
City of Toronto

*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:

PricewaterhouseCoopers LLP (PwC or we) is in the process of completing our audit of the consolidated financial statements of City of Toronto (the City) prepared in accordance with Canadian public sector accounting standards for the year ended December 31, 2017. 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 these 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 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
Assurance

Cathy Russell
Partner
Assurance

c.c.: Ms. Giuliana Carbone, Interim City Manager
Mr. Joe Farag, Acting Chief Financial Officer
Ms. Beverly Romeo-Beehler, Auditor General

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

"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).</p> <p>Significant outstanding items at 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; • Completion of audit procedures related to classifications and note disclosures in the consolidated financial statements including 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.
Significant accounting, auditing and reporting matters discussed with management	
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. • 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. 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.</p> <p>As a result of our testing of the City's consolidation, we have identified an unadjusted item which has been outlined in our summary of unadjusted and adjusted items included in Appendix B.</p>
<i>Other required communications</i>	<i>Comments</i>
Fraud and illegal acts	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 or Cathy Russell.
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 and audit adjustments	The preliminary materiality level for the audit, as previously communicated to you in our audit plan dated October 13, 2017 was \$184 million determined based on 1.50% of total estimated expenses of the City. The final materiality level used during the audit was calculated to be \$169 million, based on 1.50% of total actual expenses incurred in 2017. We have reported adjusted and unadjusted items in excess of \$8.4 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.
Management representation letter	We have included a draft version of the management representation letter in Appendix E.

<i>Other required communications</i>	<i>Comments</i>
Independence letter	We confirm that we are independent of the City as at June 28, 2018, the date of this report. Our independence letter is provided in Appendix D.
Other information in documents containing audited financial information	Once completed, we will review the Annual Report for consistency with the audited financial statements.
Subsequent Events	No subsequent events which would impact the financial statements other than those disclosed have come to our attention.

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.

Appendix A: Draft auditor's report



July @@, 2018

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of the City of Toronto, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statement of operations and accumulated surplus, consolidated statement of change in net debt, and consolidated statement of cash flows 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 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.

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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Toronto as at December 31, 2017 and the results of its operations, changes in its net debt and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

Appendix B: Summary of unadjusted and adjusted items

a. Unadjusted items

As a result of our audit, we noted the following item with an impact to the consolidated statement of financial position and the consolidated statement of operations and accumulated surplus.

<i>Description (ooo's)</i>	<i>Assets at December 31, 2017 \$</i>	<i>Liabilities at December 31, 2017 \$</i>	<i>Opening net accumulated surplus as at January 1, 2017 \$</i>	<i>Annual surplus for year ended December 31, 2017 \$</i>
	DR/(CR)	DR/(CR)	DR/(CR)	DR/(CR)
Adjustment related to the recognition revenue in 2016 for a funding arrangement at Toronto Atmospheric Fund				
<i>Dr. Accumulated surplus</i>			16,986	
<i>Cr. Other revenue</i>				(16,986)

Other items

In addition, we noted the following differences that do not impact annual surplus but otherwise impact the financial statements:

- As at December 31, 2017, Toronto Community Housing Corporation (TCHC) was in default of a financial covenant related to its \$10 million Infrastructure Ontario (IO) loan facility. In accordance with Canadian public sector accounting standards, defaults of financial covenant are required to be disclosed in the financial statements. However, management has elected to not disclose this in the City's consolidated financial statements.
- The 2016 comparative cash flows presented on TCHC's consolidated statement of cash flows in the December 31, 2017 financial statements was restated to reclassify \$39 million of loan proceeds from financing activities to investing activities related to a 2016 financing arrangement. Management has not adjusted for (and disclosed in the notes to the financial statements) this reclassification in the comparative 2016 consolidated statement of cash flows for the year ended December 31, 2017.

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

b. Adjusted items

As a result of our audit, we noted the following item with an impact on the consolidated statement of financial position.

