
City of Toronto

*2018 year-end report
to the Audit Committee*

*Prepared as of
June 14, 2019*





June 14, 2019

**Members of the Audit Committee, Sub Committee of City Council
City of Toronto**

Dear Members of the Audit Committee:

PricewaterhouseCoopers LLP (PwC or we) is in the process of completing our audit of the consolidated financial statements of the City of Toronto (the City) prepared in accordance with Canadian public sector accounting standards for the year ended December 31, 2018. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined in this report. Our draft auditor's report is included as Appendix A.

We prepared the accompanying report to assist you in your review of the consolidated financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting matters dealt with during the audit process.

The matters raised in this report are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. This report has been prepared solely for the use of the Audit Committee, City Council and management, and should not be used by anyone other than the specified parties. We disclaim any responsibility to any third party who may rely on it.

We will review the key elements of this report at the upcoming meeting and discuss our findings with you.

We would like to express our sincere thanks to the management and staff of the City who have assisted us in carrying out our work, and we look forward to our meeting on June 28, 2019 . If you have any questions or concerns prior to the Audit Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Michael Hawtin
Partner
Assurance

c.c.: Mr. Chris Murray, City Manager
Ms. Heather Taylor, Chief Financial Officer and Treasurer
Ms. Beverly Romeo-Beehler, Auditor General

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Communications to the Audit Committee

<i>Key matters for discussion</i>	<i>Comments</i>
Status of the audit	<p>As of the date of this report, we are in the process of completing our audit of the consolidated financial statements (the financial statements). Significant outstanding items at the date of this report include the following:</p> <ul style="list-style-type: none"> • Update to our legal confirmation letter responses from external legal counsel; • Support for certain audit samples selected for testing and completion of the related audit procedures for revenue, deferred revenue and journal entry testing; • Completion of auditing procedures over the City’s consolidation process; • Completion of audit procedures related to the consolidated financial statements including note disclosures and obtaining supporting documentation/schedules for certain notes; • Completion of subsequent events procedures to the date of our audit opinion; • Signed management representation letter; and • Approval of the financial statements by City Council
<i>Significant accounting, auditing and reporting matters discussed with management</i>	
Revenue recognition	<p>Under Canadian auditing standards (CAS), there is a presumed significant risk of fraud with respect to accounting for revenue transactions.</p> <p>Details of our approach, as well as the results of our testing with respect to revenue recognition, are outlined below:</p> <ul style="list-style-type: none"> • During our audit, we updated our understanding of management processes and internal controls surrounding revenue recognition and the accounting policies adopted by the City for recognizing revenue; • We performed substantive tests of detail on a sample basis across all revenue streams by examining supporting documents; • For obligatory reserve funds we performed tests of detail to assess the appropriateness of revenue recognition within the various revenue streams; • We also examined agreements for eligibility criteria and stipulations to test that revenue from transfers from other governments has been recognized in accordance with the City’s accounting policy; • We tested certain management review controls to ensure they are operating effectively; and • We also tested certain journal entries affecting revenue accounts that were considered unusual. <p>There are no matters to report with respect to revenue recognition as a result of our testing.</p>

<i>Key matters for discussion</i>	<i>Comments</i>
Risk of material misstatement due to management override of controls	<p>Canadian auditing standards require that management override of controls be considered an area of significant audit risk.</p> <p>Details of our approach, as well as the results of our testing with respect to management override of controls are outlined below:</p> <ul style="list-style-type: none"> • We assessed the control environment and segregation of duties and access parameters established in SAP that mitigate this risk; • We reviewed whistle-blower reports for issues that may have a material impact to the financial statements; • We tested certain significant and non-standard journal entries made during the year; and • We also performed unpredictable audit procedures as part of our sample selections during the execution of our audit. <p>Based on our audit work performed, we have found no circumstances that indicate inappropriate management override of controls.</p>
Consolidation process	<p>As we have reported in prior years, the City's consolidation process is complex and manual in nature. We are in the process of completing our procedures over the City's consolidation process.</p> <p>As a result of our testing of the City's consolidation to date, we identified an unadjusted item which has been outlined in our summary of unadjusted items included in Appendix B.</p>
<i>Other required communications</i>	<i>Comments</i>
Fraud and illegal acts	<p>No instances of fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements came to our attention as a result of our audit procedures.</p> <p>If the Audit Committee is aware of any known, suspected or alleged incidents of fraud or illegal acts or non-compliance with laws or regulations not previously discussed with us, please contact Michael Hawtin.</p>
Any matters involving known or suspected non-compliance with laws or regulations	No instances of known or suspected non-compliance with laws or regulations came to our attention as a result of our audit procedures.
Materiality and Summary of unadjusted items	The preliminary materiality level for the audit, as previously communicated to you in our audit plan dated February 6, 2019 was \$259 million determined based on 2.0% of total estimated expenses of the City. The final materiality level used during the audit was calculated to be \$244 million, based on 2.0% of total actual expenses in 2018. We have reported unadjusted items in excess of \$12.2 million in Appendix B.
Internal controls recommendations	While completing our audit procedures, we identified certain internal control recommendations for management's consideration, which are included in Appendix C.

