

## **Build Toronto - Annual General Meeting and 2019 Audited Financial Statements**

**Date:** September 9, 2020

**To:** Executive Committee

**From:** City Manager and Chief Financial Officer and Treasurer

**Wards:** All

### **SUMMARY**

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This report transmits materials submitted by the Board of Directors of Build Toronto to the City. No independent review or analysis has been performed by City staff.

This report contains recommendations for the actions necessary to comply with the requirements of the Business Corporations Act, Ontario (OBCA) for holding the Annual General Meeting of the Shareholder of Build Toronto, including receipt of its Annual Report and Audited Financial Statements for 2019 and appointment of the auditor for 2020.

In light of the state of emergency that was declared in Ontario in response to the COVID-19 pandemic, the deadline to hold annual meetings of shareholders for OBCA corporations was temporarily extended through the addition of Part XIX to the OBCA. With the Ontario declaration of emergency having come to an end on July 24, 2020, the extended meeting deadlines for OBCA incorporated companies that were required to hold annual meetings on or before July 24, 2020 now have until October 22, 2020 to hold their annual meetings.

### **RECOMMENDATIONS**

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The City Manager and Chief Financial Officer and Treasurer recommend that:

1. City Council treat that portion of the City Council meeting at which this Report is considered as the Annual General Meeting of the Shareholder for Build Toronto by:
  - a. receiving the "CreateTO 2019 Annual Report", and the "Build Toronto 2019 Audited Annual Financial Statements", forming Attachments 1 and 2 to this Report.

b. appointing KPMG LLP as the Auditor of Build Toronto for fiscal year 2020, and authorizing the Board of Directors of Build Toronto to fix the remuneration of the Auditor.

2. City Council direct the City Clerk to forward a copy of the "Build Toronto 2019 Audited Annual Financial Statements", forming Attachment 2 to this Report, to the Audit Committee for information.

3. City Council, as Shareholder, direct the Board of Build Toronto Corporation, in consultation with the City of Toronto's Chief Financial Officer and Treasurer, to bring forward a report on the impacts of COVID-19 on Corporation operating and capitals budgets and operations, detailing any modifications to their programs and initiatives to address COVID-19, to City Council through Executive Committee, by Q1 of 2021.

## **FINANCIAL IMPACT**

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There are no financial implications resulting from the implementation of the recommendations in this report. Build Toronto paid the City \$25 million in dividends in 2019.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

## **DECISION HISTORY**

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On July 16, 2019, that portion of the City Council meeting where EX7.6 "Build Toronto - Annual General Meeting and 2018 Audited Financial Statements" was approved by Council, was considered the previous Annual General Meeting of the Shareholder for Build Toronto.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX7.6>

On July 11, 2012, City Council approved a requirement that Shareholder Directions for all wholly-owned City corporations be amended to require public disclosure to the extent permitted by law of individual executive compensation as part of the annual reporting to the Shareholder and where required obtain consent from executives.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX21.19>

## **ISSUE BACKGROUND**

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City Council authorized the establishment of Build Toronto in 2008 pursuant to section 148 of the City of Toronto Act, 2006, and Ontario Regulation 609/06. Build Toronto was incorporated under the Business Corporations Act (Ontario) (OBCA) on November 13 2008. The City is the sole shareholder.

Subsection 94(1) of the OBCA requires that the directors of a corporation call an annual meeting of shareholders not later than fifteen months after holding the last preceding

annual meeting. Section 149(2) requires shareholders at each annual meeting to appoint one or more auditors to hold office until the close of the next annual meeting. Subsection 154(1) requires the directors to place before each annual meeting of shareholders financial statements for the period that began immediately after the end of the last completed financial year and ended not more than six months before the annual meeting.

In light of the state of emergency that was declared in Ontario in response to the COVID-19 pandemic, the deadline to hold annual meetings of shareholders for OBCA corporations was temporarily extended through the addition of Part XIX to the OBCA. With the Ontario declaration of emergency having come to an end on July 24, 2020, the extended meeting deadlines for OBCA incorporated companies that were required to hold annual meetings on or before July 24, 2020 now have until October 22, 2020 to hold their annual meetings.

