>(313,474)</b>	(272,190)
Aggregate tax effect on items recognized in OCI	<b>6,184</b>	343,458
	<b>(17,155)</b>	(952,610)
<b>Total comprehensive income for the year</b>	<b>\$ 2,974</b>	\$ 946,693

**Toronto Police Widows and Orphans Fund**  
**Statement of Cash Flows**  
**Year Ended December 31, 2021**

	2021	2020
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
Net income for the year	\$ 20,129	\$ 1,899,303
Items not affecting cash outlays		
Reinvested distributions	(3,547,071)	(6,914,227)
Unrealized (gains) losses on fair value through profit or loss assets	8,749,318	(4,329,888)
Realized gains on investments	1,197,496	(525,000)
Amortization of furniture, equipment, and right-of-use asset	23,347	29,031
Income taxes payable	26,443	(264,777)
Deferred income taxes	(40,763)	(29,451)
Interest on lease liability	4,099	3,032
	<b>6,432,998</b>	<b>(10,131,977)</b>
Change in working capital		
Accrued investment income and prepaid expenses	(30,629)	(2,779)
Dues receivables	16,470	(35,371)
Change in actuarial liabilities for insurance contracts	(8,825,391)	10,607,971
Unpaid benefits claim	36,165	(394,871)
Accounts payable and accrued charges	3,017	(209,816)
Receivables from investments sold	500,000	(500,000)
Due to related party	995	(25,765)
Tax on amounts in OCI	6,184	343,458
	<b>(1,860,191)</b>	<b>(349,150)</b>
<b>Investing</b>		
Purchase of investments	(11,253,357)	(27,917,145)
Proceeds on sale and redemption of investments	13,688,395	27,273,516
Purchase of furniture and equipment	(2,814)	(18,030)
	<b>2,432,224</b>	<b>(661,659)</b>
<b>Financing</b>		
Repayment on lease	(13,963)	(8,815)
<b>Net change in cash and cash equivalents (bank overdraft)</b>	<b>558,070</b>	<b>(1,019,624)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>(292,434)</b>	<b>727,190</b>
<b>Cash and cash equivalents (bank overdraft), end of year</b>	<b>\$ 265,636</b>	<b>\$ (292,434)</b>
<b>Represented by:</b>		
Cash in bank	\$ 265,636	\$ 100
Bank overdraft	-	(292,534)
	<b>\$ 265,636</b>	<b>\$ (292,434)</b>

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2021

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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 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 Assets, Liabilities, Surplus, Head Office Account and Accumulated Other Comprehensive Income (Loss) at the fiscal year, as well as on the Fund's ability to meet all policy obligations. Examination of sufficiency and reliability of policy data and an analysis of the ability of the assets to support the policy liabilities are important elements of the work required to form this opinion.

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

These financial statements are presented in Canadian dollars unless otherwise stated.

The financial statements have been authorized and approved by the Board of Directors for issue as of February 28, 2022.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**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.

**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 Income. Impairments on available for sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred.

**Fair Values**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Fair Values (Cont'd)**

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:

- 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.

Membership Dues

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

Donations

Donations are recognized as income when received.

Income from Investments

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Policy Liabilities**

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

**Income Taxes**

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

Deferred tax expense represents the movement during the year in the cumulative temporary differences between the carrying value of the Fund's asset and liabilities on the Statement of Assets, Liabilities, Surplus, Head Office Account and Accumulated Other Comprehensive Income (Loss) 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 Assets, Liabilities, Surplus, Head Office Account and Accumulated Other Comprehensive Income (Loss). 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 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 application of IFRS 9 to beginning on or after January 1, 2023 in order to keep the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB has also confirmed that certain other amendments proposed in the exposure draft, namely the amendment on the expected recovery of insurance acquisition cash flows, and has already agreed to extend the scope of the amendment related to the recovery of the losses on reinsurance contracts to apply to all reinsurance held contracts. 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 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 standards with the adoption of IFRS 17.

