

Financial Statements

CREATETO

And Independent Auditors' Report thereon

Year ended December 31, 2021

INDEPENDENT AUDITORS' REPORT

To the Shareholder of CreateTO

Opinion

We have audited the financial statements of CreateTO (the Entity), which comprise:

- the statement of financial position as at December 31, 2021
- the statement of operations and accumulated surplus for the year then ended
- the statement of changes in net debt for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2021, and its results of operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditors' Responsibilities for the Audit of the Financial Statements"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

CREATE TO

DRAFT Statement of Financial Position

December 31, 2021, with comparative information for 2020

	2021	2020
Financial Assets		
Cash and cash equivalents	\$ 899,822	\$ 2,489,938
Due from related parties (note 7(a))	6,590,561	6,902,935
Interest receivable	1,937	572
	<u>7,492,320</u>	<u>9,393,445</u>
Financial Liabilities		
Due to related parties (notes 7(b) and (c))	2,999,319	5,221,159
Amounts payable and other liabilities (note 4)	5,077,955	4,647,212
	<u>8,077,274</u>	<u>9,868,371</u>
Net debt	(584,954)	(474,926)
Non-Financial Assets		
Tangible capital assets (note 5)	352,645	304,074
Prepaid expenses	232,309	170,852
	<u>584,954</u>	<u>474,926</u>
Accumulated surplus	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to financial statements.

CREATETO

DRAFT Statement of Operations and Accumulated Surplus

Year ended December 31, 2021, with comparative information for 2020

	Budget 2021 (note 12)	Actual 2021	Actual 2020
Revenue:			
Management fees (note 6)	\$ 10,688,908	\$ 10,581,521	\$ 12,104,398
City funding (note 7(a))	3,884,174	3,884,174	1,718,367
Interest	25,703	25,238	24,000
	14,598,785	14,490,933	13,846,765
Expenses:			
Salaries and benefits (note 8)	12,108,283	12,831,492	11,675,692
Office services	995,302	659,819	689,143
Office occupancy	518,269	565,047	862,247
Professional fees	235,899	261,743	182,217
Marketing and promotion	157,000	113,539	85,546
Project investigative costs (recovery)	500,000	(34,700)	196,095
Amortization of tangible capital assets	84,032	93,993	155,825
	14,598,785	14,490,933	13,846,765
Surplus for the year	—	—	—
Accumulated surplus, beginning of year	—	—	—
Accumulated surplus, end of year	\$ —	\$ —	\$ —

See accompanying notes to financial statements.

CREATE TO

DRAFT Statement of Changes in Net Debt

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Surplus for the year	\$ —	\$ —
Acquisition of tangible capital assets (note 5)	(142,564)	(171,678)
Amortization of tangible capital assets (note 5)	93,993	155,825
	(48,571)	(15,853)
Acquisition of prepaid expenses	(1,486,106)	(1,595,222)
Use of prepaid expenses	1,424,649	1,601,859
	(61,457)	6,637
Change in net debt	(110,028)	(9,216)
Net debt, beginning of year	(474,926)	(465,710)
Net debt, end of year	\$ (584,954)	\$ (474,926)

See accompanying notes to financial statements.

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DRAFT Statement of Cash Flows

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Surplus for the year	\$ —	\$ —
Items not involving cash:		
Deferred lease inducement	—	(39,217)
Amortization of tangible and intangible capital assets (note 5)	93,993	155,825
Accrued interest	(1,937)	(572)
Change in other working capital items:		
Prepaid expenses	(61,457)	6,637
Due from related parties	312,374	(6,569,964)
Interest receivable	572	4,403
Due to related parties	(2,221,840)	4,557,221
Amounts payable and other liabilities	430,743	2,479,651
	(1,447,552)	593,984
Capital activities:		
Acquisition of tangible capital assets (note 5)	(142,564)	(171,678)
Increase (decrease) in cash and cash equivalents	(1,590,116)	422,306
Cash and cash equivalents, beginning of year	2,489,938	2,067,632
Cash and cash equivalents, end of year	\$ 899,822	\$ 2,489,938

See accompanying notes to financial statements.

