TORONTO CITY CLERK

Clause embodied in Report No. 3 of the Audit Committee, as adopted by the Council of the City of Toronto at its meeting held on July 22, 23 and 24, 2003.

6

2002 Audited Financial Statements of Agencies, Boards and Commissions

(City Council on July 22, 23 and 24, 2003, adopted this Clause, without amendment.)

The Audit Committee recommends that the 2002 financial statements of the following Agencies, Boards and Commissions be received:

(a) Board of Directors of the Hummingbird Centre for the Performing Arts
(b) St. Lawrence Centre for the Arts
(c) North York Performing Arts Centre Corporation
(d) Toronto Zoo
(e) Toronto Community Housing Corporation
(f) Toronto Public Library Board
(g) Toronto Transit Commission
(h) Enwave District Energy Limited
(i) Toronto Hydro Corporation
(j) Toronto Parking Authority
(k) Toronto Economic Development Corporation

The Audit Committee reports having requested the Auditor General to report to the Audit Committee on a protocol for financial statements and management letters for agencies, boards and commissions for future years.

The Audit Committee submits the report (July 3, 2003) from the Chief Financial Officer & Treasurer:

Purpose:

To present the 2002 Financial Statements of the City's Agencies, Boards and Commissions.

Financial Implications and Impact Statement:

There are no financial implications arising from this report.

Recommendation:

It is recommended that this report be received.

Comments:

The City's 2002 consolidated financial statements include the assets, liabilities, revenues and expenditures as reported in the individual audited financial statements of the City's agencies, boards and commissions. These individual financial statements are presented and approved at the local board level before being forwarded to the City for the information of Audit Committee. The 2002 audited financial statements for the agencies, boards and commissions listed below are appended to this report.

(a) Board of Directors of the Hummingbird Centre for the Performing Arts
(b) St. Lawrence Centre for the Arts
(c) North York Performing Arts Centre Corporation
(d) Toronto Zoo
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The 2002 audited financial statements for Exhibition Place and Toronto Atmospheric Fund were submitted directly to Audit Committee at its meeting held on June 13, 2003. The 2002 audited financial statements for Heritage Toronto have not been approved by the board and will be presented to Audit Committee at a later date. Similarly, the 2002 audited financial statements for arenas, community centres and business improvement areas are in various stages of completion and will also be presented to Audit Committee at a later date.

Comments on various entities are presented below and are based on a review of the audited financial statements, audit management letters, reports on the annual financial statements presented to the various boards and additional analyses and explanations which were considered necessary.

Board of Directors of the Hummingbird Centre for the Performing Arts

Major changes in the 2002 balance sheet are reflected in accounts receivable and payable with the City. These changes relate to the settlement of balances with the City upon closing of the 2001 and 2002 accounts. Accounts receivable from others also decreased from $346.1 thousand to $254.1 thousand and relates to a recovery in early 2002 for marketing costs in excess of $100 thousand incurred on behalf of a third party.

Deferred revenue and advance ticket sales at the end of 2002 also reflect significant decreases from 2001. These decreases relate to fewer shows being sold at the end of 2002 and the fact that a popular show was on sale at the end of 2001.

Revenues and expenses both increased from 2001 levels and resulted in an excess of revenue over expenses for the year in 2002 of $187.2 thousand (2001 – nil).

The 2002 management letter issued by Ernst & Young identified the need to fully implement capital asset accounting and recommended the establishment of appropriate capital asset policies and the establishment of accurate records. Management has established appropriate policies and has agreed to maintain records of capital asset purchases to track these items.

St. Lawrence Centre for the Arts

Significant changes on the 2002 balance sheet are reflected in amounts due to and from the City and advance ticket sales. The Centre recorded a receivable from the City at the end of 2002 in respect of the deficit incurred in the year of $224.4 thousand. Payables to the City increased from $34.6 thousand in 2001 to $395.2 thousand primarily due to the Consolidated Hydro Billing Plan and maintenance charges. Advance ticket sales increased from $67.0 thousand to $117.9 thousand in 2002 and relate to increased interest and demand in programs being presented in 2003 by two licensees of this facility.

Revenues earned in 2002 increased marginally over 2001 levels. Principal increases in 2002 expenses relate to salaries and benefits and charges for hydro, water, maintenance and heating. Operations in 2002 resulted in a deficit of $224.4 thousand (2001 – surplus of $45.6 thousand).

The 2002 management letter issued by Ernst & Young addressed a need to correctly account for investments of excess cash. Management agreed to correct its accounting entries recording investments of excess cash.

The North York Performing Arts Centre Corporation (NYPACC)

The receivable from the City increased from $1.3 million at the end of 2001 to $1.9 million at the end of 2002. This increase relates to the cash flows for the Centre during the year as the City manages cash for the Centre.

Revenues from operations increased by $558 thousand during 2002 and was partially offset by a decrease in the City's grant from $1.8 million to $1.7 million. Salaries and benefits increased during the year by $435 thousand and repairs and maintenance charges increased by $163 thousand. Operations in 2002 resulted in a deficit of $272 thousand (2001 - $265 thousand).