**Toronto Police Widows and Orphans Fund**  
**Notes to Financial Statements**  
**December 31, 2021**

**5. INVESTMENTS**

	2021		2020	
	Fair Value	%	Fair Value	%
<b>Financial assets at fair value through profit or loss</b>				
Bonds and debentures				
Canadian Corporate				
Maturing beyond 5 years	\$ -	0 %	\$ -	0 %
Fixed income pooled funds				
PH&N Long Corporate Bond Trust	35,295,950	28 %	38,632,635	28 %
PH&N PRisM - Long	43,024,370	34 %	51,303,986	39 %
PH&N PRisM - Medium	15,354,505	12 %	11,334,169	8 %
PH&N PRisM - Short	19,816,843	16 %	20,060,967	15 %
	<b>113,491,668</b>	<b>90 %</b>	<b>121,331,757</b>	<b>90 %</b>
Available-for-sale				
PH&N Dividend Income Fund	3,331,832	3 %	3,645,098	3 %
PH&N Short Term Bond & Mtg	2,136,043	2 %	3,617,932	4 %
PH&N Mortgage Pension	1,181,242	1 %	-	0 %
PH&N Bond	4,442,744	4 %	4,840,677	3 %
	<b>11,091,861</b>	<b>10 %</b>	<b>12,103,707</b>	<b>10 %</b>
	<b>\$ 124,583,529</b>	<b>100 %</b>	<b>\$ 133,435,464</b>	<b>100 %</b>

**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.

	2021			2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	\$ -	\$ 113,491,668	\$ -	\$ -	\$ 121,331,757	\$ -
Available-for-sale financial assets	-	11,091,861	-	-	12,103,707	-
	<b>\$ -</b>	<b>\$ 124,583,529</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 133,435,464</b>	<b>\$ -</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 and Level 2 for the years ended December 31, 2021 and 2020. No Level 3 investments exist as at December 31, 2021 and 2020.

**Toronto Police Widows and Orphans Fund**  
**Notes to Financial Statements**  
**December 31, 2021**

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**6. INCOME (LOSS) FROM INVESTMENTS**

	<b>2021</b>	<b>2020</b>
Net gains (losses) on FVTPL investments		
Income distributions from investee funds	<b>\$ 2,971,204</b>	\$ 3,574,156
Capital gain distributions from investee funds	<b>52,849</b>	6,044,395
Interest income from fixed-income investments	<b>334</b>	3,517
Realized gains (losses) on investments	<b>(1,510,970)</b>	252,810
Change in unrealized gains (losses) on investments	<b>(8,901,945)</b>	4,329,888
Net gains on AFS investments		
Income distributions from investee funds	<b>306,948</b>	320,648
Capital gain distributions from investee funds	<b>216,070</b>	177,096
Realized gains on investments	<b>313,474</b>	272,189
	<b>\$ (6,552,036)</b>	\$ 14,974,699

**7. ACCRUED INVESTMENT INCOME AND PREPAID EXPENSES**

	<b>2021</b>	<b>2020</b>
Prepaid expenses	<b>\$ 65,428</b>	\$ 34,799

**8. EMPLOYEE BENEFITS**

Employee payroll expense for the year was \$346,695 (2020 - \$214,710) and is included in administration fees and other expenses in the Statement of Income.

**9. ACCOUNTS PAYABLE AND ACCRUED CHARGES**

	<b>2021</b>	<b>2020</b>
Trade accounts payable and accrued charges due within one year	<b>\$ 133,419</b>	\$ 130,403

**10. UNPAID BENEFIT CLAIMS**

	<b>2021</b>	<b>2020</b>
Active members	<b>\$ 94,892</b>	\$ 489,763
Retired members	<b>108,617</b>	94,892
Claims paid	<b>(72,452)</b>	(489,763)
At December 31	<b>\$ 131,057</b>	\$ 94,892

# Toronto Police Widows and Orphans Fund

## Notes to Financial Statements

December 31, 2021

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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 the Appointed Actuary. The most recent actuarial valuation of the Fund was made as of December 31, 2021 by Clayton Zaluski, Fellow, Canadian Institute of Actuaries, who submitted their report dated February 28, 2022.

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, 2021 benefit levels:

- (a) The regular amount of insurance for active members is \$50,000 (2020 - \$40,500); the insurance amount doubles for "in line of duty" deaths.
- (b) The regular amount of insurance for retired members is \$18,800 (2020 - \$18,700).
- (c) The regular amount of insurance for active member of \$50,000 decreases to \$18,800 upon retirement for 2021 (2020- \$40,500 decreases to \$18,700 ).
- (d) The endowment benefit is \$3,150 (2020 - \$3,150).
- (e) The discretionary bonus amount is 20% (2020 - 20%) for deaths.