<i>Other required communications</i>	<i>Comments</i>
Management representation letter	We have included a draft version of the management representation letter in Appendix D.
Independence letter	We confirm that we are independent of the City as at June 14, 2019, the date of this report.
Other information in documents containing audited financial information	<p>We will read the Annual Report, the information, other than the financial statements and our auditor's report thereon, included in the annual report to taxpayers (collectively, other information) and will consider whether there is a material inconsistency between the other information and the financial statements or with our knowledge obtained in the course of the audit. While reading the other information, we will remain alert for indications that the other information not related to the financial statements or our knowledge obtained in the audit appears to be materially misstated.</p> <p>Based on our reading, we will provide comments to management.</p>
Subsequent events	No subsequent events which would impact the financial statements other than those disclosed have come to our attention.

Appendix A: Draft auditor's report



Independent auditor's report

To the Members of Council, Inhabitants, and Ratepayers of City of Toronto

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of City of Toronto and its subsidiaries (together, the Entity) as at December 31, 2018 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited

The Entity's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
 - the consolidated statement of operations and accumulated surplus for the year then ended;
 - the consolidated statement of change in net debt for the year then ended;
 - the consolidated statement of cash flows for the year then ended; and
 - the notes to consolidated financial statements, which include a summary of significant accounting policies.
-

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 consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

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Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Entity'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 Entity'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 consolidated 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
July 15, 2019

Appendix B: Summary of unadjusted

Unadjusted items

As a result of our audit to date, we noted one unadjusted item with an impact on annual surplus.

(in millions of dollars)

<i>Description</i>	<i>Assets at December 31, 2018 \$</i>	<i>Liabilities at December 31, 2018 \$</i>	<i>Opening accumulated surplus at January 1, 2018 \$</i>	<i>Annual surplus for year ended December 31, 2018 \$</i>
	<i>DR/(CR)</i>	<i>DR/(CR)</i>	<i>DR/(CR)</i>	<i>DR/(CR)</i>
<i>To adjust for elimination of intercompany payables to TTC related to a prior year</i>				
<i>Dr. Opening accumulated surplus Cr. Transportation expenses</i>			85	(85)
Total	-	-	85	(85)

Other items

We're required to communicate the effects of any unadjusted items that relate to prior periods or those that could impact future periods. As noted above, we identified one item relating to prior periods.

As a result of our audit, we conclude that the above unadjusted items are immaterial - individually and in total - to the financial statements taken as a whole.

Appendix C: Internal control recommendations

SAP Applications - procurement and payroll services - segregation of duties (as previously reported)

Observation:

Based on our review of the segregation of duties relating to procurement processing, it was noted that a number of user accounts for operations support have access to transactions that provide incompatible abilities in the Financial Services division. For example, access to maintain vendor master data and process invoices or access to create, change or release purchase orders and process the invoice in the same order.

Additionally, we noted two users whose duties required view-only access to human resources master data but this individual had access to edit and maintain the data.

Impact:

If proper segregation of duties does not exist, there is a risk that unauthorized processing of procurement or payroll could occur.

Recommendation:

Management should monitor access and conflicting abilities on a periodic basis and review the transactions posted by the user accounts to ensure validity of transactions.

