
City of Toronto Trust Funds

*2017 year-end
report to the
Audit Committee*

*Prepared as of
June 28, 2018*





June 28, 2018

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

Dear Members of the Audit Committee:

We have substantially completed our audit of the consolidated financial statements of the City of Toronto Trust Funds (the Trust Funds) prepared in accordance with the basis of accounting disclosed in note 2 of the consolidated financial statements for the year ended December 31, 2017. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included as Appendix A.

We prepared the accompanying report to assist you in your review of the 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.

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 who have assisted us in carrying out our work, and we look forward to our meeting on July 13, 2018. 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

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

Communication to the Audit Committee

<i>Key matters for discussion</i>	<i>Comments</i>
Status of the audit	<p>PricewaterhouseCoopers LLP (PwC or we) has substantially completed our audit of the consolidated financial statements (the financial statements).</p> <p>Significant outstanding items at the date of this report include the following:</p> <ul style="list-style-type: none"> • Receipt of management representation letter; • Completion of subsequent event procedures; and • Approval of final financial statements by the City Council.
Significant accounting, auditing and reporting matters discussed with management	
Management override of controls	<p>Canadian audit standards require that management override of controls be considered as an area of significant audit risk.</p> <p>Management has implemented internal controls to ensure that appropriate segregation of duties have been established for the Trust Funds in order to mitigate the risk of management override of controls.</p> <p>PwC performed the following procedures:</p> <ul style="list-style-type: none"> • We have reviewed the assumptions made to determine key accounting estimates. • We have substantively tested all material balances and gained an understanding of the control environment/financial reporting process. • We performed audit work on a sample of significant and non-standard journal entries. We obtained documentation to support the entries selected and ensured that all were appropriately approved. <p>Based on our work performed, we found no circumstances that evidenced inappropriate management override of controls.</p>
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 Trust Funds for recognizing revenue.

<i>Key matters for discussion</i>	<i>Comments</i>
	<ul style="list-style-type: none"> • For contribution revenue, we performed substantive tests of detail on a sample basis by examining supporting documents. • For investment income, we obtained evidence regarding relevant controls operated at the service organizations as well as performed substantive test of details over the balance. • 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>
Materiality	<p>Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements.</p> <p>We have set our overall materiality of \$1,239,700 which is based on 1.75% of total assets as at December 31, 2017.</p> <p>We have no adjusted or unadjusted misstatements over \$61,985 (set at 5% of overall materiality) to report to the Audit Committee.</p>
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. 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>
Internal controls recommendations	<p>We have no significant internal control recommendations to report.</p>
Independence	<p>We confirm our independence with respect to the Trust Funds as of June 28, 2018, the date of this report.</p>
Subsequent events	<p>No subsequent events which would impact the financial statements other than those disclosed have come to our attention.</p>

Appendix A: Draft auditor's report



July ____, 2018

Independent Auditor's Report

To the Members of Council of the City of Toronto

We have audited the accompanying consolidated financial statements of the City of Toronto Trust Funds, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statement of operations and changes in fund balances, and continuity of fund balances for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the basis of accounting described in Note 2 to the financial statements, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of City of Toronto Trust Funds as at December 31, 2017 and the results of its operations, change in its net financial assets and its cash flow for the year then ended in accordance with the basis of accounting described in Note 2 to the financial statements.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which describes the basis of accounting. The consolidated financial statements are prepared for management and to the Members of Council to assess the City of Toronto Trust Funds. As a result, the consolidated financial statements may not be suitable for another purpose. Our report is intended solely for the Members of Council and management and should not be used by any other parties.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Appendix B: Management representation letter

[CLIENT LETTERHEAD]

July ____, 2018

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 City of Toronto Trust Funds and its subsidiaries together (the Trust Funds) as at December 31, 2017 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 operations, the change in net financial assets and the cash flows of the Trust Funds in accordance with the basis of accounting as described in Note 2 to the consolidated financial statements.

