

## **2020 Audited Financial Statements - Consolidated City, Sinking Funds, and Consolidated Trust Funds**

**Date:** June 22, 2021

**To:** Audit Committee

**From:** Chief Financial Officer and Treasurer and Controller

**Wards:** All

### **SUMMARY**

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This report presents the City of Toronto's (City) Audited Consolidated Financial Statements (Statements), the Audited Sinking Fund Financial Statements (Sinking Funds) and the Consolidated Trust Funds Financial Statements (Trust Funds) for the year ended December 31, 2020, for approval, to the Audit Committee and City Council. The report provides highlights of financial performance and financial condition as at December 31, 2020. All City financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS) established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants (CPA) of Canada.

The Statements include all City divisions and entities within the City's control; a full list is included in Note 1 accompanying the Statements. In 2020, the City recognized financial assets of \$14.1 billion, liabilities of \$22.7 billion, and non-financial assets, consisting mainly of the tangible capital assets necessary for the delivery of City services, of \$37.0 billion. The City's net debt of \$8.6 billion is the amount of future revenues required to fulfill current liabilities. The City's 2020 revenues of \$14.0 billion include \$1.1 billion from Safe Restart Funding (\$913 million) received in response to pressures arising from the COVID-19 pandemic on municipal operations, transit services and public health efforts, along with Social Services Relief Funds (\$165 million) for shelters.

Total expenditures recognized were \$12.4 billion; the City managed its expenses in 2020 by implementing \$559 million in cost mitigation strategies, such as workforce restraints and spending constraints, in order to address financial challenges caused by COVID-19.

Consistent with municipalities across Canada, Toronto adopts a cash basis of accounting for budgeting purposes, however, the annual audited financial statements are reflected using an accrual basis of accounting consistent with Public Sector Accounting Standards. The reconciliation between the two methods is driven primarily by the capitalization of tangible capital assets and amortization. In the audited financial statements, the City recognized an accounting surplus of \$1.6 billion reflective of the

capital asset investment during 2020.

The Sinking Funds build up and invest funds, which form part of the City's consolidated cash balances, used to repay City debt when it matures, reducing the amount of City own-source cash required to repay amounts borrowed.

The Trust Funds are assets benefitting the City and its agencies and corporations, mainly held in cash and investments, administered through the City and two of its related parties, the Toronto Police Services Board and the St. Lawrence Centre for the Arts (TO Live). Although these trust funds are assets to the City and its consolidated entities, they represent liabilities to third parties and therefore, are not included in the City's consolidated financial statements.

The City's management is responsible for preparing the Statements, Sinking Funds and Trust Funds in accordance with Public Sector Accounting Standards (PSAS), as well as ensuring that appropriate internal controls are in place to safeguard the City's assets and financial information.

The City's 2020 auditors, KPMG LLP (KPMG), are responsible for providing an opinion on the fair presentation of these financial statements in accordance with PSAS. KPMG performs audit procedures in order to gather sufficient and appropriate audit evidence with which to form an opinion on the City's statements. In performing their work, KPMG may recommend adjustments to balances or note disclosures, or process or internal control improvements.

The Audit Committee is responsible for approving the financial statements prior to City Council approval.

The Statements are attached as Appendix A. In addition, Appendix B - 2020 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 Sinking Funds are attached as Appendix C.

The Trust Funds are attached as Appendix D. In addition, Appendix E details Trust Funds Account Descriptions as at December 31, 2020.

KPMG's Year End 2020 Audit Findings Report comprises a separate submission to the Audit Committee. KPMG has issued an unqualified audit opinion on the City's 2020 Statements, the Sinking Funds and the Trust Funds.

## **RECOMMENDATIONS**

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

1. City Council approve the 2020 Audited Consolidated Financial Statements in Appendix A to this report.

2. City Council approve the 2020 Audited Sinking Fund Financial Statements in Appendix C to this report.
3. City Council approve the 2020 Audited Consolidated Trust Funds Financial Statements in Appendix D to this report.

## **FINANCIAL IMPACT**

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There are no current or known future year financial impacts arising from the recommendations contained in this report.

Total audit fees for the financial statement audits were approved in the 2020 budget totalling \$455,000.

## **DECISION HISTORY**

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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 the City 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) established by the Chartered Professional Accountants of Canada's Public Sector Accounting Board (PSAB).