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

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

  

	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
	<b>\$ 363,892,208</b>	<b>\$ 72,778,442</b>	<b>\$ 436,670,650</b>

Policy liabilities are composed of the following:

	2021	2020
Active members	\$ 44,312,804	\$ 50,994,787
Retired members	67,371,776	69,515,184
Claims paid	30,000	30,000
At December 31	<b>\$ 111,714,580</b>	<b>\$ 120,539,971</b>

## **12. ACTUARIAL ASSUMPTIONS**

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

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these estimates, to allow for possible deterioration in experience, and to provide greater comfort that the policy liabilities are adequate to pay future benefits, the Appointed Actuary is required to include in each assumption a margin that falls within a range defined in accepted actuarial practice, in compliance with Standards of Practice of the Canadian Institute of Actuaries ("CIA"). The Appointed Actuary has advised that in his professional 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 \$1,637,000 increase (2020 - \$1,488,000 increase) in the actuarial liabilities for insurance contracts.

### **Investment Returns**

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

As at December 31, 2021, should interest rates of the bonds and debentures and the underlying investments in the fixed income pooled funds decrease by 1% (2020 - 1%), with other variables held constant, the approximate impact would be a \$5,797,000 decrease (2020 - \$7,223,000 decrease) in the actuarial liabilities for insurance contracts.

As at December 31, 2021, should interest rates of the bonds and debentures and the underlying investments in the fixed income pooled funds increase by 1% (2020 - 1%), with other variables held constant, the approximate impact would be a \$3,732,000 increase (2020 - \$4,344,000 increase) in the actuarial liabilities for insurance contracts.

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

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#### 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 2021 and 2020.

(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% (2020 - 10%).

Should future expenses increase by 10%, the approximate impact would be a \$951,000 increase (2020 - \$941,000 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, 2021, if resignation rates decreased by 10% (2020 - 10%), the approximate impact would be a \$320,000 increase (2020 - \$381,000 increase) in the actuarial liabilities for insurance contracts.

As at December 31, 2021, if retirement rates increased by 10% (2020 - 10%), the approximate impact would be a \$28,000 increase (2020 - \$66,000 increase) in the actuarial liabilities for insurance contracts.

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

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#### 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.

	2021	2020
Interest rate		
C1 risk - risk of asset defaults	\$ 1,206,000	\$ 1,689,000
C3 risk - risk of losses due to change in interest rates	3,652,000	4,942,000
Fixed income credit spread	814,000	736,000
Mortality	2,419,000	2,328,000
Expense		
Unit cost	870,000	878,359
Investment expense	443,000	466,641
Retirement and withdrawal rate	432,000	479,000
	<b>\$ 9,836,000</b>	<b>\$ 11,519,000</b>

**Toronto Police Widows and Orphans Fund**  
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**13. CHANGE IN POLICY LIABILITIES**

	<b>2021</b>	<b>2020</b>
	<b>(Million)</b>	<b>(Million)</b>
Actuarial liabilities at beginning of year	\$ 120.5	\$ 109.9
Change in prevailing market rates and investment strategy	(10.4)	7.3
Changes in force	-	1.6
Increase in dues	(0.4)	(0.3)
Withdraw with services	(0.2)	0.2
Normal changes	1.3	1.1
Change in actuarial assumptions and methods		
Expenses	0.9	0.7
	<b>\$ 111.7</b>	<b>\$ 120.5</b>

**14. FINANCIAL RISK MANAGEMENT**

**Investment Policies**

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

**Risk Management**

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

**Market Risk**

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

**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 pooled funds rather than individual bonds and debentures.

**Toronto Police Widows and Orphans Fund**  
**Notes to Financial Statements**  
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**14. FINANCIAL RISK INSTRUMENTS (Cont'd)**

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

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

**Equity Price Risk**

The Fund invests in equity pooled funds, which in turn generally invest in listed equity investments. While the underlying investments in the equity pooled funds are susceptible to equity price risk, the risk to the Fund is indirect in nature. Such investments are designated as available-for-sale investments and do not support the actuarial liabilities for insurance contracts in Note 12. If the unit price of the Fund's equity pooled funds were to increase or decrease by 10%, with all other variables being held constant, the impact on the Fund Balance would be approximately \$333,200 (2020 - \$302,500). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

**Credit Risk**

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

The Fund has not made explicit provision in its Statement of Assets, Liabilities, Surplus, Head Office Account and Accumulated Other Comprehensive Income (Loss) 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, 2021.