Management's response:

Management recognizes the importance of segregation of duties and associated risks when excess access is provided. Management also recognizes that access roles have not been reviewed in their entirety for a number of years. As a result, management will establish a plan for a full review of roles with the goal of developing a strategy and appropriate governance that includes proper authority over roles granted particularly where excessive abilities are required for operational purposes. The plan will include sustainment requirements for ongoing, periodic reviews by appropriately trained individuals.

Financial statement close process (as previously reported)

Observation:

The financial statement close process (FSCP) includes the initiation, authorization and recording of journal entries and preparing the financial statements. The FSCP also includes the preparation of financial statement disclosures where transactions, events, or conditions required to be disclosed are accumulated, recorded, processed, summarized and appropriately reported in the consolidated financial statements.

The City's FSCP is a complex annual process given the number of Agencies and Corporations (A&Cs) that are consolidated within the financial statements. In addition, some of the A&Cs follow different accounting frameworks from the City, and their financial results need to be adjusted to conform to the City's accounting standards. Further, since the A&Cs' accounting systems are different from the City's, the consolidation is a manual process that is performed in Excel spreadsheets and, as a result, is a complex and time-consuming process to complete.

During the performance of our audits in the current year, we noted that management's consolidation process has remained consistent with the prior fiscal year. We noted one audit adjustment in this area in the current year.

Impact:

As the consolidation process is complex and manually driven, there is an increased risk of error with respect to consolidating the City's A&Cs' and recording consolidation adjustments.

Recommendation:

While significant improvements have been made, there's still a significant risk of error given the manual nature of the process. Therefore, we suggest that the City consider implementing financial reporting software for consolidating the City and its A&Cs. Additionally, we recommend the City consider implementing a year-end process with its A&Cs that involves a discussion with A&C management with respect to any significant transactions and unusual items at the A&C. This will assist the City with the preparation of their consolidation and the accounting, presentation and disclosure of these transactions in the consolidated financial statements.

Management's response:

Management recognizes that the improvements made to the consolidation process have automated the process as much as possible. The manual effort continues to be streamlined, however, the current process has reached the capacity of the current systems. Management will be performing a full review of the current financial system to implement changes that will include automated processes for financial statement preparation and consolidation. Management anticipates commencing this work in 2019 but likely not completing this for a number of years, given the extent of the City's multiple operational systems which feed information into the general ledger. Management's work will include opportunities to use advanced technologies in the consolidation process. In addition, management will continue efforts started in 2018 to meet with larger, more complex entities as part of the year end planning process.

Appendix D: Management representation letter

[CLIENT LETTERHEAD]

___, 2019

PricewaterhouseCoopers LLP
PwC Tower
18 York Street, Suite 2600
Toronto ON M5J 0B2

Dear Sirs:

We are providing this letter in connection with your audit of the consolidated financial statements of the City of Toronto (the City) as at December 31, 2018 and for the year then ended for the purpose of expressing an opinion as to whether such consolidated financial statements present fairly, in all material respects, the financial position, the results of its operations, the changes in accumulated surplus and net debt and the cash flows of the City in accordance with Canadian public sector accounting standards (the consolidated financial statements).

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 30, 2015 and the annual confirmation letter of terms and conditions dated February 6, 2019. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards including disclosures and other information referred to below;
- We are responsible for designing, implementing and maintaining an effective system of internal control over financial reporting to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that ensure financial statements are prepared in accordance with Canadian public sector accounting standards;
- We are responsible for designing, implementing and maintaining an effective system of internal control to prevent and detect fraud;
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

We confirm the following representations:

Preparation of consolidated financial statements

The consolidated financial statements are fairly presented in accordance with Canadian public sector accounting standards, and include all disclosures necessary for such fair presentation and disclosures otherwise required to be included therein by the laws and regulations to which the City is subject. We have prepared the City's consolidated financial statements on the basis that the City is able to continue as a going concern.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the consolidated financial statements to their related supporting information (e.g. subledger or third party data).

All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the consolidated financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a statement of operations and accumulated surplus account, which should have been written off to a profit and loss account and vice versa. All consolidating entries have been properly recorded. All intragovernmental and intergovernmental accounts have been eliminated or appropriately measured and considered for disclosure in the consolidated financial statements.