The 2002 management letter issued by Ernst & Young identified the need to ensure all reconciling items are recorded in the general ledger. This matter was also noted in the City's management letter as NYPACC accounts are maintained in the City's financial system. Management agrees with this recommendation and will be working with City staff to ensure this is completed this summer.

Toronto Zoo

Changes in the balance sheet include accounts receivable from the City which increased by $1.2 million, from $1.6 million in 2001 to $2.8 million in 2002 and accounts payable and accrued liabilities which increased by $1.3 million from $$5.6 million in 2001 to $6.9 million in 2002. Both increases relate to the capital program where increased payables at year-end to contractors and vendors are being financed by the City through its approved capital program.

Revenues from Zoo patrons declined during 2002 but were offset by funding increases from the City and from the Toronto Zoo Foundation. With expenses relatively stable, results for the year amounted to $181.7 thousand (2001 - $50.1 thousand).

Ernst & Young did not issue a management letter for 2002.

Toronto Community Housing Corporation

Investments held as current assets amounted to $80.9 million as at December 31, 2002 and increased by $31.7 million from 2001. Details of these investments are provided in Note 3 to the financial statements and indicate a market value of $96.9 million on the pooled investment fund portfolio of $113.1 million. TCHC management considers the difference of $16.2 million to be a temporary loss in value and has not written down the value of this investment portfolio.

Revenues for 2002 increased by $14.9 million over 2001 levels, primarily due to higher residential and commercial rents of $9.2 million and increased subsidies of $6.2 million. Expenses remained relatively stable for the year. Operations in 2002 resulted in an excess of revenue over expenses of $83.7 million (2001 - $69.1 million).

The 2002 management letter issued by Ernst & Young commented on the need to adopt a more aggressive accounting policy to record write-downs in the carrying value of pooled investments in the current year rather than the current practice to consider a longer 3 to 4 year period in determining whether a loss in value has occurred and should be recorded. This matter has been referred to the Investment Committee of Toronto Community Housing Corporation for its consideration. In addition, the management letter contained a number of observations and recommendations, many of which arise from the significant organizational changes which occurred during the year. Management has agreed to implement corrective actions to ensure these other matters are properly addressed.

Toronto Public Library Board

Significant changes in several balance sheet items are reflected in the 2002 financial statements.

Cash and short term investments increased by $4.2 million from 2001, primarily from an allocation of $4.7 million in proceeds from the issuance of debenture debt by the City during the year. Accounts receivable from the City and other parties decreased by $4 million due to the settlement of balances with these parties and an offset of $1.7 million for hydro charges with the implementation of the consolidated billing plan between the City and Toronto Hydro in 2002. Long-term obligations increased with the $4.7 million issued in long-term debt during the year and funding from a third party of $2.1 million with respect to a portion of the expenditures made to generate energy savings for the Library over the next 15 years.

Reserve fund balances reduced as a result of sick leave payouts during the year. Amounts to be recovered in future years increased by $8.6 million during the year upon the issuance of long-term obligations of $6.4 million (net) and increases in various employee benefits of $2.2 million.

Ernst & Young did not issue a management letter for 2002.

Toronto Transit Commission

The 2002 balance sheet of the Toronto Transit Commission reflects minor changes from balances reported as at the end of 2001 with the exception of a $32.2 million decrease in accounts payable and accrued liabilities. This decrease relates to trade accounts payable and is due primarily to the completion of the Sheppard Subway and the settlement of various trade accounts and hold-backs payable to contractors.

Capital investments in property and equipment decreased to $228.0 million in 2002 from $312.3 million in 2001 while capital subsidies similarly decreased to $205.5 million from $277.7 million in 2001.

Operating subsidies required in 2002 increased by $37.6 million from $166.4 million in 2001 to $204.0 million in 2002. The City partially covered this requirement by drawing funds available in the TTC Stabilization Reserve Fund.

The 2002 management letter issued by Ernst & Young identified two issues relating to computer access and password rules. Management is currently preparing responses to these matters and will be forwarding these to the TTC Audit Committee in July for their consideration.

Enwave District Energy Limited

Significant changes in the 2002 balance sheet are reflected in increases in goods and services tax recoverable of $1.8 million (2001-$ 0.1 Million), capital assets of $130.6 million ($95.1 million) and accounts payable and accrued liabilities of $12.1 million (2001 - $6.3 million). These increases relate to the significant activity during the year on the deep lake water cooling project.

To help fund this investment, Enwave issued a number of Class A shares during the year and received cash of $34.8 million from a shareholder in response to this call on capital.

While revenues declined to $34.9 million during 2002 from $43.6 million in 2001, the gross margin on energy sales increased to $12.8 million in 2002 from $10.7 million in 2001. With expenses remaining relatively stable, a net loss of $3.0 million was incurred (2001 - net loss of $4.6 million).

Toronto Hydro

Major changes in 2002 balance sheet items occur in several accounts.

