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## 2. FINANCIAL STATEMENT AUDITS AND OTHER REPORTS

### 2.1. INTRODUCTION

The Auditor General conducts its audits in accordance with Canadian generally accepted auditing standards. The audit is planned and constructed to provide reasonable assurance that the financial statements are free of material misstatement. It involves implementing procedures to obtain evidence about the amounts and information provided in the financial statements. An audit also includes assessing the appropriateness of the accounting methods used and the reasonableness of accounting estimates made by management, as well as assessing the overall financial statements presentation.

The Auditor General's audit of the financial statements does not in any way relieve management of its responsibilities, because it is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable accounting framework and the internal control it considers necessary to enable the preparation of financial statements that are free of material misstatement.

The work done on the risk of fraud by the Bureau du vérificateur général as part of the audit of the financial statements does not relieve the city's management and the organizations subject to section 107.7 of the *Cities and Towns Act* (CTA) of their responsibility for the prevention and detection of fraud. Therefore, due to the limitations inherent in the financial audit, the risk that some material misstatements resulting from fraud are not detected remains despite the fact that the audit work has been planned and performed in accordance with Canadian Auditing Standards.

## 2.2. CONSOLIDATED FINANCIAL STATEMENTS OF THE VILLE DE MONTRÉAL

In accordance with the provisions of the *Cities and Towns Act* (CTA) in force on December 31, 2017, we audited the city's financial statements.

The *Charter of Ville de Montréal, Québec's Metropolis* (Charter of Ville de Montréal) and the CTA both require the city to submit its financial statements to the Service du greffe by March 31 following the close of the preceding year and to the Ministère des Affaires municipales et de l'Occupation du territoire (MAMOT), using the prescribed form, by May 15.

The audit of the financial statements was planned and performed jointly with Deloitte, the independent auditor appointed by the city. Doing this work together avoids duplication of work and costs for the municipality.

The consolidated financial statements include the activities of the organizations included in the city reporting entity. The inclusion of an organization in the reporting entity is based on the concept of control, that is, the power to direct the financial and administrative policies of another organization so that its activities will provide expected benefits to the municipal organization or expose it to a risk of loss. These organizations are: Société de transport de Montréal, Société d'habitation et de développement de Montréal, Technoparc Montréal, Société du parc Jean-Drapeau, Conseil des arts de Montréal, Conseil interculturel de Montréal, Office de consultation publique de Montréal, Anjou 80, Société en commandite Stationnement de Montréal, Bureau du taxi de Montréal and BIXI Montréal.

On April 13, 2018, I issued an unqualified auditor's report on the consolidated financial statements of the city as at December 31, 2017. For the year ended December 31, 2017, the external auditor removed the reserve on the accounting of transfer payments issued in the past.

The auditor's report on the city's consolidated financial statements and the report on mixed expenditures are included in the annual financial report filed with the city's Service du greffe on April 18, 2018.

Also, on April 16, 2018, reports on the city's consolidated financial statements, on the breakdown of mixed expenditures and on the city's aggregate taxation rate were produced and recorded on the form required by MAMOT. In accordance with the provisions of the CTA, the form required by MAMOT, along with the three above-mentioned Auditor General's reports and the joint auditor's report on the consolidated financial statements were filed with city council and the urban agglomeration council before being sent to MAMOT on May 14, 2018.

## ORGANIZATION AND GOVERNANCE OF PUBLIC TRANSIT IN THE MONTRÉAL METROPOLITAN AREA

On June 1, 2017, the *Act to modify mainly the organization and governance of shared transportation in the Montréal metropolitan area* came into force. The Act provides a new sharing of powers to foster the mobility of persons. The Agence métropolitaine de transport (AMT) has been abolished and replaced by l'Autorité régionale de transport métropolitain (ARTM) which is in charge of the planning, development, pricing and financing of shared transportation services in the Montréal region and by the Réseau de transport métropolitain (RTM), which is tasked with operating certain shared transportation services, including the commuter train service. The creation of these two organizations could lead to changes in the Société de transport de Montréal's (STM) governance and consequently in its accounting treatment in terms of the city's financial statements. The STM and the ARTM need to conclude an agreement that specifies the terms of application of this new governance.

