

## Section I – Items for Board of Directors Action

**TO:** Chair and Members of the Executive Committee  
Meeting #4/20, Friday, June 12, 2020

**FROM:** Michael Tolensky, Chief Financial and Operating Officer

**RE:** **2019 AUDITED FINANCIAL STATEMENTS**  
Approval of Financial Statements

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### KEY ISSUE

The 2019 audited financial statements are recommended for approval.

### RECOMMENDATION

**THE EXECUTIVE COMMITTEE RECOMMENDS THAT the transfer of funds from surplus to unrestricted reserves in the amount of \$6,189,000 as outlined below and reflected in Note 7, “Accumulated Surplus” to the financial statements (Attachment 1) be approved;**

**AND FURTHER THAT the 2019 audited financial statements, as presented in Attachment 1 be approved, signed by the Chair and Secretary-Treasurer of Toronto and Region Conservation Authority (TRCA) and distributed to each member municipality and the Minister, in accordance with subsection 38(3) of the *Conservation Authorities Act*.**

### BACKGROUND AND RATIONALE

The 2019 TRCA audited financial statements are presented for approval. The accounting firm KPMG LLP has completed its audit and has included within the financial statements an unqualified, independent auditor’s report. The audited financial statements are presented as Attachment 1 to the report. Representatives from KPMG LLP will be in attendance to present the auditor’s report on the 2019 financial statements.

### Auditor Communication on Audit Strategy and Results

Included as Attachment 2 is a report from KPMG LLP addressed to the Executive Committee, entitled, “Audit Findings Report”. This report addresses various matters, including the auditor’s approach to the audit, materiality and any adjustments. Two audit adjustments were identified, regarding the treatment of the interest rate exchange agreement and prepaid insurance, which was not actually paid until after year-end. The auditors provided performance improvement observations in their finding, which represent comments intended to improve TRCA’s efficiency and effectiveness of financial policies and procedures.

### Financial Statement Summary - Statement of Financial Position

- **Cash and Investments**

The cumulative balance of these two financial statement line items has grown to \$42,596,000, an increase of 6% since the prior year (2018 - \$40,152,000), which exceed deferred revenue obligations of \$40,485,000 (2018 - \$38,702,000).

- **Investments**

On September 6, 2016, TRCA invested \$6,500,000 in the One Fund’s Bond/Equity accounts. As of year-end, the Book Value (BV) has grown to \$6,976,000, which exceeded the Fair Value (FV)

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by \$42,000. Subsequent to year end, the portfolio has continued to strengthen, and the Fair Value now exceeds the Book Value by \$81,000 as of the end of May 2020.

	<b>December 31 2019 (BV)</b>	<b>December 31 2019 (FMV)</b>	<b>May 31 2020 (BV)</b>	<b>May 31 2020 (FMV)</b>
Bond Portfolio	\$3,771,000	\$3,624,000	\$3,803,000	\$3,749,000
Universe Corporate Bond Portfolio	\$2,705,000	\$2,641,000	\$2,730,000	\$2,761,000
Equity Portfolio	\$500,000	\$669,000	\$500,000	\$604,000
Total	\$6,976,000	\$6,934,000	\$7,033,000	\$7,114,000
Unrealized Gain (Loss)		(\$42,000)		\$81,000

As of the end of year, the balance of funds with RBC Dominion Securities was \$3,027,000 (2018 - \$9,224,000), as TRCA staff worked to divest its holdings when financially viable, in accordance with Board of Directors direction. No funds have been re-invested with RBC Dominion Securities at this time, but staff are assessing opportunities in accordance with the newly approved investment policy.

- **Receivables**

This balance has grown to \$29,573,000, an increase of 19% since the prior year (2018 - \$24,845,000). Most of this growth pertains to the timeliness of billings/collections from authority generated sources (trade receivables and the Living City Foundation). With COVID-19 impacting TRCA's stakeholders, including government sources, TRCA is working pragmatically to ensure timely recovery of outstanding balances.

- **Derivative Financial Instrument**

The derivative financial instrument of \$3,100,000 represents the Mark-to-Market valuation of the interest rate swap entered by TRCA. Even though this loss would never be realized by TRCA unless it were to sell the instrument, which is not the intention, accounting standards require that the changes in market value of the interest rate swap be reflected in TRCA's financial statements.

- **Tangible Capital Assets (TCA)**

In the current year, there were financial acquisitions of tangible capital assets totaling \$8,665,000 (2018 - \$17,437,000) and acquisitions through donations of \$1,710,000 (2018 - \$376,000) offset by amortization of \$8,080,000 (2018 - \$8,085,000) and disposals of \$30,972,000 (2018 - \$2,817,000), primarily related to the transfer of lands due to the creation of Rouge National Urban Park. These essential factors resulted in a net decrease of tangible capital assets by \$28,842,000.

### Financial Statement Summary - Statement of Operations and Accumulated Surplus

- **Revenue**

TRCA's revenue increased to \$138,010,000 from \$130,008,000 in the prior year, representing a 6% increase, primarily driven by the value-added work provided to its municipal partners through capital levies and contract services, which increased by \$7,498,000 over the prior year.

- **Expenses**

TRCA's expenses increased to \$129,621,000 from \$116,558,000 in the prior year, representing an 11% increase, primarily driven by the value-added work provided to its municipal partners

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through water risk management project work, which increased by \$14,780,000 over the prior year.

- **Accumulated Surplus**

TRCA's accumulated surplus decreased by \$25,683,000 in the year, which is primarily due to three factors included in the statement of financial position: (1) the decrease in tangible capital assets of \$28,842,000, (2) the recognition of the \$3,100,000 unrealized loss on the derivative financial instrument and a reduction in unfunded vacation pay entitlements of \$70,000. Taking these elements into account, TRCA's unrestricted reserves increased by \$6,189,000 to \$14,239,000, which will be vital in addressing the expected impact of COVID-19 on operations in 2020.

- **Variance Explanation**

At the April 24, 2020 Board of Directors Meeting, the 2019 Year End Financial Report was approved, which explained variances based on unaudited financial information compiled by Finance.

	<b>April 24 Report</b>	<b>Final Financial Statements</b>	<b>Difference</b>
Total Revenues	\$135,485,000	\$138,010,000	\$2,525,000
Total Expenses	\$131,104,000	\$129,621,000	\$1,483,000
Net Impact	\$4,381,000	\$8,389,000	\$4,008,000

The increase in total revenues is primarily attributed to final billings and recognition of 2020 municipal capital levies for work approved and completed in 2019. The decrease in total expenses is due to the conclusion of TRCA's annual tangible capital asset assessment.

### **Relationship to Building the Living City, the TRCA 2013-2022 Strategic Plan**

This report supports the following strategy set forth in the TCA 2013-2022 Strategic Plan:  
**Strategy 9 – Measure performance**

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**Date: June 1, 2020**

**Attachments: 2**

Attachment 1: 2019 Audited Financial Statements

Attachment 2: Audit Findings Report