Other information

We have informed you of all of the documents, listed below, that we expect to issue or are otherwise required to be issued in accordance with law, regulation or custom that will contain or accompany the consolidated financial statements and the auditor's report thereon and which will include information on the City's operations and the City's financial results and financial position as set out in the consolidated financial statements.

Name of document provided before the auditor's report date that will contain or accompany the consolidated financial statements	Name of document that will not be provided before the auditor's report date that will contain or accompany the consolidated financial statements
Annual Report	None

The consolidated financial statements and the other information, included in the document referred to above, that we have provided to you are consistent with one another, and the other information does not contain any material misstatements.

Accounting policies

We confirm that we have reviewed the City's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the consolidated financial statements is appropriate in the City's particular circumstances to present fairly in all material respects its financial position, results of operations, changes in net debt and cash flows in accordance with Canadian public sector accounting standards.

Internal control over financial reporting

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware of.

We had designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with the Canadian public accounting standards.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over the financial reporting that we are aware of.

Minutes

All matters requiring disclosure to or approval of the Executive Committee and Audit Committee have been brought before them at appropriate meetings and are reflected in the minutes.

Completeness of transactions

All contractual arrangements entered into by the City with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the consolidated financial statements, have been disclosed to you. The City has complied with all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance. There are no side agreements or other arrangements (either written or oral) undisclosed to you.

Fraud

We have disclosed to you:

- The results of our assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting the City involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the consolidated financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the City's consolidated financial statements, communicated by employees, former employees, analysts, regulators, investors or others.

Disclosure of information

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the consolidated financial statements, such as records, documentation and other matters including:
 - Contracts and related data;
 - Information regarding significant transactions and arrangements that are outside the normal course of business;
 - Minutes of the meetings of the Executive and Audit Committee. The most recent meetings held were: Executive Committee on June 6, 2019 and Audit Committee on May 3, 2019.
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.

Compliance with laws and regulations

We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the consolidated financial statements, including any known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We are not aware of any illegal or possibly illegal acts committed by the City's directors, officers or employees acting on the City's behalf. There have been no communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.

Accounting estimates and fair value measurements

Significant assumptions used by the City in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the consolidated financial statements that incorporate fair value measurements, we confirm that:

- The measurement methods are appropriate and consistently applied;
- The significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the consolidated financial statements; and
- The significant assumptions used in determining fair value measurements are consistent with the City's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with CPA Canada Public Sector Accounting Handbook Section 2130, *Measurement Uncertainty*, have been appropriately disclosed.

Related parties

We confirm that we have disclosed to you the identity of the City's related parties as defined by CPA Canada Public Sector Accounting Handbook Section PS 2200, *Related Party Disclosures*, and all the related party relationships and transactions.

The identity and relationship of, and balances and transactions with, related parties have been properly recorded and adequately disclosed in the consolidated financial statements as required by CPA Canada Public Sector Accounting Handbook Section PS 2200, *Related Party Disclosures*. We provided support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's length transaction.

The list of related parties attached to this letter as Appendix A accurately and completely describes the City's related parties and the relationships with such parties.

Going concern

There are no events or conditions that, individually or collectively, may cast significant doubt on the City's ability to continue as a going concern.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the consolidated financial statements (e.g. to dispose of the business or to cease operations).

Assets and liabilities

We have satisfactory title or control over all assets. All liens or encumbrances on the City's assets and assets pledged as collateral, to the extent material, have been disclosed in note [X] to the consolidated financial statements.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the City is contingently liable in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3300, *Contingent Liabilities*, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

Litigation and claims

All known actual or possible litigation and claims, which existed as at December 31, 2018 or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian public sector accounting standards, whether or not they have been discussed with legal counsel.

For property and liability claims, the assumptions included in the actuarial valuation are those that management instructed the actuary, Oliver Wyman to use in computing amounts to be used by management in determining the liability and in making required disclosures in the above-named PS 1000.

Misstatements

Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the consolidated financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the consolidated financial statements, as summarized in Appendix B, are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. We confirm that we are not aware of any uncorrected misstatements other than those included in Appendix B.