For the year ended December 31, 2017, the status quo was maintained, given that the agreement between the parties was still under negotiation at the time the Auditor's report was issued. Management will have to assess the impact of the negotiations and the ensuing agreement.

## AGGREGATE TAXATION RATE

The effective aggregate taxation rate is the rate that the municipality would have to impose if all its tax revenues came from a tax on the property value of all its taxable property. The Government of Québec uses the effective aggregate taxation rate to calculate the amounts paid to municipalities under the *Act respecting municipal taxation* including payments in lieu of taxes in respect of buildings in the health and social services system and the education system.

We have audited the Ville de Montréal's effective aggregate taxation rate. This rate is set by the city manager of the city in accordance with division III of chapter XVIII.1 of the *Act respecting municipal taxation* (CQLR, chapter F-2.1).

On April 16, 2018, I issued an unqualified report indicating that the setting of the taxation rate meets compliance requirements in all material respects.

## MIXED EXPENDITURES

Under the *Act respecting the exercise of certain municipal powers in certain urban agglomerations* (CQLR, chapter E-20.001), completed by the *Montréal Agglomeration Order* (order-in-council 1229-2005) as subsequently amended, expenditures incurred by the city in the performance by the municipal administration of an act that comes under both an urban agglomeration power and another power are considered mixed

expenditures. They are broken down between local and agglomeration powers in accordance with the criteria established by management pursuant to by-law RCG06-054 adopted by the urban agglomeration council on December 13, 2006, and its subsequent amendments.

I audited the table of mixed expenditures incurred by the city broken down by local and agglomeration powers. On April 13, 2018, I issued an unqualified report indicating that the breakdown of mixed expenditures meets compliance requirements in all material respects.

## **OTHER REPORTS**

On August 2, 2017, the Auditor General and Deloitte sent the city manager director general and the city's audit committee a report, which consolidated deficiencies in internal control, as well as observations related to Information Technology General Controls (ITGCs) which are identified during the audit of financial statements as at December 31, 2016, and related to follow-up on deficiencies reported in previous years. Deficiencies in internal control and ITGCs identified during the audit of financial statements as at December 31, 2017, and the follow-up on previous deficiencies was not presented to the audit committee.

### **2.3. FINANCIAL STATEMENTS OF OTHER LEGAL ENTITIES SUBJECT TO THE CITIES AND TOWNS ACT**

Pursuant to section 107.7 of the *Cities and Towns Act* (CTA), the Auditor General is required to audit the financial statements of other legal entities subject to the CTA that meet any of the following conditions:

- It is part of the reporting entity defined in the municipality's financial statements;
- The municipality or a mandatary of the municipality appoints more than 50% of the members of the board of directors;
- The municipality or a mandatary of the municipality holds more than 50% of the outstanding voting shares or units.

Table 1 on the following page identifies other legal entities that are subject to the CTA and for which we are required to produce an audit report on their financial statements.

**TABLE 1 – LEGAL ENTITIES SUBJECT TO SECTION 107.7. OF THE CITIES AND TOWNS ACT**

OTHER LEGAL ENTITIES SUBJECT TO THE CITIES AND TOWNS ACT	REPORTING ENTITY	APPOINTMENT OF MORE THAN 50% OF THE MEMBERS OF THE BOARD OF DIRECTORS	DATE OF THE AUDITOR'S REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017
Anjou 80	•		(2)
BIXI Montréal	•		April 19, 2018
Bureau du taxi de Montréal	•		(2)
Conseil des arts de Montréal	•		April 13, 2018
Conseil interculturel de Montréal	•		(2)
Corporation d'habitations Jeanne-Mance		•	April 12, 2018
Office de consultation publique de Montréal	•		(2)
Office municipal d'habitation de Montréal		•	May 17, 2018
Société de transport de Montréal (Financial report and MAMOT report)	•		April 4, 2018
Société d'habitation et de développement de Montréal	•		March 27, 2018
Société du parc Jean-Drapeau	•		March 29, 2018
Société en commandite Stationnement de Montréal	•		March 27, 2018
Société en commandite Transgesco	(1)		April 4, 2018
Technoparc Montréal	•		March 15, 2018

(1) Société de transport de Montréal subsidiary.

