

2018 Audited Consolidated Financial Statements

Date: June 28, 2019
To: Audit Committee
From: Controller and Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report presents the City of Toronto's (City), Audited Consolidated Financial Statements (Statements) for the year ended December 31, 2018, for approval, to Audit Committee and Council and provides highlights of the City's financial performance during 2018 and financial condition as of December 31, 2018.

The City's financial statements have been prepared by management, who is responsible for ensuring that proper internal controls have been applied to the presentations in each statement. The City's auditors, PricewaterhouseCoopers LLP (PwC) are responsible for providing an opinion on the fair presentation of the financial statements in accordance with Public Sector Accounting Standards (PSAS). Audit Committee is responsible for approving the statements prior to City Council approval.

The Statements are attached as Appendix A. In addition, Appendix B – 2018 Financial Statement Review, provides information about each statement and explains the City's revenue and expenditure activities and financial position for the audited fiscal year.

The City of Toronto 2018 Year End Report to the Audit Committee (Year End Report), Appendix C, includes a draft of the external auditor's opinion on the Statements. The report contains two internal control recommendations, an unadjusted item for \$85 Million which has been included on the Summary of Unadjusted items and the draft Independent Auditor's Report, which includes PwC's unqualified opinion as to the fair presentation of the Statements. The PwC final audit opinion will be received and dated the day following City Council approval.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer, and the Controller recommend that:

1. City Council approve the 2018 Audited, Consolidated Financial Statements as attached in Appendix A.

FINANCIAL IMPACT

There are no financial implications contained in this report.

The audit fee for the 2018 consolidated financial statements is \$260,000.

DECISION HISTORY

As required by Sections 231 and 232 of the City of Toronto Act, 2006 (Act), the City prepares and publishes an annual financial statement that consolidates the financial results of all City divisions, agencies and corporations, and government business enterprises that the City controls.

Section 231 of the Act requires that the financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as set by the Chartered Professional Accountants of Canada Public Sector Accounting Board (PSAB).

COMMENTS

The City's Statements are intended to provide Council, the public, the City's debenture holders, and other stakeholders, an overview of the state of the City's finances at the end of the fiscal year. The Statements are a report card on the financial position and health of the City's finances and provide information on the cost of all activities, how they are financed, investing activities and the assets and liabilities of the City, reflecting the full nature and extent of the City's financial affairs.

The Statements consolidate the financial position and results of all organizations that are controlled by City Council. The Basis of Presentation note in the Statements outlines the 123 entities included in the Statements. The City's 2018 Audited Consolidated Financial Statements are attached as Appendix A. The 2018 Financial Statement Review is attached as Appendix B.

The preparation, content and accuracy of the Statements and all other information included in the City's Annual Financial Report are the responsibility of management, as outlined in PSAB's financial reporting framework. The Statements have been reviewed and approved by the Controller, and the Chief Financial Officer and Treasurer.

It is the fiduciary responsibility of the Audit Committee to review the annual financial statements and audit results.

The City's audited, consolidated financial statements are included in the Annual Financial Report.

Statement Highlights

The City's Statements are presented on an accrual accounting basis in accordance with PSAS.

Financial highlights are as follows:

Consolidated Component	Balances as at, or for the year ending, December 31, 2018 (in millions of dollars)
Financial assets	\$11,296
Total Liabilities	\$19,384
Net Debt	(\$8,088)
Non-Financial Assets including tangible capital assets	\$33,262
Accumulated Surplus	\$25,174
Total Revenues	\$13,740
Total Expenses	\$12,306
Annual Surplus	\$1,434

Appendix B provides a breakdown of each consolidated component.

The City's excess of revenues over expenses provides an annual surplus which accumulates into an overall accumulated surplus on the Statement of Financial Position. The annual surplus, and City's ability to generate positive cash flow from its operations, is used to make investments in infrastructure required for the delivery of City services. The City's accumulated surplus of \$25.2 Billion is largely comprised of the City's significant investment in Tangible Capital Assets that includes roads, bridges, facilities, transit, computers and water infrastructure. These assets do not provide liquidity, are not available for sale and, in many cases, do not directly generate income, but are essential to the provision of services in the City.

One of the significant differences in the 2018 Statements is the reclassification of the investment in the Toronto Port Lands Company (TPLC), which was accounted for in prior years as a Government Business Enterprise (GBE). It has been determined that this entity no longer meets GBE criteria, resulting in a change in PSAS accounting policy from modified equity, where the City's 100% equity in this organization was incorporated into the financial results on a single line, to full consolidation, where asset, liability, revenue and expense details of TPLC are presented in the City's Statements in their entirety on a line by line basis. In the case of TPLC, recognition of TPLC's liability

related to contaminated sites is required, recognition not required by the previous accounting treatment. As a result, the Statements recognize a \$56.6 Million contaminated sites liability.

In addition, for the first time, the City has included a note regarding Greenhouse Gas Emission Reduction targets and achievements resulting from the City's climate action strategy (TransformTO).

PwC's 2018 Year End Report to the Audit Committee

The Statements have been audited by PwC, whose role is to express an independent opinion on the fair presentation of the City's financial position and operating results, and to confirm that the statements are free from material misstatement. The external auditor's opinion is to provide comfort to third parties that the financial statements can be relied upon by all stakeholders. For the 2018 fiscal year, the City's Statements again received an unqualified opinion, which attests to the integrity and quality of the Statements.

Appendix C contains two internal control recommendations, along with management responses. In addition, as a result of PwC's testing of the City's consolidation process, an \$85M unadjusted item, impacting opening accumulated surplus, has been included on the Summary of Unadjusted Items. As a result of testing of the City's Reserve revenue allocation, a \$53M unadjusted item, reallocated between User Charges and Other Revenues in the Statement of Operations and Accumulated Surplus, has been included on the Summary of Unadjusted Items. Neither of these items has a material impact on the fair presentation of the City's Statements.

CONTACT

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

Andrew Flynn
Controller

ATTACHMENTS

Appendix A: 2018 Audited, Consolidated Financial Statements

Appendix B: 2018 Financial Statement Review

Appendix C: 2018 Year End Report to the Audit Committee