Cash and banks

The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the City.

All cash balances are under the control of the City, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts, which are not the property of the City.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of the City are included in the consolidated financial statements as at December 31, 2018.

Restricted assets and revenues

All assets and revenues subject to externally imposed restrictions are disclosed in the consolidated financial statements.

All externally restricted inflows have been recognized as revenue in the period in which the resources were used for the purposes specified. All externally restricted inflows received before this criterion has been met have been reported as liabilities until the resources are used for the purposes specified.

Condensed supplementary financial information relative to internally restricted entities has been disclosed in the consolidated financial statements, by entity and as a whole.

Accounts receivable

All amounts receivable by the City were recorded in the books and records.

All contributions receivable that are recorded in the consolidated balance sheet are reasonably assured of collection and we have made you aware of all relevant facts and circumstances in making this determination. Recognized contributions receivable do not include any bequests.

Receivables recorded in the consolidated financial statements, represent bona fide claims against debtors for sales or other charges arising on or before the consolidated balance sheet date and are not subject to discount except for normal cash discounts.

Loans receivable and similar financial assets

We have disclosed to you all loan agreements containing forgivable conditions, significant concessionary terms and those that are to be repaid through future appropriations.

Loans receivable that are not to be repaid through future appropriations, nor contain forgivable conditions have been accounted for as financial assets, in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3050, *Loans Receivable*. The cost of Loans receivable excludes any portion of the loan that will be repaid through future appropriations and any grant portion relating to significant concessionary terms of the loan.

We have reviewed loans receivable for collectability, risk of loss and expected forgiveness, and made appropriate valuation allowances or write-offs thereon if necessary, in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3050, *Loans Receivable*. The valuation allowance for loan losses and/or forgiveness encompasses probable credit losses related to specifically identified loans as well as probable credit losses inherent in the remainder of the loan portfolio that have been incurred as at year end.

Financial assets

All securities and other financial assets that were owned by the City were recorded in the accounts.

All income earned on the financial assets has been recorded in the accounts, and any interest income has been accrued using the effective interest rate method.

We are not aware of any objective evidence of impairment that would result in the recognition of an impairment loss on any financial asset.

You have been informed of the acquisition of or the formation of all government units, affiliated and subsidiary companies, partnerships, joint ventures or other participations during the year.

All transactions with subsidiaries, significantly influenced organizations, partnerships or joint ventures have been recorded in the accounts presented to you. All investments in and advances to subsidiaries, significantly influenced organizations, partnerships, joint ventures or other participations are appropriately recorded, and there is no evidence of impairment in value below the resulting balances shown in the consolidated financial statements.

There has been no activity in any dormant or inactive subsidiaries, business enterprises, partnerships, joint ventures or other participations, except as disclosed to you.

Toronto Hydro Corporation and Toronto Parking Authority meet the definition of a government business enterprise (GBE) in accordance with PS 3070, *Investments in Government Enterprises*.

The modified equity method is used to account for the City's investment in the above mentioned government business enterprises.

Inventory

A provision has been made to reduce excess or obsolete inventories to their estimated net realizable value.

There have been no events conditions or changes in circumstances that indicate inventory held for consumption will no longer be used or consumed in the City's operations.

Tangible capital assets

All charges to tangible capital asset accounts represented the actual cost of additions to tangible capital assets.

All contributed tangible capital assets have been recorded at fair value at the date of the contribution.

No significant capital asset additions were charged to repairs and maintenance or other expense accounts.

Carrying values of tangible capital assets sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Tangible capital assets owned by the City are being depreciated on a systematic basis over their estimated useful lives, and the provision for depreciation was calculated on a basis consistent with that of the previous date. During the year, we reviewed the appropriateness of the depreciation policy and estimate of useful lives for tangible capital assets, taking into account all pertinent factors. There are no changes in our assessment from the prior year.

All lease agreements covering property leased by or from the City have been disclosed to you and classified in accordance with CPA Canada Public Sector Accounting Handbook Guideline PSG-02, *Leased Tangible Capital Assets*.

Assets held under capital leases are being amortized on a systematic basis over the period of expected use.