<i>Description (000's)</i>	<i>Assets at December 31, 2017 \$</i>	<i>Liabilities at December 31, 2017 \$</i>	<i>Opening net accumulated surplus as at January 1, 2017 \$</i>	<i>Annual surplus for year ended December 31, 2017 \$</i>
	<i>DR/(CR)</i>	<i>DR/(CR)</i>	<i>DR/(CR)</i>	<i>DR/(CR)</i>
The premium and discount related to various debt facilities were included in Accounts payable and accrued liabilities but should be reflected in Net long-term debt				
<i>Dr. Net long-term debt</i>		16,992		
<i>Cr. Accounts payable and accrued liabilities</i>		(16,992)		

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 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 one user 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 of 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. As a result, management will review the access of users identified as having excessive abilities and either remove access that is not truly required for operational reasons or review transactions performed by users on a quarterly basis to ensure validity.

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 has made significant improvements to the method of manually tracking consolidation entries. 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 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 it's A&Cs. Additionally, we recommend the City consider implementing a year-end process with its A&C's 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 was also streamlined this year as a result of staff changes. Given the different systems used by the consolidated entities, the implementation of financial reporting software for the consolidation will require a detailed analysis to determine the extent to which benefit would be received. However, management believes that this review should be performed and, if beneficial, funding would be requested for implementation. In addition, for the 2018 year end process, meetings with the larger, more complex entities will be part of the year end planning process.

Appendix D: Independence letter



June 28, 2018

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

Dear Members of the Audit Committee:

We have been engaged to audit the consolidated financial statements of City of Toronto (the City) for the year ended December 31, 2017.

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the City, its management and us that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Chartered Professional Accountants of Ontario and applicable legislation covering such matters as:

- a. holding a financial interest, either directly or indirectly, in a client;
- b. serving as an officer or director of a client;
- c. performance of management functions for an assurance client;
- d. personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or its management;
- e. economic dependence on a client;
- f. long association of senior personnel with a listed entity audit client;
- g. audit committee approval of services to a listed entity audit client; and
- h. provision of services in addition to the audit engagement.

We are not aware of any relationships between the City or its management and PricewaterhouseCoopers LLP that may reasonably be thought to bear on our independence that have occurred from June 13, 2017, the date of our last independence letter, to June 28, 2018.

We hereby confirm that we are independent with respect to the City within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario as of June 28, 2018.

This report is intended solely for the use of the Audit Committee, City Council, management and others within the City and should not be used for any other purpose.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

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



We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on July 13, 2018.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Appendix E: Management representation letter

[Client Letterhead]

July @@, 2018

PricewaterhouseCoopers LLP
Chartered Professional Accountants
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 of 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 changes in net debt and the cash flows of the City in accordance with Canadian public sector accounting standards.

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 fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards;
- 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 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 include all disclosures necessary for fair presentation in accordance with Canadian public sector accounting standards and disclosures otherwise required to be included therein by the laws and regulations to which the City is 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 intergovernmental 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 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 assets and cash flows in accordance with Canadian public sector accounting standards.

Internal controls over financial reporting

We have designed disclosure controls and procedures to ensure material information relating to the City, including its consolidated subsidiaries, is made known to us by others within those entities.

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 Canadian public sector accounting standards.

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 Executive 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 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 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 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 Committees. The most recent meetings held were: Executive committee on June 19, 2018 and Audit Committee on May 11, 2018.
- 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 the consolidated 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.

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 PS 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 Canadian Auditing Standard (CAS) 550, *Related Parties*, 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 also confirm the completeness of information provided to you regarding the nature of our relationships with and transactions involving those entities.

The identity of, relationship, balances and transactions with related parties have been properly recorded under Public sector accounting standards, and have been adequately disclosed in the consolidated financial statements, as required by CAS 550, *Related Parties*.

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

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 notes 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 the 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 at the statement of financial position date 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 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.

The effect of the uncorrected misstatement in the consolidated financial statements, as summarized in the accompanying schedule (Appendix B), is 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 that included in Appendix B.

The adjusted misstatements identified during your audit and summarized in the attached table (Appendix B) have been approved by the City and adjusted 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 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, 2017.

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 purpose(s) 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.

