

## **2022 Audited Financial Statements - Consolidated City, Sinking Funds, and Consolidated Trust Funds**

**Date:** June 23, 2023

**To:** Audit Committee

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

**Wards:** All

### **SUMMARY**

---

This report presents the City of Toronto's (City) Consolidated Financial Statements (Consolidated Statements), the Sinking Funds Financial Statements (SF Statements) and the Consolidated Trust Funds Financial Statements (TF Statements) for the year ended December 31, 2022.

All City financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS) established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants (CPA) of Canada.

Management is highlighting the following items in relation to the City's financial statements:

- The City's tangible capital asset balances detailed in the City's Consolidated Statements contain corrective adjustments recommended by the City's external auditors, KPMG LLP (KPMG), during the 2022 year-end audit;
- The City experienced reductions in government transfers despite the sustainment of pandemic and economic recovery related costs;
- The City's 2022 Consolidated Statements have incorporated only those entities significant to the City's overall financial position and performance; and
- The SF Statements recognized a temporary unrealized loss of \$180 million as a result of market performance in 2022.

The City's external auditors, KPMG, are responsible for providing an opinion on the fair presentation of the above financial statements in accordance with PSAS. KPMG has issued an unqualified audit opinion on the City's 2022 Consolidated Statements, SF Statements, and TF Statements.

The Audit Committee is responsible for adopting the financial statements prior to City Council's approval.

## RECOMMENDATIONS

---

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

1. City Council approve the 2022 Consolidated Financial Statements in Appendix B to this report.
2. City Council approve the 2022 Sinking Fund Financial Statements in Appendix C to this report.
3. City Council approve the 2022 Consolidated Trust Funds Financial Statements in Appendix D to this report.

## FINANCIAL IMPACT

---

There are no financial implications resulting from the approval of the 2022 audited financial statements recommended in this report.

Total audit fees of \$463,008 for the financial statement audits were approved in the 2022 budget.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

## DECISION HISTORY

---

As required by Sections 231 and 232 of the City of Toronto Act, 2006 (Act), the City prepares and publishes annual financial statements that consolidate the financial results of all entities that the City controls. A list of these entities is provided in Note 1 of the Statements.

Section 231 of the Act requires that the financial statements be prepared in accordance with generally accepted accounting principles (GAAP) established by the Chartered Professional Accountants of Canada's Public Sector Accounting Board (PSAB).

Below is a link to the staff report for the 2021 Audited Consolidated Financial Statements, 2021 Audited Sinking Funds Financial Statements, and 2021 Audited Consolidated Trust Funds Financial Statements for the City of Toronto: [City of Toronto 2021 Financial Statements](#)

## COMMENTS

---

### Highlights for Consolidated Statements

#### *Basis of Preparation*

On an annual basis, the City prepares its financial statements in accordance with PSAS. This key financial reporting activity allows the City's internal and external stakeholders

to understand the City's financial position as at the year-end date of the statements and performance for the previous fiscal year.

Based on PSAS' financial reporting requirements, the Consolidated Statements are presented on an accrual accounting basis, which allows the City to disclose the long-term financial implications associated with its activities and decisions. As a result, the Consolidated Statements incorporate principles, which are considered best practices amongst Canadian municipalities and therefore, differ from those that the City applies when preparing its annual budget.

The Consolidated Statements reflect the year-end position and performance of City divisions and significant Agencies and Corporations that the City controls. A list of consolidated Agencies and Corporations is available in Note 1 of the Consolidated Statements.

Appendix A provides information about the City's financial statements, components of the financial statements, the difference in methodology related to budgeting and accounting, and management and auditor responsibilities in the financial reporting and audit processes. The City's financial reporting and accounting practices are consistent and aligned with those that used by Canadian municipalities.

#### *Adjustment of the City's tangible capital assets*

KPMG executes audit procedures in order to gather sufficient and appropriate audit evidence with which to form an opinion on the City's financial statements.