CREATE TO

DRAFT Notes to Financial Statements

Year ended December 31, 2021

CreateTO is an agency of the City of Toronto (the "City"), formerly known as Toronto Realty Agency, established by the decision of City Council at its meeting on May 24, 25 and 26, 2017. City Council adopted a new City Municipal Code Chapter 215 under the City of Toronto Act, 2006 to form CreateTO to manage the City's real estate portfolio, develop City buildings and lands for municipal purposes and deliver client focused real estate solutions to City divisions, agencies and corporations. It commenced operations effective January 1, 2018.

CreateTO is exempt from income taxes under Section 149(1) of the Income Tax Act (Canada). The address of its registered office is 61 Front Street West, Union Station, East Wing, 3rd Floor, Toronto, Ontario, Canada.

1. Significant accounting policies:

(a) Statement of compliance:

These financial statements have been prepared in accordance with Canadian public sector accounting standards ("PSAS") for local governments as defined by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

(b) Basis of presentation:

CreateTO has been identified as an other government organization and accordingly prepares its financial statements in accordance with PSAS. The financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is CreateTO's functional currency. All values are rounded to the nearest dollar, unless otherwise indicated.

The financial statements have been prepared on a historical cost basis. The accounting policies set out below have been applied consistently in all material respects. There are no new standards that came into effect in 2021. Changes in standards effective for future accounting periods are described in note 3. A summary of the significant accounting policies is as follows.

(c) Cash and cash equivalents:

Cash and cash equivalents represents cash in the CreateTO's operating and premium interest accounts.

CREATE TO

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2021

1. Significant accounting policies (continued):

(d) Tangible capital assets:

Tangible capital assets are non-financial assets that are not available to discharge existing liabilities and are held for use in the operations. They include leasehold improvements, office equipment, computer equipment and software licenses. They are stated at cost less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the tangible or intangible capital asset.

Amortization is provided on a straight-line basis designed to amortize the costs of the assets over their expected useful lives as follows:

Office equipment	5 years
Computer equipment	3 to 5 years

Residual values and useful lives of all assets are reviewed and adjusted, if appropriate, at each financial year-end. Fully amortized tangible capital assets are derecognized at the end of each financial year.

Tangible capital assets are reviewed for impairment whenever conditions indicate that they no longer contribute to CreateTO's ability to provide goods and services, or that the value of the future economic benefits associated with the tangible capital asset is less than its net book value. Any impairment is accounted for as a loss in the statement of operations and accumulated surplus.

(e) Employee future benefit plans:

CreateTO makes contributions to the Ontario Municipal Employees' Retirement Systems ("OMERS"), which is a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan.

Since OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. As a result, CreateTO does not recognize any share of the OMERS pension surplus or deficit.

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2021

1. Significant accounting policies (continued):

(f) Revenue recognition:

Revenue is reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes measurable and collection is reasonably assured.

CreateTO receives management fees from the City of Toronto Economic Development Corporation (operating as Toronto Port Lands Company ("TPLC")) and Build Toronto Inc. ("BT") which are used to fund its operations.

(g) City funding revenue recognition:

City funding revenue is reported on the accrual basis of accounting. The accrual basis of accounting recognizes funding as it becomes measurable and collection is reasonably assured.

CreateTO receives funding from the City which are used to fund certain City initiatives.

(h) Financial instruments:

PSAS allows an entity to classify its financial instruments as either fair value or amortized cost. CreateTO has classified all financial instruments at amortized cost. The following summarizes its classification and measurement of financial assets and financial liabilities:

	Classification	Measurement
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Due to related parties	Financial liabilities	Amortized cost
Amounts payable and other liabilities	Financial liabilities	Amortized cost

CREATE TO

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2021

1. Significant accounting policies (continued):

(i) Impairment of financial assets:

At each reporting date, CreateTO assesses whether there is objective evidence that a financial asset is impaired.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of operations and accumulated surplus.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of operations and accumulated surplus.

(j) Related party disclosures:

PS 2200 requires disclosure of related party transactions when one party has the ability to exercise control or shared control over the other. Related parties include key management personnel, their close family members and the entities they control or have shared control over. Related party transactions are disclosed if they occurred at a value different from that which would have been arrived at if parties were unrelated and the transaction has a material effect on the financial statements.