(2) On the date of this annual report, the financial statements had not been approved by the board of directors.

## **ANJOU 80**

ANJOU 80 is a non-profit organization that acts on behalf of the Ville de Montréal (the city), incorporated by letters patent dated June 22, 1979, pursuant to the legislative powers granted to the ex-city of Anjou by the Government of Québec.

Its purpose is to acquire residential properties for individuals or families other than low- or lower-income families, acquiring, restoring, demolishing, constructing, leasing and administering buildings for the purposes of lodging, leisure, recreation and other ancillary purposes.

It administers the housing complex known as Résidences Neuville and participates jointly with the Anjou borough in activities that promote economic development.

## **REPORT**

When the annual report was produced, the financial statements as at December 31, 2017, had not been approved by the board of directors.

## **BIXI MONTRÉAL**

BIXI Montréal was incorporated under part III of the *Québec Companies Act* on March 6, 2014, and started its activities on April 28, 2014. It has the powers, rights and privileges of a non-profit organization under part III of the *Quebec Companies Act* (CQLR, chapter C-38).

Its mission is to manage the bike sharing system in the Montréal and the surrounding area in order to provide the public with an alternative mode of urban transportation, complementary to the city's public transit system, allowing its users to ride bicycles to make short trips.

Also, it must also encourage Montréal residents to use bicycles as an alternative means of urban transportation since bicycles are far less harmful to the environment than energy-consuming vehicles.

## **REPORT**

On April 19, 2018, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

## **OPINION**

In my opinion, the financial statements present fairly, in all material respects, the financial position of BIXI Montréal as at December 31, 2017, and the results of its operations, changes in its net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## BUREAU DU TAXI DE MONTRÉAL

The Bureau du taxi de Montréal was incorporated under section 220.1 of schedule C of the *Charter of Ville de Montréal* (CQLR, chapter C-11.4) enacted by the *Act to amend various legislative provisions respecting municipal affairs* (CQLR, 2012, chapter 21) on November 28, 2012, and it started its activities on January 1, 2014. It has the powers, rights and privileges of a non-profit organization incorporated under part III of the *Quebec Companies Act* (CQLR, chapter C-38).

Their mission is to develop the taxi industry, provide services to the taxi industry, supervise and improve this service, taxi driver and user safety, and the skills of drivers on the island of Montréal.

Also, they are responsible for exercising, at the city's request, any powers, other than regulatory powers, that the city delegates to it among those arising from sub-section 9 of division II of chapter III of its Charter and the second paragraph of section 13 of the *Act respecting transportation services by taxi* (CQLR, chapter S-6.01).

## REPORT

When the annual report was produced, the financial statements as at December 31, 2017, had not been approved by the board of directors.

## CONSEIL DES ARTS DE MONTRÉAL

The Conseil des arts de Montréal was founded in 1956 and became a public corporation on October 25, 2007, under section 231.2 of schedule C of the *Charter of Ville de Montréal* (CQLR, chapter C-11.4.) The Conseil des arts de Montréal has the powers, rights and privileges of a non-profit organization incorporated under part III of the *Quebec Companies Act* (CQLR, chapter C-38).

Pursuant to section 231.3, its mandate is to:

- Draw up and keep a permanent list of the associations, societies, organizations, groups or persons engaged in artistic and cultural activities in the urban agglomeration of Montréal;
- Combine, co-ordinate and promote artistic or cultural initiatives in the urban agglomeration of Montréal; and
- Within the limits of the revenues available for that purpose and in conformity with the programs referred to in section 231.14, to designate the associations, societies, organizations, groups or persons and the artistic or cultural events to which or in respect of which grants, prizes or other forms of financial assistance are to be paid.

## REPORT

On April 13, 2018, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

## OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Conseil des arts de Montréal as at December 31, 2017, and the results of its operations, changes in its net assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## **CONSEIL INTERCULTUREL DE MONTRÉAL**

The Conseil interculturel de Montréal was incorporated under section 83.1 of the *Charter of Ville de Montréal*.

It advises the city council and the executive committee on municipal services and policies to facilitate the integration and participation of members of cultural communities in the political, economic, social and cultural life of the city and any matter of interest for the cultural communities.

