

Section I – Items for Board of Directors Action

TO: Chair and Members of the Executive Committee
Friday, June 11, 2021 Meeting

FROM: Michael Tolensky, Chief Financial and Operating Officer

RE: **2020 AUDITED FINANCIAL STATEMENTS**
Approval of Financial Statements

KEY ISSUE

The 2020 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 \$6,523,000 as outlined below and reflected in Note 8, “Accumulated Surplus” to the financial statements (Attachment 1) be approved;

AND FURTHER THAT the 2020 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 2020 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 2020 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 Canada Emergency Wage Subsidy (CEWS) funds received during the year, which TRCA staff has asked KPMG for guidance as to the treatment, and the recognition of the prior years’ benefits plan surplus funds received during the year, which TRCA had self-identified to KPMG in advance of the audit.

FINANCIAL DETAILS

Financial Statement Summary - Statement of Financial Position

- **Cash and Investments**

The cumulative balance of these two financial statement line items remained consistent with the prior year, totaling \$42,828,000 (2019 - \$42,596,000).

Item 7.1

- **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 \$7,201,000 (2019 - \$6,976,000) with the Fair Value (FV) exceeding by \$167,000 (2019 - \$42,000 FV loss).

	December 31 2020 (BV)	December 31 2020 (FMV)	December 31 2019 (BV)	December 31 2019 (FMV)
Bond Portfolio	\$3,884,000	\$3,816,000	\$3,771,000	\$3,624,000
Universe Corporate Bond Portfolio	\$2,799,000	\$2,840,000	\$2,705,000	\$2,641,000
Equity Portfolio	\$ 518,000	\$ 712,000	\$ 500,000	\$ 669,000
Total	\$7,201,000	\$7,368,000	\$6,976,000	\$6,934,000
Unrealized Gain (Loss)		\$167,000		(\$42,000)

As of the end of year, the balance of funds with RBC Dominion Securities was \$557,000 (2019 - \$3,027,000) as TRCA staff worked to divest its holdings when financially viable, in accordance with Board of Directors direction. In January 2021, \$8M was reinvested with RBC Dominion Securities, in accordance with the newly approved investment policy, with majority of the portfolio invested in fixed income securities.

- **Receivables**

This balance has grown to \$46,870,000, an increase of 58% since the prior year (2019 - \$29,573,000). Most of this growth pertains to the increase in value-added work and timeliness of billings/collections from municipal partners with an increase of \$12,042,000 over prior year and from authority generated sources (trade receivables and Toronto and Region Conservation Foundation) with an increase of \$3,288,000 over prior year. As of May 31 2021, 95% of the short-term receivables balance outstanding at the end of the year has been collected.

- **Payables and Accrued Liabilities**

This balance has grown to \$24,149,000, an increase of 45% since the prior year (2019 - \$16,663,000). Most of this growth pertains to the increased vendor work completed in December 2020 compared to prior year. As of May 31, 2021, 100% of the payables and accrued liabilities balance outstanding at the end of the year has been paid.

- **Deferred Revenues**

This balance has grown to \$45,314,000, an increase of 12% since the prior year (2019 - \$40,485,000). Increased balance at the end of the year pertains to the deferral of 2020 municipal capital levies for approved work to be completed in 2021.

- **Derivative Financial Instrument**

The derivative financial instrument of \$7,704,000 (2019 - \$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 as of December 31. Subsequent to year end, the Market-to-Market has declined to \$3,568,000 as at May 31 2021, due to interest rate increases.

Item 7.1

- **Tangible Capital Assets (TCA)**

In the current year, there were financial acquisitions of tangible capital assets totaling \$18,146,000 (2019 - \$8,665,000) and tangible capital assets contributions of \$3,190,000 (2019 - \$1,710,000) offset by amortization of \$8,018,000 (2019 - \$8,080,000) and disposals of \$9,161,000 (2019 - \$30,972,000), primarily related to the transfer of lands due to the creation of Rouge National Urban Park. Taking these components into account resulted in a net increase of tangible capital assets by \$4,157,000.

Financial Statement Summary - Statement of Operations and Accumulated Surplus

- **Revenue**

TRCA's revenue increased to \$162,187,000 from \$138,010,000 in the prior year, representing a 17% increase, primarily driven by the value-added work provided to its municipal partners through contract services, which increased by \$28,038,000 over the prior year.

- **Expenses**

TRCA's expenses increased to \$142,393,000 from \$129,621,000 in the prior year, representing a 10% increase, primarily driven by the value-added work provided to its municipal partners through water risk management project work, which increased by \$24,850,000 over the prior year.

- **Accumulated Surplus**

TRCA's accumulated surplus increased by \$6,718,000 in the year, primarily due to three components included in the statement of financial position: (1) the increase in tangible capital assets of \$4,157,000, (2) the increase in unrealized loss on the derivative financial instrument of \$4,604,000 and (3) the reduction in unfunded vacation pay entitlements of \$642,000. Taking these elements into account, TRCA's unrestricted reserves increased by \$6,523,000 to \$20,762,000.

- **Variance Explanation**

At the March 5, 2021 Executive Committee Meeting, the 2020 Year End Financial Report was approved, which explained variances based on unaudited financial information compiled by Finance.

	March 5 Report	Final Financial Statements	Difference
Total Revenues	\$178,244,000	\$162,187,000	\$16,057,000
Total Expenses	\$152,083,000	\$142,393,000	\$ 9,690,000
Net Impact	\$ 26,161,000	\$ 19,794,000	\$ 6,367,000

The variance in total revenues is primarily attributed to the end of the year deferral of 2020 municipal capital levies for approved work to be completed in 2021. The variance in total expenses is primarily due to the completion 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 TRCA 2013-2022 Strategic Plan:
Strategy 9 – Measure performance

Item 7.1

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Date: June 1, 2021

Attachments: 2

Attachment 1: 2020 Audited Financial Statements

Attachment 2: Audit Findings Report