(k) Inter entity transactions:

PS 3420 requires disclosure of transactions between public sector entities that comprise a government's reporting entity from both a provider and receipt perspective. All City transactions are recorded at the exchange amounts, being the amount agreed to by both parties.

For the year ended December 31, 2021, there were no material inter-entity transactions to disclose.

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2021

1. Significant accounting policies (continued):

(l) Use of estimates:

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are based on the information available at the date of preparation and reviewed annually to reflect new information as it is available. Measurement uncertainty exists in the financial statements primarily related to impairment of amounts receivable and tangible capital assets. Actual results could differ from those estimates.

2. New accounting standards:

There were no new accounting standards that came into effect in 2021.

3. Future accounting policy changes:

The standards noted below were not in effect for the year ended December 31, 2021, therefore, have not been applied in preparing these financial statements. Management is currently assessing the impact of the following accounting standards updates on the future financial statements.

(a) PS 1201, Financial Statement Presentation ("PS 1201"):

PS 1201 applies to fiscal years beginning on or after January 1, 2023 and replaces PS 1200. This standard establishes general reporting principles and standards for the disclosure of information in government financial statements. The standard introduces the statement of remeasurement gains and losses, which reports changes in the values of financial assets and financial liabilities arising from their remeasurement at current exchange rates and/or fair value.

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2021

3. Future accounting policy changes (continued):

(b) PS 3400, Revenue ("PS 3400"):

PS 3400 applies to fiscal years beginning on or after January 1, 2024. Earlier adoption is permitted. PS 3400 establishes standards on how to account for and report revenue. It sets out the recognition criteria for transactions with performance obligations, transactions with no performance obligations and, hybrid transactions.

(c) PS 3280, Asset Retirement Obligation ("PS 3280"):

PS 3280 applies to fiscal years beginning on or after January 1, 2023. This standard establishes how to account for and report a liability for asset retirement obligations.

(d) Public Sector Guideline 8, Purchased Intangibles:

Public Sector Guideline 8, Purchased Intangibles, applies for fiscal years beginning on or after January 1, 2024. It allows public sector entities to recognize intangibles purchased through an exchange transaction.

(e) Public Private Partnerships:

This standard applies for fiscal years beginning on or after January 1, 2024. The new requirements relates to the recognition, measurement and classification of infrastructure procured through a public private partnership.

4. Amounts payable and other liabilities:

	2021	2020
Trade payables - general	\$ 2,586,614	\$ 2,724,335
Payroll accruals	2,438,406	1,519,812
Harmonized sales tax payable	52,935	403,065
	<u>\$ 5,077,955</u>	<u>\$ 4,647,212</u>

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2021

5. Tangible capital assets:

2021	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 556,962	\$ 204,317	\$ 352,645

2020	Cost	Accumulated amortization	Net book value
Office equipment	\$ 22,545	\$ 16,516	\$ 6,029
Computer equipment	414,398	116,353	298,045
	\$ 436,943	\$ 132,869	\$ 304,074

Reconciliation of tangible capital assets is set out below:

	2021	2020
Balance, beginning of year	\$ 304,074	\$ 288,221
Additions	142,564	171,678
Amortization	(93,993)	(155,825)
Balance, end of year	\$ 352,645	\$ 304,074

6. Management fees:

	2021	2020
BT (note 7(b))	\$ 6,877,989	\$ 7,867,859
TPLC (note 7(c))	3,703,532	4,236,539
	\$ 10,581,521	\$ 12,104,398

Pursuant to service agreements established between CreateTO with each of BT and TPLC, effective January 1, 2018, BT and TPLC engaged CreateTO to provide management services for a mutually agreed upon fee. The services include accounting, risk management, tax, finance, record keeping, financial statement preparation and audit support, legal services, treasury functions, regulatory compliance, information systems, executive management, corporate and other centralized services, and any other services mutually agreed between the two parties. This is an annual arrangement which will be automatically renewed on each anniversary date unless either party terminates it.

