

2023 Audited Financial Statements - Consolidated City, Sinking Funds, and Consolidated Trust Funds

Date: June 20, 2024

To: Audit Committee

From: Chief Financial Officer and Treasurer and Interim Controller and Executive Director, Finance Shared Services

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, 2023.

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 SF Statements have now been prepared in accordance with PSAS as a result of the introduction of PS 3450 – Financial Instruments.
- 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 2023 year-end audit;
- The City's 2023 Consolidated Statements have incorporated only those entities significant to the City's overall financial position and performance; and

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 a clean audit opinion (also referred to as an unqualified audit opinion) on the City's 2023 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 Interim Controller and Executive Director, Finance Shared Services recommend that:

1. City Council approve the 2023 Consolidated Financial Statements in Appendix B to this report.
2. City Council approve the 2023 Sinking Funds Financial Statements in Appendix C to this report.
3. City Council approve the 2023 Consolidated Trust Funds Financial Statements in Appendix D to this report.

FINANCIAL IMPACT

The City's accumulated surplus increased by \$1,250 million from \$31,480 million to \$32,730 million, this change was driven by an increase of \$2,453 million in tangible capital assets that was partially offset by decreases in cash and cash equivalents and increases in various liabilities.

The City continues to grow our capital program to meet infrastructure needs. These historical investments in tangible capital assets, such as recreation centres, roads, and light rail vehicles, make up the majority of the City's accumulated surplus. It is important to note that this balance does not represent excess funding that can be committed and used in future periods.

Total audit fees (net of Harmonized Sales Tax recoveries) of \$483,360 for the Consolidated Statements, as well as \$46,810 for the SF Statements and TF Statements are fully funded within the approved 2023 operating budget.

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 PSAB.

Below is a link to the staff report for the 2022 Consolidated Statements, 2022 SF Statements, and 2022 TF Statements for the City of Toronto: [City of Toronto 2022 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. Specifically, the Consolidated Statements not only capture our actual revenues when they are earned and our expenses when they are incurred, but also disclose what existing resources we have now and what long-term obligations and future commitments we will have to settle with external individuals and organizations in future years. As a result, the Consolidated Statements incorporate principles, which are considered best practices amongst Canadian municipalities; and differs from the modified cash basis approach 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.

Major Component of the City's Accumulated Surplus

The City's accumulated surplus increased by \$1,250 million from \$31,480 million to \$32,730 million. The accumulated surplus is the total amount by which assets exceeds liabilities and therefore, illustrates whether the City has sufficient financial resources to allow the organization to meet its ongoing financial commitments in future periods, while providing services to residents.

Although the City's accumulated surplus appears favourable in nature, it is important to note that the majority of this balance reflects the City's historical investments in tangible capital assets, such as recreation centres, roads, and light rail vehicles, where our annual infrastructure investment exceed current levels of asset depreciation. Therefore, this balance does not represent excess funding that can be committed and used in future periods.

Adoption of new Accounting Standards

On January 1, 2023, the City adopted several new accounting standards:

- PS 1201 – Financial Statement Presentation;
- PS 2601 – Foreign Currency Translation;
- PS 3041 – Portfolio Investments;
- PS 3450 – Financial Instruments; and,
- PS 3280 – Asset Retirement Obligations.

Most of the standards listed did not have a significant impact on the organization. Key highlights from the City's adoption of the new standards are as follows:

- **Financial instruments** (PS 3450): The Implementation of this standard changed the measurement basis of the City's investments and long-term debt to fair-market value. Previously the City was measuring these balances at cost. The use of fair market value provides users of the City's financial statements with a more transparent view of the current value of these balances as of the financial statement date. In addition, the new accounting standard also introduced a new financial statement called the "Statement of Remeasurement Gains and Losses". This financial statement tracks the changes in fair-market value of the City's investment and long-term debt balances (also known as unrealized gains or losses) until they are ultimately sold or mature (at which point they become realized gains or losses because they result in a cash impact to the City). This financial statement, therefore, serves as a parking lot for the City's unrealized gains or losses on investments and long-term debt until they are realized.
- **Asset Retirement Obligations** (PS 3280): the implementation of this new standard required the City to account for legal obligations that are associated with the retirement of a tangible capital asset. Common examples of asset retirement obligations include asbestos remediation in buildings, removal of underground fuel storage tanks, and a contractual requirement to remove leasehold improvements at the end of a lease term. Previously the City was accounting for such costs only in the period that they were being incurred, whereas now these costs must be recorded upfront when an asset is acquired or developed. This resulted in the recognition of close to \$1 billion in new liabilities.

Adjustments of the City's financial statements

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

There were no significant accounting adjustments required to the Consolidated Statements, but further details can be found in KPMG's 2023 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 2022](#), the City is continuing to explore

opportunities to enhance financial acumen, as well as internal policies, processes, and technology in support of improving the financial reporting process.

Highlights from the SF Statements

Adoption of New Accounting Standards

Up to December 31, 2022, the SF Statements were prepared under a disclosed basis of accounting rather than PSAS, to allow for the use of fair value as the measurement basis for the Sinking Funds' investments, which was not a recognized measurement approach under PSAS. As a result of the introduction of PS 3450 – Financial Instruments, PSAS now permits the use of fair value measurement on a prospective basis and therefore, effective January 1, 2023, the Sinking Funds' financial statements have been prepared in accordance with PSAS.

KPMG's 2023 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 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 2023 financial statements.

KPMG's 2023 Year-End Audit Findings Report will be presented separately to the Audit Committee.

CONTACT

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

David McIsaac
Interim Controller and Executive Director, Finance Shared Services

ATTACHMENTS

- Appendix A - Unpacking the City's Financial Statements - Purpose, Responsibilities, and Major Components
- Appendix B - 2023 Consolidated Financial Statements
- Appendix C - 2023 Sinking Funds Financial Statements
- Appendix D - 2023 Consolidated Trust Funds Financial Statements
- Appendix E - Trust Fund Account Descriptions as at December 31, 2023