Management's responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 30, 2015 and annual confirmation letter of terms and conditions dated October 13, 2017. In particular, we confirm to you that:

- We are responsible for the preparation and the fair presentation of the consolidated financial statements in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances;
- 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 pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information in accordance we are responsible for the preparation and the fair presentation of the consolidated financial statements in accordance with the basis of accounting described in Note 2 to the consolidated financial statements;
- 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:

Distribution and use of the financial statements

We confirm that the financial statements are solely for the information, distribution and use of the Members of Council of City of Toronto. We understand that these financial statements are not intended to be and should not be distributed and used by anyone other than the above-mentioned users or for any other purpose. We also understand that, during your audit, items of possible interest to a third party, other than the above-mentioned users, have not been specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

Preparation of consolidated financial statements

The consolidated financial statements include all disclosures necessary for fair presentation in accordance with the basis of accounting described in Note 2 to the consolidated financial statements and disclosures otherwise required to be included therein by the laws and regulations to which the Trust Funds are subject.

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. sub ledger 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 balance sheet account, which should have been written off to a profit and loss account and vice versa. All consolidating entries have been properly recorded. All inter-governmental unit accounts have been eliminated or appropriately measured and considered for disclosure in the consolidated financial statements.

Accounting policies

We confirm that we have reviewed the Trust Funds' 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 Trust Funds' particular circumstances to present fairly in all material respects its financial position, results of operations, changes in net financial assets and cash flows financial position, results of operations in accordance with the basis of accounting described in Note 2 to the consolidated financial statements.

Internal controls over financial reporting

We have designed disclosure controls and procedures to ensure material information relating to the Trust Funds is made known to us by others.

We have 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 basis of accounting described in Note 2 to the consolidated financial statements.

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.

Minutes

All matters requiring disclosure to or approval of the members of Council of City of Toronto or the shareholders have been brought before them at appropriate meetings and are reflected in the minutes.

Completeness of transactions

All contractual arrangements entered into by the Trust Funds 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. We have 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 Trust Funds 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 Trust Funds' consolidated financial statements, communicated by employees, former employees, analysts, regulators 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; and
 - Minutes of the meetings of shareholders, management, directors and committees of directors;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity 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 actual 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 Trust Funds' directors, officers or employees acting on the Trust Funds' behalf.

Accounting estimates and fair value measurements

Significant assumptions used by the Trust Funds 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 Trust Funds' 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 PS 2130, Measurement Uncertainty, have been appropriately disclosed.

Related parties

We confirm that we have disclosed to you the identity of the Trust Funds' related parties as defined by the basis of accounting described in Note 2 to the consolidated financial statements, which include, but are not limited to directors, officers, senior members of management, or immediate family members of such individuals, or entities over which these individuals are able to exert significant influence. We have not identified any related party transactions, as defined the basis of accounting described in Note 2 to the consolidated financial statements.

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.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with the basis of accounting described in Note 2 to the consolidated financial statements. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which we are contingently liable in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, 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 at the December 31, 2015 or exist now, have been disclosed to you and accounted for and disclosed in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit

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.

We confirm there are no uncorrected misstatements in the consolidated financial statements.

Cash and banks

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

All cash balances are under the control of the Trust Funds, 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 Trust Funds.

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 Trust Funds are included in the consolidated financial statements as at December 31, 2017.

Portfolio investments and other financial assets

All securities and other financial assets that were owned by the Trust Funds 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, business enterprises, partnerships, joint ventures or other participations during the year.

All investments in equity securities that are traded in an active market are accounted for at fair value.

Investment

With respect to the Trust Funds' investments:

- For the year ended December 31, 2017, the Trust Funds have not entered into security lending arrangements, except as disclosed in the consolidated financial statements.
- The Trust Funds have not purchased any restricted securities during the year ended December 31, 2017, and do not hold any securities on December 31, 2017 which are restricted in any way as to their resale. The Trust Funds have not entered into any agreements, nor are they in the process of entering into any agreements, to acquire restricted securities.
- The Trust Funds have no open derivative contracts on December 31, 2017.

Events after balance sheet 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 effected such adjustment or disclosure.

Yours truly,

City of Toronto Trust Funds

Ms. Giuliana Carbone, Interim City Manager

Mr. Joe Farag, Acting Chief Financial Officer

Ms. Sandra Califaretti, Director, Accounting Services

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