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2021

7. Related party transactions:

The relationship and transactions between CreateTO and the City, and other related parties are detailed below:

Related parties	Relationship
City of Toronto	Parent
TPLC	Common control
BT	Common control

(a) The City of Toronto:

The statement of financial position includes the following balances related to the City:

	2021	2020
Due from related parties	\$ 6,590,561	\$ 6,902,935

As at December 31, 2021, CreateTO has net reimbursable costs of \$6,590,561 (2020 - \$6,902,935) due from the City.

CreateTO had transactions with the City in its ordinary course of business throughout the year ended December 31, 2021. Funding from the City, which passed through the statement of operations and accumulated surplus were as follows:

	2021	2020
City funding	\$ 3,884,174	\$ 1,718,367

(b) Build Toronto Inc.:

The statement of financial position includes the following balances related to BT:

	2021	2020
Due to related parties	\$ 1,550,590	\$ 3,176,790

CREATE TO

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2021

7. Related party transactions (continued):

The balance of \$1,550,590 (2020 - \$3,176,790) is due to the timing of when funds are received from BT.

CreateTO had transactions with BT in its ordinary course of business throughout the year ended December 31, 2021. Revenue from BT, which passed through the statement of operations and accumulated surplus were as follows:

	2021	2020
Management fees (note 6)	\$ 6,877,989	\$ 7,867,859

(c) Toronto Port Lands Company:

The statement of financial position includes the following balances related to TPLC:

	2021	2020
Due to related parties	\$ 1,448,729	\$ 2,044,369

The balance of \$1,448,729 (2020 - \$2,044,369) is due to timing of when funds are received from TPLC.

CreateTO had transactions with TPLC in its ordinary course of business throughout the year ended December 31, 2021. Revenue from TPLC, which passed through the statement of operations and accumulated surplus were as follows:

	2021	2020
Management fees (note 6)	\$ 3,703,532	\$ 4,236,539

CREATE TO

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2021

8. Employee benefits:

CreateTO participates in a defined benefit pension plan through OMERS, a pension fund for all government employees in Ontario. Employees and employers contribute jointly to the plan on an ongoing basis.

OMERS is a multi-employer pension plan, there is no consistent and reliable basis for allocating the obligations, plan assets and costs to individual entity participating in the plan, therefore, CreateTO does not recognize any share of the OMERS pension surplus or deficit.

Employer's and employees' contributions to OMERS for the year ended December 31, 2021 amounted to \$1,186,604 (2020 - \$999,785) and are included in salaries and benefits on the statement of operations and accumulated surplus.

9. Commitments and contingencies:

During the year December 31, 2021, CreateTO incurred \$329,583 (2020 - \$437,875) in minimum lease payments plus common area maintenance costs and property taxes of \$218,944 (2020 - \$428,960) with respect to the lease of the office premises at 200 King Street West, and operating lease payments of \$24,148 (2020 - \$17,336) for office equipment, which have been included its office services expenses. The business office was relocated to City space at Union Station in July 2021 as part of the ModernTO initiative and the related occupancy costs are borne by the City.

CreateTO leases certain office equipment under operating lease agreements. The approximate future minimum annual lease payments are as follows:

2022	\$ 23,925
2023	23,925
2024	23,925
2025	23,925
	\$ 95,700

CREATE TO

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2021

10. Financial instruments - risk management:

(a) Credit risk:

Credit risk is the risk of loss due to a counterparty's ability to meet its obligations. As at December 31, 2021, CreateTO's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, due from related parties and amounts receivable.

Cash and cash equivalents are invested with a major financial institution, due from related parties are owing from other City entities and amounts receivable are immaterial, and are therefore each are assessed as low risk.

(b) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in material interest rates. CreateTO has low interest rate risk as it does not hold any debt and its bank account's interest income, although affected by the fluctuation of prime interest rate, is insignificant.

(c) Liquidity risk:

Liquidity risk is the risk that CreateTO could be unable to settle or meet commitments as they come due. Management believes the liquidity risk of CreateTO is low.

11. Economic dependence:

CreateTO earned its management fees revenue during the year ended December 31, 2021 from two related parties, BT and TPLC (note 6).

12. Budget data:

Budget data presented in these financial statements are based upon the 2021 budgets as approved by the Toronto City Council on February 17, 2022.