

# CITY OF TORONTO

## 2015 Consolidated Financial Statements



Presentation to Audit Committee

July 4, 2016

# Presentation Outline

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- Overview
- 2015 Consolidated Financial Statements
- Financial Statements vs. Budgeting
- 2015 Financial Highlights
- New Standard Implemented in 2015
- Upcoming Changes For Future Years
- Concluding Remarks
- Questions

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# Overview

# Roles and Responsibilities

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## ***Management***

- Prepare Statements in accordance with GAAP
- Sound financial system design
- Internal control system

## ***Auditors***

- Evaluate & test critical financial systems
- Perform other tests in accordance with GAAS
- Express opinion as to fairness in “all material respects”

# 122 Entities Included in FS

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- 20 Agencies & Corporations
- 18 Arena & community centre boards
- 81 Business Improvement Areas (BIAs)
- 3 Government Business Enterprises (GBEs)
  - Separate, self supporting legal business enterprises controlled by the City
    - Toronto Hydro
    - Toronto Parking Authority
    - Toronto Port Lands Company

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# **2015 Consolidated Financial Statements**

# Statement of Financial Position (Balance Sheet)

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Financial Assets	<ul style="list-style-type: none"> <li>▪ Cash or Assets that convert to cash, including Accts receivable, Investments in GBEs</li> </ul>
Liabilities	<ul style="list-style-type: none"> <li>▪ Amounts owing</li> <li>▪ Obligations that must be paid over the short &amp; longer term</li> <li>▪ Includes both funded &amp; unfunded liabilities</li> </ul>
Net Debt	<ul style="list-style-type: none"> <li>▪ Financial Assets – Liabilities</li> </ul>
Non-Financial Assets	<ul style="list-style-type: none"> <li>▪ Tangible Capital Assets (TCAs)</li> <li>▪ Inventories &amp; Prepaid Expenses</li> </ul>
Accumulated Surplus	<ul style="list-style-type: none"> <li>▪ Amount by which all Assets (Financial &amp; Non Financial) exceed all Liabilities</li> </ul>

# Statement of Financial Position (\$M)

	<u>2015</u>	<u>2014</u>
Investments	5,153	4,592
Investments in GBES	2,026	1,905
All other	1,892	2,036
<b>Total Fin. Assets</b>	<b>9,071</b>	<b>8,533</b>
Accounts Payable & Accrued Lia.	3,143	2,787
Deferred Revenue	2,241	2,007
Net Long Term Debt & Mortgages	5,223	4,758
Emp. Benefit Liabilities	3,599	3,410
All other	945	866
<b>Total Liabilities</b>	<b>15,151</b>	<b>13,828</b>
<b>Net Debt</b>	<b>(6,080)</b>	<b>(5,295)</b>
<b>Non-Financial Assets</b>	<b>27,323</b>	<b>25,344</b>
<b>Accumulated Accounting Surplus</b>	<b>21,243</b>	<b>20,049</b>



# Accumulated Surplus is comprised of:

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	(\$ Million)
Tangible Capital Assets	26,965
Fund Balances(Optg\$2.7B, <b>Capital \$(930M)</b> , R&RFs \$1.8B)	3,631
<b>LESS:</b> <u>Amounts Expected to Be Recovered:</u>	
Mortgages (TCHC)	511
Net Long Term Debt	4,713
Landfill Closure & Post Closure Liabilities	142
Employee Benefits	3,599
Other	388
	<u>(9,353)</u>
Accumulated Accounting Surplus	<u>21,243</u>

# Operations & Accumulated Surplus

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	<b>2015</b>	<b>2014</b>
	(\$Ms)	(\$Ms)
Total Revenues	<b>12,020</b>	<b>11,351</b>
Total Expenses	<b>10,826</b>	<b>10,462</b>
Annual Accounting Surplus	<b>1,194</b>	<b>889</b>
Accumulated Surplus – beginning	<b>20,049</b>	<b>19,160</b>
Accumulated Surplus – ending	<b>21,243</b>	<b>20,049</b>

# Statement of Change in Net Debt

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- Unique to governments
- Critical for governments as an indication of financing requirements
- Toronto, unlike the Provincial and Federal governments, can only borrow to invest in assets
- Calculates change in Net Debt:

Annual surplus

+/- TCA transactions

+/- Change in other Non-Financial assets

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= Change in Net Debt

# Statement of Change in Net Debt

	<b>2015</b>	<b>2014</b>
	(\$Ms)	(\$Ms)
Annual Accounting Surplus	<b>1,194</b>	<b>889</b>
Amortization of TCAs	851	871
Acquisition of TCAs	(2,884)	(2,486)
Loss (gain) on disposal of TCAs	7	(5)
Proceeds on sale of assets	12	-
<i>Change due to TCA</i>	<b>(2,014)</b>	<b>(1,620)</b>
Change in Inventories & Prepays	<b>35</b>	<b>(1)</b>
Decrease (increase) in Net Debt	<b>(785)</b>	<b>(732)</b>
Net Debt - Beginning of Year	(5,295)	(4,563)
Net Debt - End of Year	<b>(6,080)</b>	<b>(5,295)</b>

# Statement of Cash Flow

	2015 \$Ms	2014 \$Ms
ANNUAL Accounting SURPLUS	1,194	889
Non-cash expenses	487	692
	1,681	1,581
Change in non-cash assets and liabilities	738	322
Cash provided by <b>Operating</b> activities	2,419	1,903
Cash applied to <b>Capital</b> activities	(2,872)	(2,486)
Cash provided by (applied to) <b>Investing</b> activities	(351)	155
Cash provided by <b>Financing</b> activities	565	281
<b>Net (decrease) in cash during the year</b>	<b>(239)</b>	<b>(147)</b>
Cash – beginning of year	444	591
Cash – end of year	205	444

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# Financial Statements vs Budgeting

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<b>Financial Statements: Consolidated (City + ABCs)</b>	<b>Budgets: City Only</b>
<p><b>Includes:</b></p> <ul style="list-style-type: none"><li>▪ Agencies &amp; Corporations, BIAs, GBEs</li><li>▪ Tax &amp; Rate Supported Financials</li><li>▪ Operating, Capital, Reserve &amp; Reserve Funds</li></ul>	<p><b>Separate Budgets for:</b></p> <ul style="list-style-type: none"><li>▪ Agencies &amp; Corporations, GBEs, BIAs</li><li>▪ Tax, Water, Solid Waste</li><li>▪ Operating &amp; Capital (Reserve &amp; Reserve Funds included in both)</li></ul>

# Financial Statements vs Budgeting

<b>Financial Statements (Full Accrual Accounting)</b>	<b>Budgets (Cash Requirements Basis)</b>
<ul style="list-style-type: none"><li>▪ Revenues &amp; Expenses recognized when earned or incurred (regardless of when cash is exchanged)</li> <li>▪ Includes <u>non-cash expenses</u> (e.g. amortization &amp; changes to long-term liabilities)</li> <li>▪ TCA: Expenditures are capitalized</li></ul>	<ul style="list-style-type: none"><li>▪ Recognizes transactions when funded</li> <li>▪ Cash/Funded Items Only (No amortization of TCAs)</li> <li>▪ TCAs: Expenditures recognized as asset is acquired or built</li></ul>



# Reconciliation of 2015 Surplus

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	<u>2015</u> (\$M)
<b>Tax supported Budget surplus as reported</b>	<b>131</b>
Legislative / Council-directed transfers to R&RFs	21
Non cash adjustments to the ABC surpluses	(70)
Net decrease in City's equity in GBE's (Non-Cash)	120
PSAB Adjustments	5
Net Change in TCAs, Capital & Reserve Fund Balances	758
Other Non Cash adjustments	229
<b>Accounting Surplus for the year</b>	<u><b>1,194</b></u>

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# 2015 Financial Highlights

# Tangible Capital Assets: 2015 (in \$Billion)

	Cost	Accum. Amort.	Net Book Value
<b>General</b>			
Land & Land Improvements	4.6	0.3	4.3
Buildings & Building Improvements	7.9	3.0	4.9
Machinery, Equip, Vehicles	4.3	2.7	1.6
<b>Total General</b>	<b>16.8</b>	<b>6.0</b>	<b>10.8</b>
<b>Infrastructure</b>			
Land, Bldg & Bldg Improvements	0.7	0.2	0.5
Machinery & Equipment	1.7	1.0	0.7
Water & Wastewater Linear	5.9	2.1	3.8
Roads Linear	4.3	2.1	2.2
Transit	6.8	3.6	3.2
<b>Total Infrastructure</b>	<b>19.4</b>	<b>9.0</b>	<b>10.4</b>
<b>Assets Under Construction</b>	<b>5.8</b>	<b>-</b>	<b>5.8</b>
<b>TOTAL (2015)</b>	<b>42.0</b>	<b>15.0</b>	<b>27.0</b>
2014	39.4	14.4	25.0

# Assets Under Construction (AUCs)

	<b>2015 \$M</b>	<b>2014 \$M</b>
TTC	3,714	3,456
City	1,873	1,746
TCHC	109	116
Toronto Waterfront	102	125
Library	5	9
<b>Total AUCs</b>	<b>5,803</b>	<b>5,452</b>