## **REPORT**

When the annual report was produced, the financial statements as at December 31, 2017, had not been approved by the board of directors.

## CORPORATION D'HABITATIONS JEANNE-MANCE

The Corporation d'habitations Jeanne-Mance was incorporated under section 231 of the *Charter of Ville de Montréal* on June 25, 1958, in accordance with the *National Housing Act* adopted on August 15, 1944, and started its operations on July 16, 1959. The Corporation has the powers, rights and privileges of a non-profit organization under Part III of the *Companies Act* (CQLR C-38).

Its mandate is to operate, manage and administer low-rent housing for the project known as "Habitations Jeanne-Mance".

## REPORT

On April 12, 2018, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

## OPINION

In my opinion, with the exception of the elements described in the "Basis for qualified opinion" paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation d'habitations Jeanne-Mance as at December 31, 2017, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

## OFFICE MUNICIPAL D'HABITATION DE MONTRÉAL

The Office municipal d'habitation de Montréal was incorporated by letters patent on May 8, 2001, under the *Act respecting the Société d'habitation du Québec* (SHQ) (CQLR, chapter S-8 section 5). In accordance with the *Act to reform the municipal territorial organization of the metropolitan regions of Montréal, Québec and the Outaouais*, its official activities started on January 1, 2002. It was formed from the group of 15 municipal on the island of Montréal.

Its mission is to administer buildings on the island of Montréal for low-income individuals and for any other purpose provided for in the *Act respecting the Société d'habitation du Québec* as part of the following programs:

- Low-rental housing – public component (public LRH);
- Low-rental housing – private component (private LRH);
- Logement abordable Québec (LAQ) [Affordable Housing Quebec];
- AccèsLogis Québec (ACL) [HousingAccess Quebec];
- Supplément au loyer (PSL) [Housing supplement program].

Also, it manages the construction of non-profit community-owned housing under agreements with the SHQ, and, since 2007, it also manages rental properties.

## REPORT

On May 17, 2018, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

## OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Office municipal d'habitation de Montréal as at December 31, 2017, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

## SOCIÉTÉ DE TRANSPORT DE MONTRÉAL

The Société de transport de Montréal was incorporated under the *Act respecting public transit authorities* (CQLR, chapter S-30.01).

Until May 31, 2017, it was responsible for organizing and providing public transit in the territory of the agglomeration of Montréal. As of June 1, 2017, the STM has been subject to the Act to modify mainly the organization and governance of shared transportation in the Montréal metropolitan area (2016, ch. 8). This law provides for a new sharing of powers to foster the mobility of persons by abolishing the Agence métropolitaine de transport (AMT), which was replaced by two bodies, the Autorité régionale de transport métropolitain (ARTM), which is devoted to the planning, development, pricing and financing of shared transportation services in the greater Montréal region, and the Réseau de transport métropolitain (RTM), which is tasked with operating some shared transportation services, including the commuter train service.

The new governance also provides that the shared transportation service established by the ARTM will be delivered by operators, including the STM, under service agreements. In keeping with these new requirements, the STM must conclude a contractual agreement with the ARTM. Among other things, this agreement will specify the transportation offer, the performance and quality objectives for the services and the agreed compensation. As of June 1, 2017, the STM's mandate has been to provide shared transportation services and, at the request of the ARTM, to collaborate to the planning, coordination, development, support and promotion of shared transportation in its territory.

## REPORT

On April 4, 2018, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

## OPINION

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Société de transport de Montréal as at December 31, 2017, and the results of its operations, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## SOCIÉTÉ D'HABITATION ET DE DÉVELOPPEMENT DE MONTRÉAL

The Société d'habitation et de développement de Montréal is a non-profit organization that reports to the city, incorporated by letters patent on June 15, 2010, by the Government of Québec pursuant to chapter V of schedule C of the *Charter of Ville de Montréal* (CQLR, chapter C-11.4).

Its objectives are:

- to contribute to economic and social development through the enhancement of residential, institutional, industrial, commercial and cultural property assets in the city's territory;
- to acquire, renovate, restore, build, demolish, sell, lease or administer buildings in the city's territory;
- grant subsidies and administer programs for the construction, renovation, restoration, demolition and relocation of buildings in the city's territory.

