



2009 Consolidated Financial Statements

Presentation to Audit Committee

June 30, 2010

Agenda

- History: Public Sector Accounting Standards
- New Standards starting 2009
- 2009 Financial Statements
- Tangible Capital Assets
- Financial Highlights
- Questions



History of Public Sector Accounting

History: Public Sector Accounting

Prior to 1981:

- OICA conducted in-depth study of public sector reporting practices
- Wide disparities in reporting practices
- Ontario municipalities followed accounting policies prescribed by the province

History: Public Sector Accounting

1981

- Public Sector Accounting Board (PSAB) established
- Goal: to improve & standardize reporting

2000

- Ontario municipalities adopt PSAB
- PSAB published Employee Future Benefit & Landfill Post-Closure Liabilities

History: Public Sector Accounting

2002

- CICA publishes Accounting for Infrastructure in the Public Sector

2003

- Federal & Provincial government's report tangible capital assets (TCAs) and follow new reporting framework
- Municipalities excluded were given more time to adapt



History: Public Sector Accounting

2004

- Section 1300 strengthened to clearly define the government reporting entity, comprising all organizations controlled by the government

2009

- Municipalities must report tangible capital assets (TCAs) and follow new reporting framework for the 2009 financial reporting year

New Standards Effective 2009

PSAB 1200: Financial Statement Presentation

- Including Full Accrual Accounting

PSAB 3150: Tangible Capital Assets

- Requires municipalities to report TCAs & amortize them over expected useful life



Full Accrual Accounting

- Revenues recognized as earned
- Expenses recognized as incurred
- TCAs are amortized (expensed) over expected useful lives

New Financial Reporting

4 Financial Statements:

- Financial Position
- Operations & Accumulated Surplus
 - replaces Statement of Financial Activities
- Change in Net Debt (New)
- Cash Flows



Budget & Accounting View Comparison

Surplus Comparison

	2009		2009
	\$M		\$M
	Operating budget variance		Accounting
Revenues	9,856	Revenues	10,414
Expenditures	<u>9,462</u>	Expenses	<u>9,917</u>
Surplus	<u>394</u>	Surplus	<u>497</u>

Budget = Cash Requirement

Expenditures = Funding sources

Operating Budget (paid in yr)

- Salaries
- Benefits paid
- Transfer payments
- Materials
- Contractors
- **Debt principal & interest**

- Tax
- Subsidies (operating)
- User fees
- Reserve & reserve funds

Budget = Cash Requirement

Expenditures = Funding sources

Capital Budget (paid in yr)

- Purchases
- Materials
- Contractors

- Capital from Current
- Subsidies (capital)
- **Debt financing**
- **Reserve & reserve funds**
- Development Charges

Accounting: Statement of Operations

Expenses incurred

- Salaries
- Transfer Payments
- Materials
- Contractors
- Debt Interest only
- Benefits earned & payable
- Consumption of assets
- Landfill post-closure

Revenues earned

- Tax
- All subsidies (Oper. & Cap.)
- User fees
- Development charges
- (NO reserves/ reserve funds)
- (NO debt financing)

Accounting: Statement of Operations

Revenues minus Expenses

=

Surplus

- Funding source for TCA acquisition
- Revenues include Capital Subsidies, Expenses exclude TCAs



2009 Consolidated Financial Statements

Operations & Accumulated Surplus

	2009
	(\$ 000s)
Total Revenues	10,414,491
Total Expenses	<u>9,917,288</u>
Annual Surplus	497,203
Accumulated Surplus - beginning	<u>14,268,408</u>
Accumulated Surplus - ending	<u>14,765,611</u>

Statement of Change in Net Debt

Purpose	What's New or Different
<p>Net Debt resulting from:</p> <ul style="list-style-type: none">• Annual Operating Surplus • TCA transactions<ul style="list-style-type: none">○ Acquisitions, Disposals, Amortization • Changes in Non-Financial Assets	<ul style="list-style-type: none">• New Statement • Unique to governments • Important financial measure for governments