During the course of the 2022 year-end external audit engagement, KPMG recommended City management to recognize a series of corrective adjustments for purposes of strengthening the accuracy and completeness of the financial information included in the Consolidated Statements. Specifically, the corrective adjustments affected the City's tangible capital assets (TCAs), revenues, and expenses in order to: recognize eligible capital expenditures as TCAs, correct the timing of when TCAs were placed into service, and report the disposal of TCAs in the relevant fiscal year. Further details associated with the external auditors' recommended adjustments, which have been reflected in the Consolidated Statements, can be found in KPMG's 2022 Year-End Audit Findings Report.

Although it is not uncommon for the external auditors to recommend adjustments for the financial statements, City management is ultimately responsible for developing and maintaining a series of policies, processes, and internal controls to help minimize the risk of financial misstatement. As noted in City management's response to the external auditors' management letter for fiscal 2021 ([Agenda Item History - 2023.AU1.12](#)), the City is continuing to explore opportunities to enhance financial acumen, as well as internal policies, processes, and technology in support of the TCA reporting process.

#### *Ongoing financial effects of the pandemic*

In 2022, the City continued to incur pandemic-related expenses in support of various community and social services programs, such as shelter services - these additional costs, however, were only partially supported by governments grants received from senior levels of government. Specifically, the City's pandemic-related government

grants, such as the Safe Restart arrangement, decreased by more than \$700 million in fiscal 2022. As the City's sources of revenue, such as property taxes and utility billings, have remained consistent over the past several years, the City's reliance on government grants is predicted to increase in future years unless other sources of revenue can be secured.

### **Highlights for SF Statements**

#### *Changes in market performance for Sinking Fund investments*

In 2022, as a result of continued increases in interest and inflation rates and geopolitical disturbances, Canadian and global stock and bond markets experienced a short term temporary decline in overall performance, which resulted in temporary reduced fair value for a number of Sinking Fund investments. As the reduction in fair value affected a proportion of Sinking Fund investments that were not sold as at December 31, 2022, the City recognized an unrealized loss of \$180 million.

The City notes, however, that the unrealized loss recognized as part of fiscal 2022 only represents a temporary decline in market value. There is no permanent decline in market value that needs to be reflected in the City's SF Statements due to the low-risk nature of the Sinking Fund investments, the high credit ratings of the initial issuers of the investments, and the City's management of these investments for their intended purpose.

As of April 30, 2023, the market value of the City's Sinking Fund investments that were held on December 31, 2022 has increased by an estimated \$109 million. In order to identify and mitigate potential risks affecting the City's investments, the City will continue monitoring the value of its investments to ensure that adequate liquid resources are available to support the settlement of debenture maturities.

### **KPMG's 2022 Year-End Report to the Audit Committee**

The City's Consolidated Statements, SF Statements, and TF Statements have been audited by KPMG, who is responsible for applying sufficient and adequate audit testing in order to provide an independent opinion on the fair presentation of the financial statements, and to indicate whether the financial statements are free from material misstatement. The external auditors' opinion is to provide comfort to third parties that the financial statements can be relied upon by all stakeholders. KPMG has issued an unqualified audit opinion on the City's 2022 financial statements.

KPMG's 2022 Year-End Audit Findings Report will be presented separately to the Audit Committee.

## **CONTACT**

---

Sandra Califaretti, Director, Accounting Services, 416-397-4438,  
[Sandra.Califaretti@toronto.ca](mailto:Sandra.Califaretti@toronto.ca)

Randy LeClair, Director, Capital Markets, 416-397-4054, [Randy.LeClair@toronto.ca](mailto:Randy.LeClair@toronto.ca)

Duri Lee, Project Director, Corporate Financial Reporting, 416-392-8009,  
[Duri.Lee@toronto.ca](mailto:Duri.Lee@toronto.ca)

## **SIGNATURE**

---

Heather Taylor  
Chief Financial Officer and Treasurer

Andrew Flynn  
Controller

## **ATTACHMENTS**

---

- Appendix A: Unpacking the City's Financial Statements - Purpose, Responsibilities, and Major Components
- Appendix B: 2022 Consolidated Financial Statements
- Appendix C: 2022 Sinking Funds Financial Statements
- Appendix D: 2022 Consolidated Trust Funds Financial Statements
- Appendix E: Trust Fund Account Descriptions as at December 31, 2022