Below is a link to the staff report for the 2019 audited consolidated financial statements for the City of Toronto:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.AU7.1>

Following is a link to the staff report for the 2019 audited financial statements for the City's Sinking Funds:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.AU7.4>

Following is the link to the 2019 audited consolidated financial statements for the City's Trust Funds:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.AU7.3>

## **COMMENTS**

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### **Preparation of, and Responsibility for, the City's Consolidated, Sinking Fund and Trust Fund Financial Statements**

The City's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS) established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants (CPA) of Canada. The exception is the recognition of Sinking Fund investment values, which are recorded at fair value to

better reflect their ability to meet debt retirement obligations.

The City's Statements, Sinking Funds and Trust Funds are included in the Annual Financial Report, along with analysis and management disclosures that outline the activities, financial performance and year-end financial position of the 2020 fiscal year.

The preparation, content and accuracy of the financial 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. Management is responsible for ensuring that proper internal controls are applied to ensure fair presentation of the financial statements.

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, prior to City Council approval.

**City of Toronto Audited Consolidated Financial Statements (Statements):**

The City's Statements are intended to provide City 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 of the financial position and health of the City's finances, and provide information on all financial activities, including how the City allocates its revenues to invest in various tangible capital assets and settles its ongoing obligations to other entities. The Statements reflect the full nature and extent of the City's financial affairs.

The Statements consolidate the financial position and operational results of all organizations that are controlled by the City. The Basis of Presentation note in the Statements outlines the 117 entities included in the Statements. The City's 2020 Audited Consolidated Financial Statements are attached as Appendix A. The 2020 Financial Statement Review is attached as Appendix B.

**Consolidated Financial Statement Highlights**

The City's Statements are presented on an accrual accounting basis in accordance with PSAS, which establishes clear standards regarding recognition of financial transactions. As an example, recognition on the Statement of Operations is dependent on when revenues are earned and when expenditures are incurred, irrespective of when cash is formally received or used to settle existing obligations. In addition, PSAS provides standards for the recognition of assets and liabilities in the Statement of Financial Position; this recognition may differ from how financial transactions are treated using the modified cash basis of budgeting, such as the recognition of Tangible Capital Assets as non-financial assets or the recognition of Long Term Debt as a liability requiring future repayment.

Financial highlights are as follows:

(in millions of dollars)

Item	2020	2019	\$ Change	% Change
Financial assets	\$14,113	\$12,310	\$1,803	14.6%
Liabilities	\$22,718	\$20,530	\$2,188	10.7%
Net debt	\$(8,605)	\$(8,220)	\$(385)	4.7%
Non-financial assets, including tangible capital assets	\$37,033	\$35,026	\$2,007	5.7%
Accumulated surplus	\$28,428	\$26,806	\$1,622	6.1%
Total revenues	\$14,007	\$14,383	\$(376)	(2.6%)
Total expenses	\$12,385	\$12,751	\$(366)	(2.9%)
Annual surplus	\$1,622	\$1,632	\$(10)	(0.6%)

Appendix B - 2020 Financial Statement Review provides a breakdown of each consolidated component.

The City's excess of revenues over expenses provides an annual surplus which accumulates into the Accumulated Surplus balance recognized on the Statement of Financial Position. The annual surplus and the City's ability to generate positive cash flow from its operations are used to make investments in infrastructure required for the delivery of City services. The City's Accumulated Surplus of \$28.4 billion is largely comprised of the City's significant investment in tangible capital assets that includes roads, bridges, facilities, transit infrastructure, computers, and water and wastewater networks. 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 positive Accumulated Surplus position, it is important to note that the City's net debt position is increasing. Net debt is a key financial measure 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, the entity will need to continue monitoring revenues to ensure that it will be able to generate sufficient cash through non-debt sources to settle current and future liabilities.

**City of Toronto Audited Sinking Fund Financial Statements (Sinking Funds):**

When the City issues debentures (debt), the City of Toronto Act, 2006 requires that the principal repayment be amortized over the term-to-maturity of the debenture or that an annual amount be contributed to a Sinking Fund. When a sinking fund is established,

the annual contribution and the investment earnings on those contributions accumulate to repay City debt when it matures. The City follows its Council approved investment policy when investing sinking fund contributions.

Currently, the City has five (5) separate sinking fund portfolios supporting thirty seven (37) individual debenture issues at varying stages of maturity.

### **Sinking Funds Financial Statement Highlights**

Sinking fund assets as at December 31, 2020 amounted to \$2.2 billion. The assets consist of cash and investments made with contributions to the Sinking Funds. These balances vary depending on debt repayment, cash injections and investment decisions. Investments are recorded at fair value. These assets represent amounts held to discharge City debt of \$8.1 billion (2019 - \$7.1 billion) maturing between 2021 and 2049. No debenture maturity occurred in 2020.