Statement of Change in Net Debt

	2009
	(\$ 000s)
Annual Surplus	497,203
Amortization of TCAs	1,071,896
Acquisition of TCAs	(1,854,045)
Gain / proceeds	33,185
Change due to TCAs	(251,761)
Change in Inventories & Prepaids	(39,992)
Increase in Net Debt	(291,753)
Net Debt - Beginning of Year	(3,538,042)
Net Debt - End of Year	(3,829,795)

Statement of Cash Flow

Purpose	What's New or Different
<p><u>City's Cash Position</u></p> <ul style="list-style-type: none">• Annual surplus• Change in Assets & Liabilities• Capital• Investing• Financing	<ul style="list-style-type: none">• Similar to Prior Years• Difference – Capital Activities<ul style="list-style-type: none">○ TCAs○ Amortization○ Proceeds

Statement of Cash Flow

	2009
	<u>\$000s</u>
ANNUAL SURPLUS	497,203
Non-cash expenses	<u>947,932</u>
	1,445,135
Change in non-cash assets and liabilities	<u>(621,884)</u>
Cash provided by OPERATING ACTIVITIES	<u>823,251</u>
Cash applied to CAPITAL ACTIVITIES	<u>(1,805,553)</u>
Cash provided by INVESTING ACTIVITIES	<u>839,583</u>
Cash provided by FINANCING ACTIVITIES	<u>109,958</u>
Net (decrease) in cash during the year	(32,761)
Cash – beginning of year	<u>231,213</u>
Cash – end of year	<u>198,452</u>

Statement of Financial Position (Balance Sheet)

Purpose	What's New or Different
<p>Summarizes:</p> <ul style="list-style-type: none"> • Assets: Financial & Non Financial • Liabilities • Net Debt <ul style="list-style-type: none"> ○ Liabilities – Financial Assets • Accumulated Surplus 	<ul style="list-style-type: none"> • Tangible Capital Assets (TCAs) • Accumulated Surplus: <ul style="list-style-type: none"> • Operating Fund • Capital Fund • Reserves/ Reserve Funds • Amt's to be recovered • Net Investment in TCAs

Statement of Financial Position

	<u>2009</u>	<u>2008</u>	Difference
	(\$ Ms)	(\$ Ms)	(\$ Ms)
Investments	3,251	3,819	(568)
Notes Rec. - T.Hydro	490	735	(245)
All other	2,987	2,555	432
Total Fin. Assets	6,728	7,109	(381)
Deferred Revenue	1,576	1,919	(343)
Net Long Term Debt	2,799	2,741	57
Emp. Benefit Liabilities	2,669	2,589	80
All other	3,514	3,398	116
Total Liabilities	10,558	10,647	(89)
Net Debt	(3,830)	(3,538)	(292)
Non-Financial Assets	18,595	17,806	789
Accumulated Surplus	14,765	14,268	497

Future Plans

- City of Toronto Act
 - Accrual Budget - Optional
- Review potential for Accrual Based Budget as part of multi-year operating budget strategy



Tangible Capital Assets

Tangible Capital Assets

- **Project team:**
 - Case Oortwyn
 - Junior Campbell
 - Manel Daniel
 - Pina Iacoucci
 - Julian Lebowitz
- Many divisional staff
- OMBI partners
- E&Y



Tangible Capital Assets

- Physical Assets
- Used in the Production or Supply of Goods & Services
- Useful life beyond 1 year

Tangible Capital Assets

- Significant work was required
 - Inventorying assets
 - Estimating historical cost
 - Estimating useful lives
 - Tracking segments - betterments, acquisitions, disposals, etc.