Receivables classified as current do not include any material amounts that are collectible after one year.

All contributions receivable, including government funding receivables, that are recorded in the statement of financial position are reasonable 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.

We have reviewed loans receivable and other financial assets measured at amortized cost for indicators of impairment, and made appropriate allowances thereon if necessary, in accordance with CPA Canada Public Sector Accounting Handbook, PS 3050, *Loans Receivable*. As at December 31, 2017 there were no indicators of impairment for investments in financial assets carried at amortized cost.

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, 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 December 31, 2017.

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, business enterprises, partnerships, joint ventures or other participations during the period.

All transactions with governmental units, business enterprises, partnerships or joint ventures have been recorded in the accounts presented to you. All investments in and advances to governmental units, business enterprises, 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 government units, business enterprises, partnerships, joint ventures or other participations, except as disclosed to you.

Toronto Hydro Corporation, Toronto Port Lands Company 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 tangible 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.

All lease agreements covering assets leased by or from the City have been disclosed to you and classified as leased tangible capital assets or operating leases.

Leased tangible capital assets 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 tangible 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 December 31, 2017, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

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, whether formal or informal, explicit or implied, 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, 2017, 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, 2017 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 or other post-retirement benefit plans.

All changes to the plan and the employee group and the plan's performance since the last actuarial valuation and up to the date of this letter have been communicated to you as well as to the actuary and considered determining the pension plan expense and the estimated actuarial present value of accrued pension benefits and value of pension plan assets where 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, 2017 and where applicable, their extrapolation to December 31, 2017.

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, PS 3250, *Retirement Benefits* and CPA Canada Public Sector Accounting Handbook, 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 and CPA Canada Public Sector Accounting Handbook, Section PS 3255 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 rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled;
- 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;
- 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.

Statements 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 period were consistent with prior period 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 you.

Liabilities or contingencies related to environmental matters have been recognized, measured and disclosed, as appropriate, in the consolidated financial statements.

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 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 to persons and property, Transportation, Environment services, Health services, Social and family services, Social Housing, Recreation and Cultural services, 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 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 affected such adjustment or disclosure.

Yours truly,

The City of Toronto

Ms. Giuliana Carbone, Interim City Manager

Mr. Joe Farag, Acting Chief Financial Officer

Mr. Mike St. Amant, Treasurer

Ms. Sandra Califaretti, Director Accounting Services

Appendix A: Related Parties

Agencies and Corporations:

- Board of Governors of Exhibition Place
- Toronto Board of Health
- Board of Management of the Toronto Zoo
- Toronto Community Housing Corporation ("TCHC")
- Build Toronto Inc. ("BTI")
- Toronto Licensing Commission
- Casa Loma Corporation
- Toronto Pan Am Sports Centre Inc. ("TPASC") (1/2 proportionately)
- Heritage Toronto (50% proportionately)
- Invest Toronto Inc.
- Toronto Police Services Board
- Lakeshore Arena Corporation
- Toronto Public Library Board
- St. Lawrence Centre for the Arts
- Toronto Transit Commission ("TTC")
- The North York Performing Arts Centre Corporation
- Toronto Waterfront Revitalization Corporation ("TWRC") (1/3 proportionately)
- The Sony Centre for the Performing Arts ("Sony Centre")
- Yonge-Dundas Square
- Toronto Atmospheric Fund ("TAF")

Arenas:

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

Community Centres:

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

Business Improvement Areas ("BIA"):

- Albion Islington Square
- Baby Point Gates
- Bayview Leaside
- Bloor Annex
- Bloor By The Park
- Bloor Street
- Bloor West Village
- Bloor Yorkville
- Bloorcourt Village
- Duke Heights
- Dundas West
- Dupont by the Castle
- Eglinton Hill
- Emery Village
- Fairbank Village
- Financial District
- Forest Hill Village
- Gerrard India Bazaar
- St. Lawrence Market
- Yonge and St. Clair
- Lakeshore Village
- Leslieville
- Liberty Village
- Little Italy
- Little Portugal
- Long Branch
- Marketo District