Sinking fund liabilities of \$2 billion consist mainly of the actuarial requirements of the sinking fund to reach the required debt repayment value at maturity.

The Net Assets value of \$0.2 billion reflects the Sinking Funds' unrestricted surplus. The unrestricted surplus results from the fund earning amounts greater than the actuarial rate of return that was assigned to a debenture when it was issued. The unrestricted surplus is available to address shortfalls in earnings in future years or could be redirected by the Chief Financial Officer and Treasurer.

Annually, there are two sources of revenue for sinking funds – contributions, which represent the cash contributions made by the City to support actuarial requirements for future debt repayment, and investment earnings, which represent income from investing sinking fund balances. In 2020, a \$413 million contribution was made to the sinking funds, which was recognized as income during the year. This contribution has been allocated to support maturity obligations, which has helped to reduce the City's overall liabilities. Revenues for 2020 increased by \$142 million to \$542.3 million (2019 - \$399.9 million), due to an increase in investment income of \$45 million and an increase in contributions into the Sinking funds of \$97 million.

The 2020 increase in investment income of \$45 million is attributable to two factors: an increase in unrealized gain from the change in market value offset by a decrease in investment income due to a lower average rate of return of 2.2% in 2020 comparing to 4.86% in 2019.

When the balance required to meet the debt liability maturity requirements increases, the amount is expensed in the Statement of Operations. The \$423.5 million (2019 - \$394.4 million) expense in 2020 represents the annual increase in the liability amount.

### **Consolidated Trust Funds Financial Statement (Trust Funds):**

A trust fund is a fund which consists of assets that have been conveyed or assigned to a trustee to be administered as directed by agreement or statute. As a result, a trustee holds title to the assets for the purpose of providing benefits and being accountable to a beneficiary. The City is the trustee of a number of trust funds that are to be used for specific uses by the City or its agencies and corporations.

The City administers most of the trust funds included in these financial statements, except for the Toronto Police Services Board and Toronto Police Services Board Mounted Unit Trust Funds, administered by the Toronto Police Services Board, and V.C. Polley Trust Fund (included under "Other" in Appendix E ), administered by TO Live. The V.C. Polley Trust Fund has been closed and funds have been transferred to PAIS (Performing Arts Information Services) as requested by the trustor. Appendix E provides the description and purpose of each trust fund consolidated in the financial statements.

As part of its fiduciary responsibilities, the Trust Administrator ensures that funds received are to be used only for the purposes specified by each trust agreement.

### **Trust Funds Financial Statement Highlights**

Trust fund assets are comprised of cash, investments, and amounts due from the City, or Administrators, where applicable. Total assets as at December 31, 2020 amounted to \$106 million (2019 - \$72.8 million) of which \$86.5 million (2019 - \$52.4 million) was in the form of investments.

Trust fund balances at December 31, 2020 amounted to \$105.8 million (2019 - \$72.6 million). The difference between Trust fund assets and year end fund balances represent liabilities of the trust funds.

Revenues, consisting of investment earnings and contributions, increased by \$29 million in 2020 to \$40.6 million (2019 - \$11.6 million). The investment income component of revenues increased by \$1 million in 2020, mainly due to the increase in the unrealized gain related to foreign exchange and the market value of Toronto Atmospheric Fund (TAF) investments. Contributions increased by \$28.1 million for TAF's new investment portfolio.

Trust fund expenditures decreased by \$2 million in 2020, which directly resulted from reduced distribution and withdrawal of investments held in trust for TAF.

The Consolidated Statement of Continuity of Fund Balance details the balances of each individual trust fund that form the consolidated fund balance of \$105.8 million on the Statement of Financial Position. This statement also outlines the contributions, investment earnings and expenses, which represent withdrawals, for each individual fund.

### **KPMG's 2020 Year End Report to the Audit Committee:**

The City's financial statements have been audited by KPMG, who is responsible for applying sufficient and adequate audit testing in order to provide an independent opinion on the fair presentation of the financial statements and that the financial 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. KPMG has issued an unqualified audit opinion on the City's 2020 financial statements.

KPMG's Year End 2020 Audit Findings Report will be presented separately to the Audit Committee.

## **CONTACT**

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## **SIGNATURE**

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Heather Taylor  
Chief Financial Officer and Treasurer

Andrew Flynn  
Controller

## **ATTACHMENTS**

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Appendix A: 2020 Audited Consolidated Financial Statements  
Appendix B: 2020 Financial Statement Review  
Appendix C: 2020 Sinking Funds Financial Statements  
Appendix D: 2020 Consolidated Trust Funds Financial Statements  
Appendix E: Trust Funds Account Descriptions as at December 31, 2020