**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.

	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 265,636	\$ 100
Dues receivable	53,000	69,470
Due from related party	-	995
	<b>\$ 318,636</b>	<b>\$ 70,565</b>

**Toronto Police Widows and Orphans Fund**  
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**14. FINANCIAL RISK INSTRUMENTS (Cont'd)**

**Bonds Held in Pooled Funds**

The pooled funds mitigates this risk through setting exposure limits and diversification requirements via its Investment Policy. Management considers credit quality per instrument type as an indication of the relative concentration of credit risk:

	<b>2021</b>	2020
FVTPL bonds, debentures and fixed income pooled funds		
AAA	<b>\$ 11,338,382</b>	\$ 17,120,461
AA	<b>62,628,858</b>	59,943,826
A	<b>24,734,070</b>	27,319,026
BBB	<b>14,790,359</b>	16,948,444
	<b>\$ 113,491,669</b>	\$ 121,331,757

**Contractual Maturities of Bonds, Debentures and Fixed Income Pooled Funds**

The contractual maturities of bonds, debentures and fixed income pooled funds as at December 31, 2021 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.

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

**15. INSURANCE RISK MANAGEMENT**

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

**15. INSURANCE RISK MANAGEMENT (Cont'd)**

**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			
2021	\$ 2,704,433	\$ 10,231,796	\$ 186,086,149
2020	\$ 2,545,487	\$ 9,591,909	\$ 186,803,475

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

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

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

**Insurance Pricing Risk**

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

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.

## Toronto Police Widows and Orphans Fund

### Notes to Financial Statements

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#### 16. CAPITAL MANAGEMENT

The Fund's capital base consists of the Fund balance of \$12,768,138 (2020 - \$12,765,164) and is structured to meet and exceed the Fund's regulatory capital requirements. OSFI has established a capital adequacy requirement, 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, 2021 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 (2020 - \$10,000,000) coverage per incident after a \$600,000 (2020 - \$600,000) deductible.

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

#### 18. FUNDS HELD IN TRUST

The Fund holds amounts in trust for certain beneficiaries of deceased members. As such amounts do not belong to the Fund and the Fund cannot access them, they are not included in the accompanying Statement of Assets, Liabilities, Surplus, Head Office Account and Accumulated Other Comprehensive Income (Loss). At year-end, amounts held in trust were \$11,147 (2020 - \$11,017).

#### 19. REMUNERATION

Remuneration of key management personnel for the year was \$346,695 (2020 - \$257,648). Remuneration of the Board of Directors, which includes retainer fees and meeting attendance fees, for the year was \$131,106 (2020- \$122,911).

#### 20. INCOME AND OTHER TAXES

The Fund is subject to income taxes under Part I and Part XII.3 of the Federal Income Tax Act and under the Ontario Corporations Tax Act. A provision for investment income tax of \$191,097 (2020 - \$180,553) 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.

**Toronto Police Widows and Orphans Fund**  
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**20. INCOME AND OTHER TAXES (Cont'd)**

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:

	<b>2021</b>	<b>2020</b>
Income before income taxes	\$ 86,255	\$ 2,423,973
Statutory rate	26.5 %	26.5 %
Expected income tax expense	\$ 22,858	\$ 642,353
Increase (decrease) resulting from:		
Net non-taxable income	-	(513,076)
Non-deductible amounts and other	414	2,757
True-up	71,248	78,629
Aggregate tax effect on items recognized in OCI	6,184	343,458
Deferred tax	(34,578)	(29,451)
<b>Income tax expense</b>	<b>\$ 66,126</b>	<b>\$ 524,670</b>

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

	<b>2021</b>	<b>2020</b>
Income taxes payable	\$ 111,667	\$ 81,633
Deferred tax liability (assets):		
Investments and other	\$ 499	\$ 1,212
Actuarial liabilities for insurance contracts	123,849	151,035
Lease liability	(2,291)	1,302
	<b>\$ 122,057</b>	<b>\$ 153,549</b>

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

	<b>2021</b>	<b>2020</b>
Current income taxes (recovery)	\$ 94,520	\$ 210,663
Deferred income taxes expense	(31,578)	(29,451)
Investment income tax	191,097	180,553
Premium taxes	38,540	35,440
	<b>\$ 292,579</b>	<b>\$ 397,205</b>

**21. COMPARATIVE FIGURES**

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