- Bloordale Village
- Cabbagetown
- Chinatown
- Church Wellesley Village
- City Place & Fort York
- College Promenade
- College West
- Corso Italia
- Crossroads of the Danforth
- Danforth Mosaic
- Danforth Village
- Dovercourt Village
- Downtown Yonge
- Greektown on the Danforth
- Harbord Street
- Hillcrest Village
- Historic Queen East
- Junction Gardens
- Kennedy Road
- Kensington Market
- Korea Town
- Riverside District
- Roncesvalles Village
- Rosedale Main Street
- Sheppard East Village
- shoptheQueensway.com
- St. Clair Gardens
- Midtown Yonge
- Mimico by the Lake
- Mimico Village
- Mirvish Village
- Mount Dennis
- Mount Pleasant
- Oakwood Village
- Ossington Avenue
- Pape Village
- Parkdale Village
- Queen Street West
- Regal Heights Village

Neighbourhood

- The Beach
- The Danforth
- The Eglinton Way
- The Kingsway
- The Waterfront
- Toronto Entertainment

District:

- Trinity Bellwoods
- Upper Village
- Uptown Yonge
- Village of Islington
- West Queen West
- Weston Village
- Wexford Heights
- Wilson Village
- Wychwood Heights
- Yonge Lawrence Village
- York Eglinton

Government business enterprises (GBEs)

- Toronto Hydro Corporation
- Toronto Parking Authority
- City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company (“TPLC”)

Appendix B: Summary of unadjusted and adjusted items

a. Unadjusted items

As a result of our audit, we noted the following item with an impact to the consolidated statement of financial position and the consolidated statement of operations and accumulated surplus.

<i>Description (ooo's)</i>	<i>Assets at December 31, 2017 \$</i>	<i>Liabilities at December 31, 2017 \$</i>	<i>Opening net accumulated surplus as at January 1, 2017 \$</i>	<i>Annual surplus for year ended December 31, 2017 \$</i>
	DR/(CR)	DR/(CR)	DR/(CR)	DR/(CR)
Adjustment related to the recognition revenue in 2016 for a funding arrangement at Toronto Atmospheric Fund				
<i>Dr. Accumulated surplus</i>			16,986	
<i>Cr. Other revenue</i>				(16,986)

Other items

In addition, we noted the following differences that do not impact annual surplus but otherwise impact the financial statements:

- As at December 31, 2017, Toronto Community Housing Corporation (TCHC) was in default of a financial covenant related to its \$10 million Infrastructure Ontario (IO) loan facility. In accordance with Canadian public sector accounting standards, defaults of financial covenant are required to be disclosed in the financial statements. However, management has elected to not disclose this in the City's consolidated financial statements.
- The 2016 comparative cash flows presented on TCHC's consolidated statement of cash flows in the December 31, 2017 financial statements was restated to reclassify \$39 million of loan proceeds from financing activities to investing activities related to a 2016 financing arrangement. Management has not adjusted for (and disclosed in the notes to the financial statements) this reclassification in the comparative 2016 consolidated statement of cash flows for the year ended December 31, 2017.

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

b. Adjusted items

As a result of our audit, we noted the following item with an impact on the consolidated statement of financial position.

<i>Description (ooo's)</i>	<i>Assets at December 31, 2017 \$</i>	<i>Liabilities at December 31, 2017 \$</i>	<i>Opening net accumulated surplus as at January 1, 2017 \$</i>	<i>Annual surplus for year ended December 31, 2017 \$</i>
	<i>DR/(CR)</i>	<i>DR/(CR)</i>	<i>DR/(CR)</i>	<i>DR/(CR)</i>
The premium and discount related to various debt facilities were included in Accounts payable and accrued liabilities but should be reflected in Net long-term debt				
<i>Dr. Net long-term debt</i>		16,992		
<i>Cr. Accounts payable and accrued liabilities</i>		(16,992)		

© 2018 PricewaterhouseCoopers LLP, an Ontario limited liability partnership. All rights reserved.

PwC refers to the Canadian firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.