Toronto Port Lands Company – 2011 Audited Financial Statements

Date:	August 21, 2012
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer

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Disclosure of Financial Results:

Toronto City Council is the sole shareholder of Toronto Economic Development Corporation (TEDCO), which is now operating as Toronto Port Lands Company (TPLC) as per City Council's direction in August 2009.

TPLC is the largest property owner in the Port Lands. Its primary business is to manage and lease over 162 hectares of property while providing environmental stewardship and direction for redevelopment in the port land area.

Section 8.3 of the Shareholder Direction requires the Corporation to deliver its audited consolidated annual financial statements to the Shareholder within 120 days of its fiscal year end which is December 31st. These documents are filed with the City Clerk's office. This report provides a summary of the Audited 2011 Consolidated Financial Statements for TPLC and its wholly owned subsidiaries: Arrowhead New Toronto East Inc., Arrowhead New Toronto West Inc., and Arrowhead New Toronto South Inc. The last two subsidiary corporations have no assets and have been inactive since their incorporation in 2005.

Consolidated Financial Results

Change in accounting policy (from GAAP to IFRS):

Prior to 2011 TPLC prepared its financial statements in accordance with Generally Accepted Accounting Standards (GAAP). The Corporation has been designated as a Government Business Enterprise (GBE) and required to adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) effective January 1, 2011. The consolidated financial statements for the year ended December 31, 2011 are the first annual statements prepared in accordance with IFRS with comparative 2010 financial results restated for presentation purposes.

The change in accounting policy has affected the manner in which real properties are reported in the financial statements. The following table shows the impact of IFRS on key 2010 financials compared with GAAP as previously reported:

$Million

Impact of IFRS on prior year (2010) financial results	Restated (IFRS)	Previously reported (GAAP)	Increase/ (Decrease)
Total Assets (as at Dec 31, 2010)	539.8	212.5	327.3 *
Total Liabilities (as at Dec 31, 2010)	167.7	167.7	-
Shareholder's Equity (as at Dec 31, 2010)	372.1	44.8	327.3 *
2010 Net Income	4.0	5.0	(1.0) **

*Notes: * due to higher valuation of investment properties under IFRS (see below)*
*** due to the amortization of investment properties with higher values*

Under IFRS, there are two types of real properties: investment properties and asset held for sale.

A. Investment properties — include land, office and other commercial properties held to earn rental income (Income-Producing Properties) or for capital appreciation or for which the future use is uncertain (Properties Under Development).

   Investment properties are accounted for using the cost model where the cost of an income-producing property is allocated to its significant components and is amortized over the useful life of each component. Cost of investment property includes the acquisition cost (including transaction costs in connection with the asset acquisition), environmental assessment, site survey, appraisals, direct development and construction costs, and property taxes during development.

   The costs of properties under development, including borrowing cost, are not amortized unless they are reclassified to income-producing properties upon completion and receipt of all necessary occupancy permits.

B. Asset held for sale — comprises assets or disposal groups where they are available for sale in its present condition and the sale is highly probable, such as if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current assets or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and changes to the plan are unlikely. For example, during 2011 City Council approved the sale of Corus Quay (a 500,000 square-ft office and broadcast facility on the waterfront) and marketing efforts were initiated. Offers were received from potential buyers in fall of 2011. In the 2011 financial statements Corus Quay was reclassified from investment property to asset held for sale.

Assets held for sale are measured at the lower of the book value or fair value and are not amortized.

TPLC's 2011 financial highlights:

- net investment property rental income of $19.9M, an increase of $0.5M (or 3%) from investment properties compared with last year
- net income of $6.9M, an increase of $2.9M or 73% compared with last year
- total assets of $523.8M, including $339.8M in investment properties and $149.4M in asset held for sale (Corus Quay)
- transfer of $10.8M properties to Build Toronto
- financial support totalling $3.8M provided to Invest Toronto Inc. and the Incubator Program at the City's Economic Development and Culture Division.

Consolidated Balance Sheet:

The following table summarises the Corporation's Consolidated Balance Sheet as at December 31, 2011 and compares it with that at December 31, 2010.

