



City of Toronto – 2019 Audited Consolidated Financial Statements

Date: November 3, 2020

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, 2019, for approval, to the Audit Committee and Council and provides highlights of the City's financial performance during 2019 and financial condition as of December 31, 2019. The Statements include all entities with City Council's control; a full list is included in the Notes to the Statements.

The Statements are attached as Appendix A. In addition, Appendix B - 2019 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's 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 2019 auditors, PricewaterhouseCoopers LLP (PwC), are responsible for providing an opinion on the fair presentation of the City's Statements in accordance with Public Sector Accounting Standards (PSAS). The Audit Committee is responsible for approving the Statements prior to City Council approval.

The City of Toronto 2019 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, unadjusted items that total \$220 million which have 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.

Financial statements and auditor's reports are typically reported to the Audit Committee and Council in June, when external audit work is substantially complete. During the external auditor's normal engagement period, management's focus was on the COVID-19 response and meeting operational requirements. Additionally, public health restrictions put in place because of the pandemic required that the audit process be conducted in an extended fashion over a longer period of time. As a result, the completion of the 2019

Statements and external audit was delayed.

RECOMMENDATIONS

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

1. City Council approve the City of Toronto's 2019 Audited Consolidated Financial Statements as attached in Appendix A to this report.

FINANCIAL IMPACT

There is no financial impact resulting from the adoption of the recommendation in this report. The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

The audit fee for the 2019 Audited 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 annual financial statements that consolidate the financial results of all entities that City Council controls. A list of these entities is provided in Note 1 of the Statements.

Section 231 of the Act requires that the financial statements be 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 120 entities included in the Statements. The City's 2019 Audited Consolidated Financial Statements are attached as Appendix A. The 2019 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 is 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, along with analysis and management disclosures that outline the activities of the 2019 fiscal year.

Statement Highlights

The City's Statements are presented on an accrual accounting basis in accordance with PSAS. The accruals basis of accounting requires that revenues and expenditures are recognized when they are legally owed to, or owed by, the City, not when the cash is received or expended.

Financial highlights are as follows:

(in millions of dollars)

Item	2019	2018	\$ Change	% Change
Financial assets	\$ 12,310	\$ 11,296	\$ 1,014	9.0%
Liabilities	\$ 20,530	\$ 19,384	\$ 1,146	5.9%
Net Debt	\$ (8,220)	\$ (8,088)	\$ (132)	1.6%
Non-Financial Assets including tangible capital assets	\$ 35,026	\$ 33,262	\$ 1,764	5.3%
Accumulated Surplus	\$ 26,806	\$ 25,174	\$ 1,632	6.5%
Total Revenues	\$ 14,383	\$ 13,740	\$ 643	4.7%
Total Expenses	\$ 12,751	\$ 12,306	\$ 445	3.6%
Annual Surplus	\$ 1,632	\$ 1,434	\$ 198	13.8%

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 \$26.8 billion is largely comprised of the City's significant investment in Tangible Capital Assets that includes roads, bridges, facilities, transit, computers and 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. In addition, the City's discretionary reserve funds

and reserves are included in the Accumulated Surplus balance.

Although the City is in an overall accumulated surplus position, it is important to note that the City's net debt position is increasing. Net debt is a key financial metric that can be used to assess whether the City has sufficient financial assets on hand to discharge its existing liabilities; that is, net debt represents the value of future revenues needed to settle current liabilities. As the City's net debt position is increasing on an annual basis, it will need to continue monitoring its funding strategies to ensure that it will be able to generate sufficient funding through non-debt sources to settle current and future liabilities.

The Statements reflect the recognition of the City's pension surplus of \$106M, which resulted from the entity's pension plans merger with OMERS. It is the City's position that this amount can be recognized given that all required activities have been met and final approval relates to distribution of the surplus amounts to respective recipients.

PwC's 2019 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 2019 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. Consistent with the prior year, PwC identified out-of-period adjustments of \$114 million, which represent the impact of corrections made to the City's opening accumulated surplus balance. This is the final year in which these out-of-period adjustments will be reported as part of PwC's Summary of Unadjusted Items. In addition, PwC recognized an unadjusted item of \$106 million to reverse the City's portion of the OMERS surplus from the 2019 operating surplus. It is the auditor's opinion that recognition cannot be made until final approval has been received from the regulatory body. Neither of these items has a material impact on the fair presentation of the City's Statements.

Financial statements and auditor's reports are typically reported to the Audit Committee and Council in June, when external audit work is substantially complete.

During the external auditor's normal engagement period, management's focus was on the COVID-19 response and meeting operational requirements. As a result, the completion of the Statements and external audit was delayed.

CONTACT

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SIGNATURE

Andrew Flynn
Controller

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A: 2019 Audited Consolidated Financial Statements
Appendix B: 2019 Financial Statement Review
Appendix C: 2019 Year-End Report to the Audit Committee