Tangible Capital Assets

- Thresholds:
 - Land, assets under construction - all
 - Vehicles, mach & equip >\$10K
 - Buildings, improvements, leaseholds >\$50K
 - Pooled assets >\$500K
- Pooled assets – some machinery & equipment, computer hardware
- Whole asset

Tangible Capital Assets

- **General**

- Assets not part of a network: land, land improvements, buildings, machinery & equipment, and fleet

- **Infrastructure**

- Part of a network: roads, water or transit. Includes plants, pipes, roads, subway system, connected rolling stock, and track

Tangible Capital Assets

- **Sewer system:**

- (Cost \$4.3B ,Rep \$24.1B)
- 10,335 km of pipes, 162,440 segments
- 4 Wastewater treatment plants
- Useful lives up to 100 years

- **Water system:**

- (Cost \$1.8B, Rep \$9.9B)
- 5,898 km watermains, 44,181,segments
- 4 Water treatment plants
- Useful lives up to 100 years

Tangible Capital Assets

- **Road system:**
 - (Cost \$3.2B, Rep \$9.7B)
 - 5,576 kms
 - 51,083 segments
- **Bridges & culverts:**
 - (Cost \$0.44B, Rep \$2.3B)
 - 604

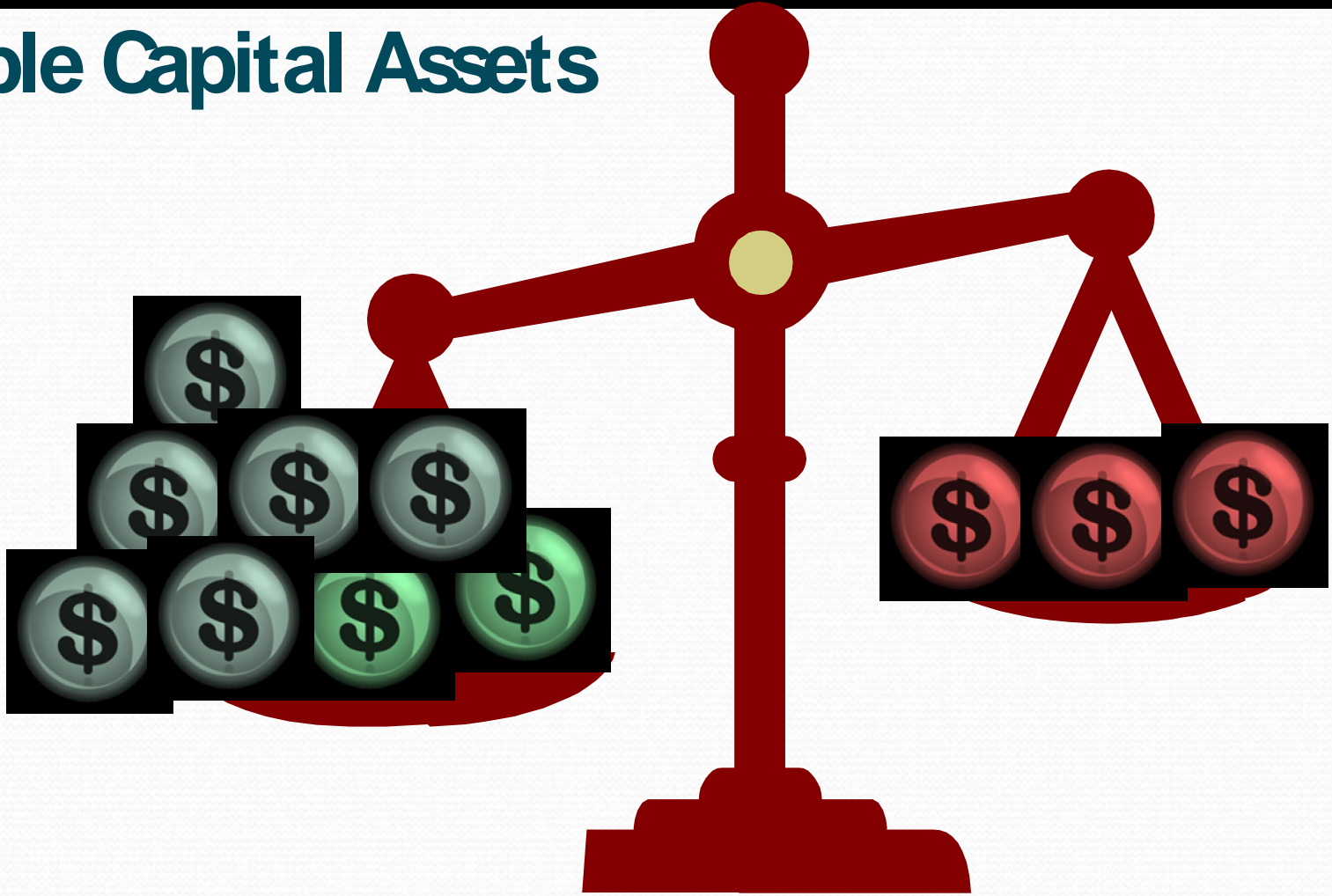
Tangible Capital Assets

	City, including Police Services	TTC	TCHC	Toronto Public Library	All Other	TOTAL
	\$Ms	\$Ms	\$Ms	\$Ms	\$Ms	\$Ms
General						
Cost	6,253	2,956	2,844	321	175	12,549
Accumulated amort.	1,457	1,408	715	139	41	3,760
Net Book Value	4,796	1,548	2,129	182	134	8,789
Infrastructure						
Cost	10,349	4,979				15,328
Accumulated amort.	4,372	2,905				7,277
Net Book Value	5,977	2,074				8,051
Assets under construction	411	884	112	24	118	1,549
Total	11,184	4,506	2,241	206	86	18,389