There have been no events, conditions or changes in circumstances that indicate that a capital asset no longer contributes to the City's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. We believe that the carrying amount of the City's long-lived tangible capital assets is fully recoverable in accordance with CPA Canada Public Sector Accounting Handbook, PS 3150.

Long-term debt

All borrowings and financial obligations of the City of which we are aware are included in the consolidated financial statements as at year end, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

The City has not violated any covenants on its long-term debt during any of the periods reported. We have fully disclosed to you all covenants and information related to how we determined our compliance with the terms of the covenants.

Deferred revenue and deferred contributions

All material amounts of deferred revenue and deferred contributions were appropriately recorded in the books and records.

Retirement benefits, post-employment benefits, compensated absences and termination benefits

All arrangements to provide retirement benefits, post-employment benefits, compensated absences and termination benefits have been identified to you and have been included in the actuarial valuation as required.

The details of all pension plan amendments since December 31, 2018, the date of the last actuarial valuation, have been identified to you.

The defined benefit obligation has been calculated using the most recently completed funding valuation prepared on a going concern basis (not on a solvency, wind-up or similar valuation basis), wherever such a funding valuation has been prepared.

The actuarial valuation dated December 31, 2018 incorporates management's best estimates, detailed as follows:

- The actuarial assumptions and methods used to measure liabilities and costs for financial accounting purposes for pension and other post-retirement benefits are appropriate in the circumstances; and
- The City does not plan to make frequent amendments to the pension of other post-retirement benefit plans.

All changes to the plan and the employee group and the plan's performance since the last actuarial valuation up to the date of this letter have been communicated to you as well as to the actuary and considered in determining the plan expense and the estimated actuarial present value of accrued pension benefits and value of plan assets where the latest actuarial valuation for accounting purposes is not at the balance sheet date.

The City's actuaries have been provided with all information required to complete their valuation as at December 31, 2018, and where applicable, their extrapolation to December 31, 2018.

We confirm that the extrapolations are accurate and include the proper reflection of the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation as at the measurement date.

The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3250, *Retirement Benefits* and CPA Canada Public Sector Accounting Handbook Section PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*. In particular:

- The significant accounting policies that the City has adopted in applying CPA Canada Public Sector Accounting Handbook Section PS 3250, *Retirement Benefits*, and CPA Canada Public Sector Accounting Handbook Section PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*, are accurately and completely disclosed in the notes to the consolidated financial statements.
- Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.
- The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.
- The discount rate used to determine the accrued benefit obligation was determined by reference to the City's borrowing rate or the plan asset earnings rate using assumptions that are internally consistent with other actuarial assumptions used in the calculation of the accrued benefit obligation and plan assets.
- The assumptions included in the actuarial valuation are those that management instructed Mondelis and Morneau Shepell to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named consolidated financial statements, in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3250, *Retirement Benefits*.
- In arriving at these assumptions, management has obtained the advice of consulting actuaries who assisted in reaching best estimates, but has retained the final responsibility for them;
- The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete
- The disclosure of the City's share of the risks and benefits under joint defined benefit plans, the total financial status of any joint plans, significant policies and a description of the unique nature and terms of any joint plans are accurate and complete; and

- All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuary.

In arriving at these assumptions, management has obtained the advice of Mondelis and Morneau Shepell, but has retained the final responsibility for the assumptions.

Statement of operations and net debt

All transactions entered into by the City have been recorded in the books and records presented to you.

All amounts have been appropriately classified within the statements of operations and net debt.

The accounting principles and policies followed throughout the year were consistent with prior year's practices (except as disclosed in the consolidated financial statements).

Environmental matters

There are no liabilities or contingencies arising from environmental matters that have not already been disclosed to the auditor.

Liabilities or contingencies related to environmental matters have been recognized, measured and disclosed, as appropriate, in the consolidated financial statements including a liability for contaminated Sites held by Toronto Port Lands Company.

We have considered the effect of environmental matters and the carrying value of the relevant assets is recognized, measured and disclosed, as appropriate, in the consolidated financial statements.

All commitments related to environmental matters have been measured and disclosed, as appropriate in the consolidated financial statements.