Toronto Port Lands Company
Summary Consolidated Balance Sheet
As at December 31

$Million

	2011	2010	Increase/ (Decrease)
Assets:			
Current assets	33.195	44.911	(11.716)
Non-current / asset held for sale	490.559	494.846	(4.287)
Total assets	**523.754**	**539.757**	(16.002)
Liabilities:			
Current liabilities	8.944	23.322	(14.378)
Non-current / liabilities related to asset held for sale	146.625	144.362	2.263
Total liabilities	**155.569**	**167.683**	(12.115)
Shareholder's equity	**368.186**	**372.073**	(3.888)
Total liabilities & shareholder's equity	**523.754**	**539.757**	(16.002)

Total assets as at December 31, 2011 decreased by $16.0M mainly due to the following key items:

- a $10.8M transfer of beneficial interest in the sale of a property at Midland and St. Clair Avenues in Scarborough to BTI, which took effect in June 2011, and resulted in a corresponding decrease in retained earnings.
- a $4.3M decrease in non-current and asset held for sale, from:
  - a $149.4M increase in asset held for sale, mostly offset by a $140.7M reduction in investment properties due to reclassification ,
  - a $9.1M decrease in restricted investments related to the release of Filmport GE loan guarantee in 2011

- a $4.1M decrease in other non-current assets, mainly in rent receivable resulting from the reclassification of investment property to asset held for sale.

Total liabilities as at December 31, 2011 decreased by $12.1M mainly due to:

- a $10.9M decrease in accounts payable and accrued liabilities, largely resulting from payments made in 2011 to Corus ($4.4M) and the City of Toronto ($3.4M), and current liabilities reclassified to liabilities related to asset held for sale ($2.5M).

Shareholder's equity decreased by $3.9M as a result of the $6.9M net income reduced by a transfer of assets of $10.8M to Build Toronto.

Statement of Net and Comprehensive Income:

The table below summarizes and compares the results for the years 2011 and 2010:

Toronto Port Lands Company
Summary Statement of Net and Comprehensive Income (Loss)
For the year ended December 31
$Million

	2011	2010	Increase/ (Decrease)
Revenues from investment properties	35.741	30.250	5.491
Investment property operating expense	15.887	10.887	5.000
Net property income	**19.854**	**19.363**	0.491
Expenses			
General & administrative, environmental	3.182	2.810	0.372
Amortization	1.627	5.230	(3.603)
Operating expenses	4.809	8.040	(3.231)
Income before the following	**15.045**	**11.323**	**3.722**
Other income/(expense)			
Property tax rebate	1.458	0.201	1.257
Incubator program funding	(1.548)	(1.500)	(0.048)
Invest Toronto Inc. grant	(2.272)	(2.756)	0.484
Interest, net	(5.856)	(4.900)	(0.956)
Gain on sale of investment properties	0.060	1.623	(1.564)
Net income & comprehensive income	**6.887**	**3.992**	**2.895**
Retained earnings – beginning of year	372.073	368.082	3.992
Contributed Surplus	0.000	0.000	0.000
Transfer of assets to Build Toronto Inc.	(10.774)	0.000	(10.774)
Retained earnings – end of year	**368.186**	**372.073**	**(3.888)**

- There was a decrease in $3.6M in amortization costs compared with prior year largely as a result of reclassifying investment property to asset held for sale.

- Included in other income/(expense) are:
  - $1.5M in rebates for remediation costs incurred and future property taxes as part of Tax Incremental Financing Grant, a City incentive program for new property developments,
  - $1.5M paid to the City's Economic Development and Culture Division as a grant towards its incubator program,
  - $2.3M paid to Invest Toronto Inc. as a five year grant agreement to provide operational and capital funding until 2013, and
  - $5.9M in net interest costs, mainly on the $128.5M City of Toronto loan at 5% per annum compounded monthly, advanced on the construction loan facility of $132 million approved by the City for the construction of Corus Quay.

Net income for 2011 was $6.9M, resulting from a net operating income of $15.0M reduced by a net other expense of $8.1M.

Subsequent events:

Corus Quay, the property designated as asset held for sale, was sold on March 9, 2012 for $186.0 M. A dividend of $40.0M was declared and paid to the City as the shareholder on April 26, 2012.

CONTACT

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SIGNATURE

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ATTACHMENT

Appendix A – 2011 Audited Consolidated Financial Statements of City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company