Accounts receivable increased by $78.2 million from $123.2 million in 2001 to $201.4 million in 2002. Receivables in 2002 include amounts billed under certain contracts for natural gas consumption and reflect higher prices charged to customers in 2002 as described below. Unbilled revenue increased by $107.5 million from $165.3 million in 2001 to $272.8 million in 2002. This increase is related to a one-time delay of 14 days in the normal billing and collection cycle of Toronto Hydro-Electric System ("LDC") and to the significantly higher Hourly Ontario Energy Price compared to the fixed time-of-use price applied in 2001.

The major increase in current liabilities and decrease in long-term liabilities relates to the classification of Toronto Hydro's promissory note payable to the City from long-term to current liability classification, due to the December 2003 maturity date on this note. Bank indebtedness and bankers' acceptance increased by $154.0 million from $58.5 million in 2001 to $212.5 million in 2002. This increase is primarily attributable to a delay in the issuance of long-term debt to 2003 and the higher cost of energy with the Hourly Ontario Energy Price compared to the fixed time-of-use price in 2001.

Revenues increased by $337 million in 2002 and were offset by increases of $225 million in the cost of purchased power and $22 million in operating expenses. Net income for the year increased from $11.4 million to $45.4 million.

Toronto Parking Authority

There are several major changes in 2002 balance sheet items when compared with 2001 balances.

While cash, short-term and long-term investments combined are reasonably stable with 2001 levels, there has been a shift of $7.2 million into more liquid assets as a result of a $6.8 million increase in accounts payable and accrued liabilities. The payable increase is attributed to increases in the City's share of profits of the Toronto Parking Authority, an increased number of major maintenance projects during 2002 and the acquisition of a large number of pay and display machines. Accounts receivable also increased by $391 thousand from 2001 levels, primarily due to amounts to be recovered from the TTC related to the Authority's operation of various TTC lots.

Revenues increased by $8.5 million during 2002 while expenses increased by $4.0 million. Other income declined by $590 thousand, primarily due to a drop in investment income. The City's share of Toronto Parking Authority income increased by $1.8 million to $28.7 million.

The 2002 management letter issued by Ernst & Young identifies the practice for an indefinite carry forward of unused vacation. Management has responded by indicating staff are being encouraged to schedule more vacation time and is considering other initiatives that will bring unused vacation down over a reasonable period of time and in a manner that will control potentially disruptive situations.

Toronto Economic Development Corporation

Major changes in 2002 balance sheet items have occurred in accounts receivable and accounts payable and accrued liabilities. Accounts payable and accrued liabilities decreased by $1.2 million in 2002 and relate to a reduction in amounts due to the City in respect of outstanding property taxes. Similarly, accounts receivable decreased by $1.4 million in 2002 and relate to a reduction in amounts due from tenants for property taxes billed to TEDCO by the City.

Exhibition Place

Significant changes in 2002 balance items have occurred in cash and accounts receivable from and payable to the City. The balance of $8.6 million in cash comprises $0.9 million in bank accounts and $7.7 million on deposit and invested by the City in short-term investments. Receivables from the City have increased by $1.5 million and are related to outstanding amounts for settlement related to the 2002 capital program. Accounts payable to the City have increased by $1.8 million and are primarily related to accruals for water and hydro billings.

Revenues realized during 2002 increased over 2001 levels for each of the Annual Exhibition, Exhibition Place and the National Trade Centre. Expenditures were virtually unchanged from 2001 for the Annual Exhibition but increased at lower than revenue rates for Exhibition Place and the National Trade Centre. Net operating income increased from $775.6 thousand in 2001 to $2,657.2 thousand in 2002 and is primarily attributable to the increases of $1,259.9 thousand experienced with the Annual Exhibition and $558.4 thousand with the National Trade Centre. The operating income is payable to the City and is placed in the Exhibition Place Stabilization reserve fund.

Two matters were included in the 2002 management letter issued by Ernst & Young. These matters related to the need to periodically review stale-dated cheques and to reconcile inter-company accounts on a quarterly basis. Management has agreed with both of these recommendations and has implemented changes in accounting practices to address these concerns.

Toronto Atmospheric Fund

During 2002, the City engaged two investment advisors to manage the investment portfolio of Toronto Atmospheric Fund. This change has resulted in a diversification in the investments of the fund and a change in the accounting for these investments from cost to the market basis. As at December 31, 2002, investments included approximately $4 million in equity securities. The total carrying value of investments at year-end of $24.8 million is at market and includes an unrealized gain of $.4 million.

Grants approved during the year amounted to $586.6 thousand, a decrease of $522.7 thousand from amounts approved in 2001. A number of financial commitments have been made to the City and various third parties for future funding. Further details on these commitments are found in Note 9 to these financial statements.

A 2002 management letter was issued by Smith Nixon and identifed the need to improve accounting practices related to investments and the payment of grants. Management is currently preparing its response to these recommendations and will be tabling these with the TAF Audit Committee this fall.

Conclusions:

Comments on certain of the 2002 audited financial statements of the City's agencies, boards and commissions are included in this report to assist Audit Committee in identifying potential financial impact on the City and management issues.

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