## REPORT

On March 27, 2018, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

## OPINION

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Société d'habitation et de développement de Montréal as at December 31, 2017, and the results of its operations, revaluation gains and losses, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## **SOCIÉTÉ DU PARC JEAN-DRAPEAU**

The Société du parc Jean-Drapeau is a non-profit organization that was incorporated on August 9, 1983, under section 223 of the *Charter of Ville de Montréal*.

Its purpose is to operate, administer and develop Parc Jean Drapeau, which includes Sainte-Hélène and Notre-Dame islands in Montréal. It manages recreational, cultural and tourist activities and carries out any other mandate entrusted to it by the city.

## **REPORT**

On March 29, 2018, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

## **OPINION**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Société du parc Jean-Drapeau as at December 31, 2017, and the results of its operations, changes in its net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## **SOCIÉTÉ EN COMMANDITE STATIONNEMENT DE MONTRÉAL**

The Société en commandite Stationnement de Montréal was incorporated under a limited partnership agreement entered into on May 10, 1994.

Since January 1, 2015, it manages paid parking activities under an agreement with the city.

On June 15, 2016, the Ville de Montréal agglomeration council adopted the new parking policy, which includes the transfer of the activities of the Société en commandite Stationnement de Montréal to a new body. The Société is not currently able to determine when this new policy will be applied, since the decision is up to the Ville de Montréal agglomeration council. This situation suggests there is uncertainty concerning the future of the Société en commandite Stationnement de Montréal in its current legal form.

### **REPORT**

On March 27, 2018, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

### **OPINION**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Société en commandite Stationnement de Montréal as at December 31, 2017, and the results of its operations, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### **OBSERVATIONS**

Without qualifying my opinion with a reservation, I draw attention to note 1 of the financial statements, which states that on June 15, 2016, the Ville de Montréal agglomeration council adopted the new parking policy which includes the transfer of the activities of the Société en commandite Stationnement de Montréal to a new body. This situation suggests there is uncertainty concerning the future of the Société en commandite Stationnement de Montréal.

## **SOCIÉTÉ EN COMMANDITE TRANSGESCO**

The société en commandite Transgesco was formed under a partnership agreement on July 2, 2003, within the meaning of the Civil Code of Québec.

Its purpose is to manage various partnerships with private sector stakeholders in connection with business activities related to the Société de transport de Montréal.

## **REPORT**

On April 4, 2018, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

## **OPINION**

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Société en commandite Transgesco as at December 31, 2017, and the results of its operations, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## TECHNOPARC MONTRÉAL

Technoparc Montréal, incorporated under part III of the *Québec Companies Act*, on March 5, 1987. It has the powers, rights and privileges of a non-profit organization under Part III of the *Companies Act* (CQLR, Chapter C-38). Its mission is to:

- offer environments and real estate solutions conducive to technological innovation, collaboration and success, to stimulate the development of Technoparc Montréal, the Campus Saint-Laurent, the Éco-campus Hubert Reeves and the Quartier de la santé de Montréal;
- foster and support the implementation and development of high-tech projects, businesses and research centers on the territory of the Ville de Montréal.

On February 13, 2018, the Ville de Montréal issued a notice of non-renewal of the management and funding agreement and asked Technoparc Montréal to cease operations and take steps toward its dissolution. The Technoparc Montréal financial statements do not include any adjustments of the amounts and the classification of assets and liabilities which would be required if the assumption of the organization's survival was not certain. In this case, the organization would have to realize its assets and discharge its liabilities in conditions other than the normal course of business, in amounts different from those stated in these financial statements.

## REPORT

On March 15, 2018, I issued an unqualified auditor's report for this organization.

This is an extract from the report:

## OPINION

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Technoparc Montréal as at December 31, 2017, and the results of its operations, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## OBSERVATIONS

Without qualifying my opinion with a reservation, I draw attention to note 1 of the financial statements, which states that on February 13, 2018, the Ville de Montréal issued a non-renewal notice for the management and funding agreement and asked the organization to cease operations and take steps toward its dissolution. This situation suggests there is uncertainty concerning the future of Technoparc Montréal.