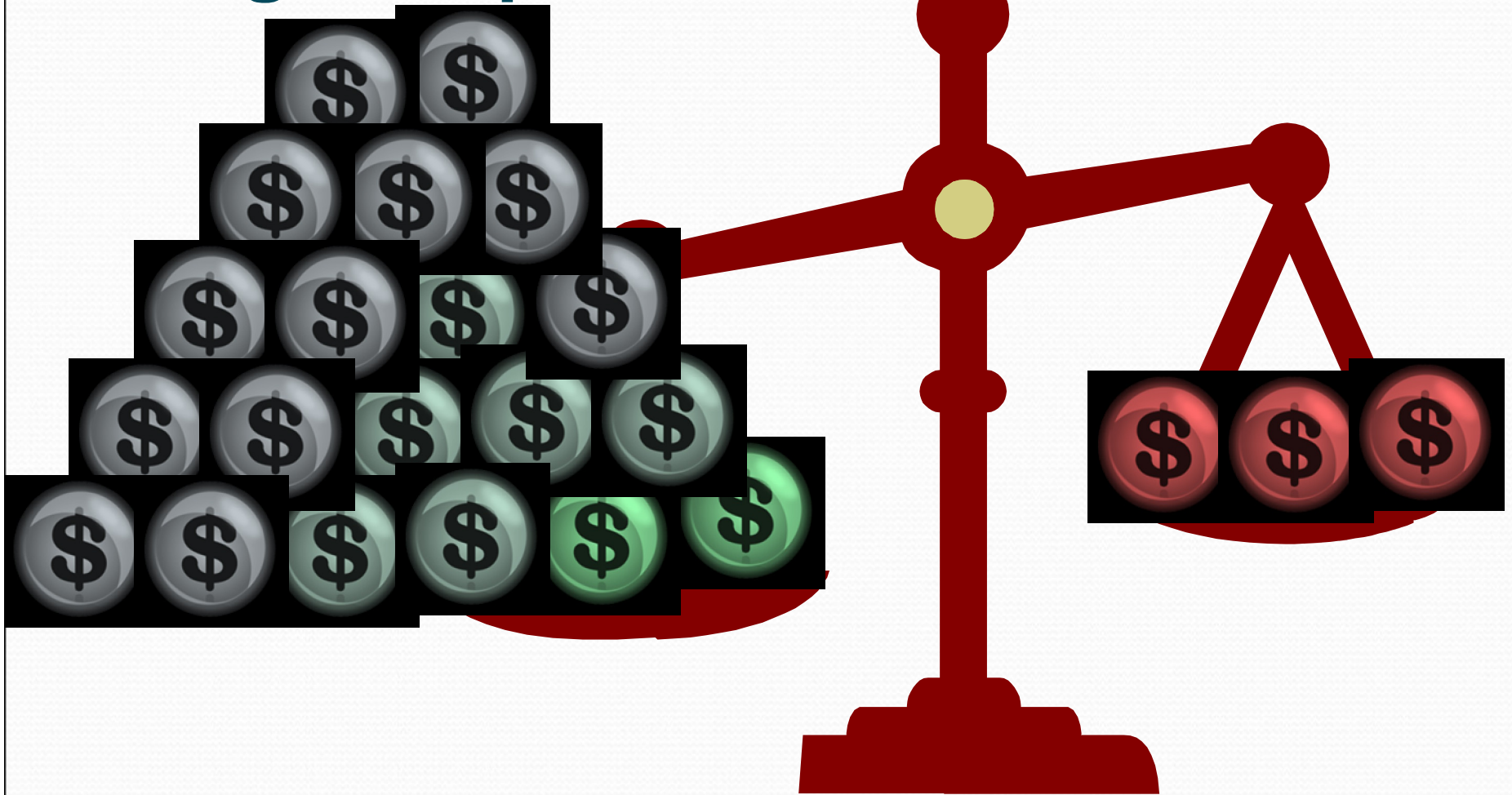
Tangible Capital Assets



Tangible Capital Assets

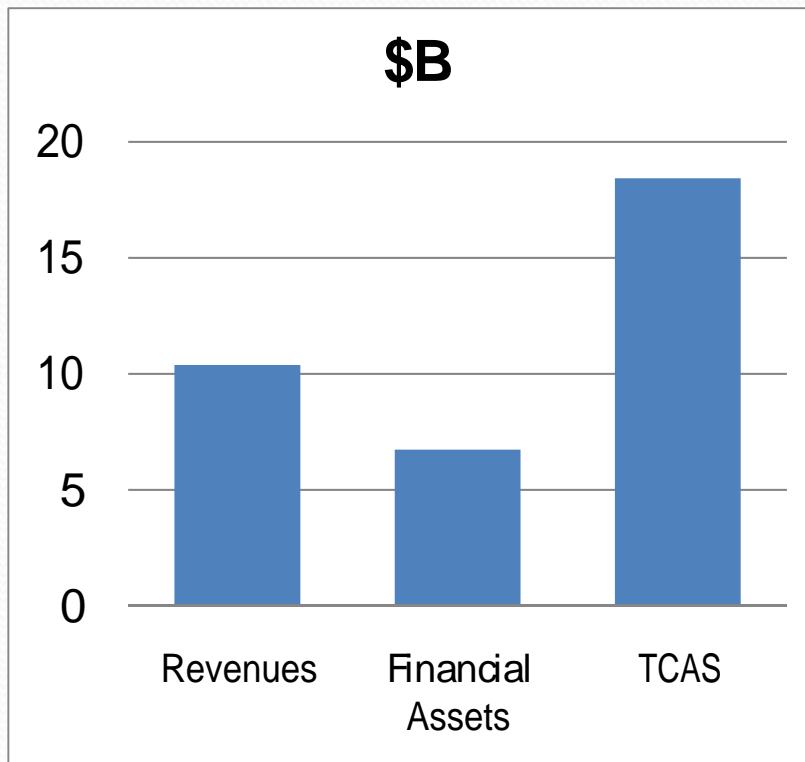


Tangible Capital Assets

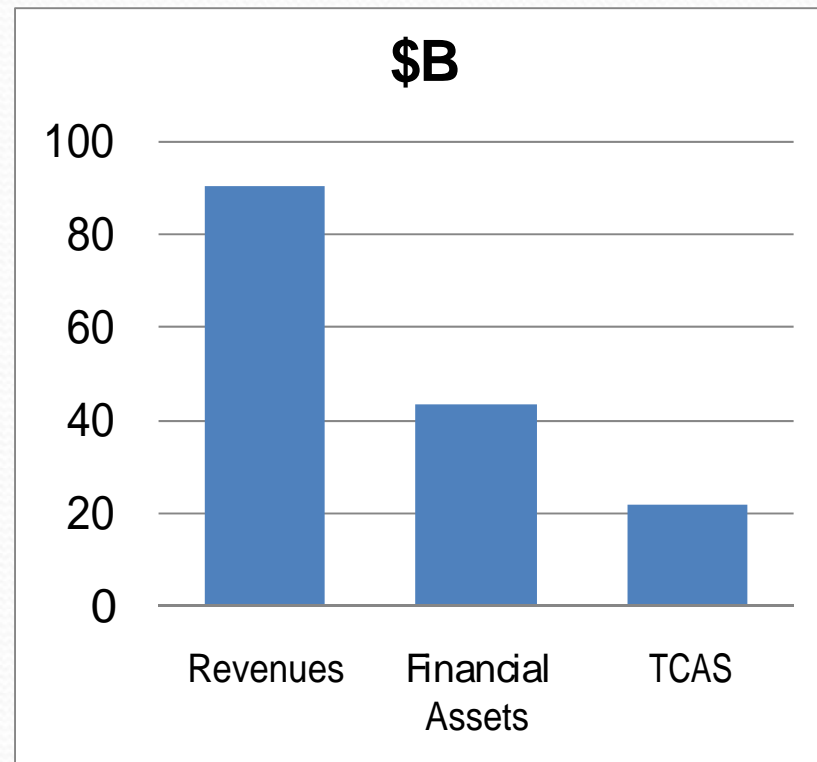


Comparison with Ontario

TORONTO



ONTARIO





What Improvements Did We Get?

We now have:

- Audited inventory of assets
- Recognition of costs of assets, at purchase and on-going
- Platform to do more

How Will We Use This?

- Amortization is an indicator of assets consumed, but at historic cost
 - Compare amortization to current sources of capital funding: reserves, principal repayments, contributions to capital
- Compare assets fully amortized or near the end of their useful lives, with SOGR plans
- Recognition of TCAs does not provide the value of the Infrastructure deficit