# Employee Benefit Liabilities, by Entity

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>
City	2,069	2,034	1,704	1,721	1,810
City Pre-OMERS Pensions	-	-	8	27	124
Police	574	695	599	569	581
Other Entities	855	809	720	687	664
<b>Gross Liabilities</b>	<b>3,498</b>	<b>3,538</b>	<b>3,032</b>	<b>3,004</b>	<b>3,179</b>
Unamortized Gain/(Loss)	101	(128)	135	32	(403)
<b>Net Liabilities</b>	<b>3,599</b>	<b>3,410</b>	<b>3,166</b>	<b>3,036</b>	<b>2,776</b>

# Net Long Term Debt & Mortgages

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- Increased by \$466M to \$5,223M
  - City – ↑\$287M
  - TCHC – ↓\$21M
  - TDSB – ↓\$5M
- Issued \$944M in debt during 2015
- Repayments \$407M
- Sinking fund earnings \$71M

# Debenture Issuance in 2015 (\$000's)

	<u>Total</u>	<u>Sony Centre</u> <u>≤ 5 years</u>	<u>TCHC</u> <u>≤ 5 years</u>	<u>City</u> <u>10 years</u>	<u>City</u> <u>20 years</u>	<u>TCHC</u> <u>30 years</u>
<b>Summary by Service</b>						
Exhibition Place	11,090	-	-	-	11,090	-
Social Housing	243,163	-	15,491	-	-	227,672
Solid Waste Management	43,133	-	-	43,133	-	-
Sony Centre	425	425	-	-	-	-
Toronto Public Library	7,783	-	-	-	7,783	-
Transportation	55,000	-	-	30,000	25,000	-
Transit	582,994	-	-	226,867	356,127	-
	<b>943,588</b>	<b>425</b>	<b>15,491</b>	<b>300,000</b>	<b>400,000</b>	<b>227,672</b>

# Net Debt & TCAs: 5 Year Summary

(\$M)

	4 Year Average Annual Increase	2015	2014	2013	2012	2011
<b>Net Debt</b>	<b>8.5%</b>	<b>6,080</b>	<b>5,295</b>	<b>4,562</b>	<b>4,245</b>	<b>4,389</b>
<b>Percentage Increase</b>		<b>14.8%</b>	<b>16.1%</b>	<b>7.5%</b>	<b>(3.3%)</b>	
<b>Net TCAs</b>	<b>6.8%</b>	<b>26,965</b>	<b>24,970</b>	<b>23,386</b>	<b>22,110</b>	<b>20,699</b>
<b>Percentage Increase</b>		<b>8.0%</b>	<b>6.8%</b>	<b>5.8%</b>	<b>6.8%</b>	



# Comparisons to Others: 2015 (\$M)

	Toronto	Montreal	Ottawa	Calgary	Edmonton	Vancouver
Investments	5,153	3,151	1,388	4,118	1,749	1,644
Investment in GBEs	2,026	-	413	2,299	2,515	-
Interest bearing L.T. debt	5,223	10,562	1,837	3,361	3,033	944
Net <b>debt</b> / assets	<b>(6,080)</b>	<b>(5,637)</b>	<b>(1,564)</b>	1,249	1,081	118
Tangible capital assets (net)	26,965	12,168	13,741	14,910	12,449	6,454

# New Standard Implemented in 2015

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- PS 3260 Contaminated Sites - Implementation for 2015
- Liability was recorded in 2015 Financial Statements
- Requirements:
  - All Sites had to be assessed: City, Agencies and Corporations, except for GBEs
  - Sites classed as in Productive or Non-Productive Use
  - Contamination compared to environmental standard
  - Measured contaminated site liabilities.

# Upcoming Changes for future years

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- 2017:
  - Intro to Public Sector Accounting Standards
- 2018:
  - Related Party Disclosures PS2200
  - Assets PS3210, Contingent Assets PS3320, Contractual Rights PS3380, Inter-entity Transactions PS3420
- 2019:
  - Restructuring Transactions PS3430
- 2020:
  - Financial Statement Presentation PS1201
  - Foreign Currency Translation PS2601
  - Portfolio Investments PS3041
  - Financial Instruments PS3450

# Supplementary report

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- Our auditors have provided suggestions regarding better presentation, mainly:
  - Re-grouping and moving reclass of TCAs and provincial loan forgiveness
  - Minor corrections and wording improvements
  - Changes in employee future benefits note
- No net financial impact to the statements, implemented as it improves our financial presentation

# Closing Comments

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- AA/AA+ Credit Rating
- Net Debt increased \$785M
- Long Term Financial Direction
- GFOA Award for Financial Reporting  
9 years in a row

# Questions

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