Use of a specialist

We assume responsibility for the findings of specialists in evaluating the employee benefit obligation, contaminated sites liability and landfill closure and post-closure liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the consolidated financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

General

There are no proposals, arrangements or actions completed, in process, or contemplated that would result in the suspension or termination of any material part of the City's operations.

Information relative to any matters handled on behalf of the City by any legal counsel, including all correspondence and other files, has been made available to you.

Segment disclosures

Pursuant to CPA Canada Public Sector Accounting Handbook Section PS 2700, *Segment Disclosures*, in identifying segments, management has considered the definition of a segment and other factors, including:

- the objectives of disclosing financial information by segment;
- the expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;
- the qualitative characteristics of financial reporting as set out in CPA Canada Public Sector Accounting Handbook Section PS 1000, *Financial Statement Concepts*;

- the homogeneous nature of the activities, service delivery, or recipients of the services;
- whether the activities relate to the achievement of common outcomes or services as reflected in government performance reports and plans;
- whether discrete financial information is reported or available; and
- the nature of the relationship between the government and its organizations (within the reporting entity).

Management has identified following operating segments: General government, Protection, Transportation, Environmental, Health, Social and Family, Social Housing, Recreation and Cultural and Planning and Development.

The consolidated financial statements disclose all the relevant factors used to identify the City's reportable segments.

Government transfers

Transferring organization

- Transfers have only been recognized as an expense in the year the transfer has been authorized and all eligibility criteria have been met by the recipient.

Recipient organization

- We have disclosed all significant terms and agreements in respect of transfers received from governments.
- Transfers without eligibility criteria or stipulations have been recognized as revenue once the transfer has been authorized.
- Transfers with eligibility criteria but without stipulations have been recognized as revenue once the transfer has been authorized and all eligibility criteria have been met.
- Transfers with or without eligibility criteria but with stipulations have been recognized as revenue in the year the transfer has been authorized and all eligibility criteria have been met, except when, and to the extent that, the transfer gives rise to an obligation that meets the definition of a liability for the recipient government in accordance with CPA Canada Public Sector Accounting Handbook, PS 3200, Liabilities.

Disclosure

- The major kinds of transfers recognized have all been disclosed in the consolidated financial statements as well as the nature and terms of liabilities arising from government transfers received.

Budgetary data

We have included budgetary data in our consolidated financial statements, which is relevant to the users of financial statements. Planned results were presented for the same scope of activities and on a basis consistent with that used for actual results.

Events after consolidated statement of financial position date

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the consolidated financial statements, and have affected such adjustment or disclosure.

Yours truly,

The City of Toronto

Ms. Heather Taylor, Chief Financial Officer & Treasurer

Mr. Andrew Flynn, Controller

Mr. Chris Murray, City Manager

DRAFT

APPENDIX A: Related Parties

Agencies and Corporations:

- ✦ Board of Governors of Exhibition Place
- ✦ Board of Management of the Toronto Zoo
- ✦ Build Toronto Inc. (BTI)
- ✦ Casa Loma Corporation
- ✦ Heritage Toronto
- ✦ Invest Toronto Inc.
- ✦ Lakeshore Arena Corporation
- ✦ Civic Theatres Toronto (TOLive)
- ✦ Toronto Atmospheric Fund (TAF)
- ✦ Toronto Waterfront Revitalization Corporation (TWRC) (1/3 proportionately)
- ✦ Toronto Board of Health
- ✦ Toronto Community Housing Corporation (TCHC)
- ✦ Toronto Licensing Commission
- ✦ Toronto Pan Am Sports Centre Inc. (TPASC) (1/2 proportionately)
- ✦ Toronto Police Services Board
- ✦ Toronto Public Library Board
- ✦ Toronto Transit Commission (TTC)
- ✦ CreateTO
- ✦ Yonge-Dundas Square
- ✦ City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company (TPLC)

Arenas:

- ✦ Forest Hill Memorial
- ✦ George Bell
- ✦ Leaside Memorial Community Gardens
- ✦ McCormick Playground
- ✦ Moss Park
- ✦ North Toronto Memorial
- ✦ Ted Reeve
- ✦ William H. Bolton

Community Centres:

- ✦ 519 Church Street
- ✦ Applegrove
- ✦ Cecil Street
- ✦ Central Eglinton
- ✦ Community Centre 55
- ✦ Eastview Neighbourhood
- ✦ Waterfront Neighbourhood
- ✦ Ralph Thornton
- ✦ Scadding Court
- ✦ Swansea Town Hall

Business Improvement Areas (BIAs):

- ✦ Albion Islington Square
- ✦ Baby Point Gates
- ✦ Bayview Leaside
- ✦ Bloor Annex
- ✦ Bloor By The Park
- ✦ Bloor Street
- ✦ Bloor West Village
- ✦ Bloor Yorkville
- ✦ Bloorcourt Village
- ✦ Bloordale Village
- ✦ Cabbagetown
- ✦ Chinatown
- ✦ Church Wellesley Village
- ✦ City Place & Fort York
- ✦ College Promenade
- ✦ College West
- ✦ Corso Italia
- ✦ Crossroads of the Danforth
- ✦ Danforth Mosaic
- ✦ Forest Hill Village
- ✦ Gerrard India Bazaar
- ✦ Greektown on the Danforth
- ✦ Harbord Street
- ✦ Hillcrest Village
- ✦ Historic Queen East
- ✦ Junction Gardens
- ✦ Kennedy Road
- ✦ Kensington Market
- ✦ Korea Town
- ✦ Lakeshore Village
- ✦ Leslieville
- ✦ Liberty Village
- ✦ Little Italy
- ✦ Little Portugal
- ✦ Long Branch
- ✦ Marketo District
- ✦ Midtown Yonge
- ✦ Mimico by the Lake
- ✦ Riverside District
- ✦ Roncesvalles Village
- ✦ Rosedale Main Street
- ✦ Sheppard East Village
- ✦ shoptheQueensway.com
- ✦ St. Clair Gardens
- ✦ St. Lawrence Market
- ✦ Neighbourhood
- ✦ The Beach
- ✦ The Danforth
- ✦ The Eglinton Way
- ✦ The Kingsway
- ✦ The Waterfront
- ✦ Toronto Entertainment District
- ✦ Trinity Bellwoods
- ✦ Upper Village
- ✦ Uptown Yonge
- ✦ Village of Islington

- ❖ Danforth Village
- ❖ Dovercourt Village
- ❖ Downtown Yonge
- ❖ DuKe Heights
- ❖ Dundas West
- ❖ Dupont by the Castle
- ❖ Eglinton Hill
- ❖ Emery Village
- ❖ Fairbank Village
- ❖ Financial District

- ❖ Mimico Village
- ❖ Mirvish Village
- ❖ Mount Dennis
- ❖ Mount Pleasant
- ❖ Oakwood Village
- ❖ Ossington Avenue
- ❖ Pape Village
- ❖ Parkdale Village
- ❖ Queen Street West
- ❖ Regal Heights Village

- ❖ West Queen West
- ❖ Weston Village
- ❖ Wexford Heights
- ❖ Wilson Village
- ❖ Wychwood Heights
- ❖ Yonge and St. Clair
- ❖ Yonge Lawrence Village
- ❖ York Eglinton

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APPENDIX B: Summary of unadjusted items

As a result of your audit to date, one unadjusted item with an impact on annual surplus was noted.

(in millions of dollars)

<i>Description</i>	<i>Assets at December 31, 2018 \$</i>	<i>Liabilities at December 31, 2018 \$</i>	<i>Opening accumulated surplus at January 1, 2018 \$</i>	<i>Annual surplus for year ended December 31, 2018 \$</i>
	<i>DR/(CR)</i>	<i>DR/(CR)</i>	<i>DR/(CR)</i>	<i>DR/(CR)</i>
<i>To adjust for elimination of intercompany payables to TTC related to a prior year</i>				
<i>Opening accumulated surplus Transportation expenses</i>			85	(85)
Total	-	-	85	(85)

As a result of the audit, we conclude that the above unadjusted items are immaterial - individually and in total - to the financial statements taken as a whole.

The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. Comments and conclusions should only be taken in context of the financial statements as a whole, as we do not mean to express an opinion on any individual item or accounting estimate. This report has been prepared solely for your use. It was not prepared for, and is not intended for, any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.

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