Staff Report & Financial Highlights

Staff Report

- Provides the “why” and “how” of the financial results
- Follows PSAB guidelines to content and presentation
- Incorporated in annual report
- Includes more Plain Language
- Glossary of Terms - New

Employee Benefit Liabilities

	2009 \$Ms	2008 \$Ms	Diff
Pension liabilities, other than OMERS	110	150	(40)
Sick leave benefits	429	468	(39)
WSIB obligations	358	333	25
Employment & post-employee benefits	1,565	1,878	(313)
Employee accrued benefit obligation	2,461	2,829	(368)
Unamortized actuarial gain (loss)	208	(240)	448
Employee benefit liabilities	2,669	2,589	80

Net Debt 5 year summary

	annual increase	2009 \$Ms	2008 \$Ms	2007 \$Ms	2006 \$Ms	2005 \$Ms
Liabilities	6.96%	10,558	10,647	9,631	8,452	8,068
Financial Assets	4.19%	6,728	7,109	6,580	6,000	5,680
Net Debt	12.54%	3,830	3,538	3,051	2,452	2,388
% age increase		8.25%	15.97%	24.42%	2.69%	

Comparison to Others

	2008					
	(\$M)					
	Toronto	Montreal	Ottawa	Calgary	Edmonton	Vancouver
Investments	3,819	1,268	773	1,958	1,399	610
Investment in GBEs	1,157	-	317	1,599	2,430	-
Interest bearing L.T. debt	3,611	7,638	775	1,959	1,041	484
Net debt	(3,538)	(5,305)	(453)	680	2,387	(157)

Closing Comments

- Monumental Change in Reporting
- New Statements:
 - More Balanced Representation
 - Comparable across all levels of government
- Lays Groundwork for Better Reporting, Stewardship & Management of Assets
- AA Credit Rating
- GFOA Award for Financial Reporting

Questions