The date on which an OBCA corporation is required to hold its annual meeting of shareholders is based upon both the meeting date described in section 94 of the OBCA (within 15 months from the corporation's last annual meeting) and the financial statements required to be placed before the meeting (i.e., for the period that began immediately after the end of the last completed financial year and ending not more than six months before the annual meeting.). For OBCA corporations with a December 31 year-end, this generally requires that a meeting be held by no later than June 30. Part XIX, temporarily extends this deadline to October 22, 2020.

Under the temporary provisions of Part XIX of the OBCA, the directors of corporations must place before annual meetings the financial statements relating to the most recently completed annual period. The requirement that the financial information placed before an annual meeting pertain to a period ended not more than six months before the meeting is suspended. This clarifies that OBCA corporations holding their annual meetings by the extended deadline will be able to place their annual financial statements for the 2019 fiscal year before their shareholders at their 2020 annual general meeting.

### **City-Wide Real Estate Model**

On January 1, 2018, the City launched CreateTO, a new agency to lead the City-wide real estate delivery model adopted by City Council in 2017. This new model involves the operational consolidation of both Build Toronto and Toronto Economic Development Corporation (operating under the name Toronto Port Lands Company) through service agreements with CreateTO for specific real estate activities, including commercial development. Service agreements were also established between CreateTO and Build Toronto to support cost recovery for back office staff support.

As CreateTO is the management entity, Build Toronto's 2019 activities are reflected in the 2019 CreateTO Annual Report (Attachment 1).

## **COMMENTS**

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## 1. Appointment of Auditor

The City's Auditor General conducts a competitive process to select an external auditor. On June 29, 2020, City Council appointed KPMG LLP as the auditor licensed under the Public Accounting Act, 2004, who is responsible for annually auditing the accounts and transactions of the City and certain of its local boards and expressing an opinion on the financial statements of these bodies based on the audit, as per [AU5.7](#).

As a result, KPMG LLP is to be appointed as the Auditor for Build Toronto for fiscal year 2020 until close of the next annual general meeting, or until a successor is appointed. The Board of Directors of Build Toronto will fix the annual remuneration of the Auditor.

## 2. Summary – Build Toronto 2019 Audited Financial Statements

### Financial Results

Section 6.7 of the Shareholder Direction requires Build Toronto to deliver its audited consolidated annual financial statements to the Shareholder within 120 days of its fiscal year end.

This report provides a summary of Build Toronto's 2019 Audited Annual Financial Statements. For the year ended December 31, 2019, Build Toronto recorded an operating surplus of \$26.9 million.

### Highlights of 2019 Financial Results

As at December 31, 2019, Build Toronto had the following wholly-owned subsidiaries:

**Table 1**

	Development of Real Property	Joint Arrangement for real estate development	Investment in Film Studios
Build Toronto Holdings One Inc.			•
Build Toronto Holdings (Harbour) Inc.		•	
Build Toronto Holdings (Ordnance) Inc.		•	
Build Toronto Holdings (York Mills) Inc.	•		
Build Toronto Holdings (Victoria Park) Inc.	•		
Build Toronto Holdings (Tippet) Inc.	•		
Build Toronto Holdings (Dunelm) Inc.	•		
Build Toronto Holdings (Billy Bishop) Inc.	•		
Build Toronto Holdings (Richmond) Inc.	•		

	Development of Real Property	Joint Arrangement for real estate development	Investment in Film Studios
Build Toronto Holdings (Bicknell) Inc.	•		
Build Toronto Holdings (Westwood) Inc.	•		

## Statement of Operations

The table below summarizes and compares the operating results for the years 2019 and 2018:

### Build Toronto Inc. Audited Consolidated Statement of Comprehensive Income for the year ended December 31 (\$)

Table 2

	2019	2018	Year over year change
<b>Revenues</b>			
Development Revenue	37,925,675	28,922,458	
Cost of sales	(25,241,305)	(13,672,111)	
<b>Net Development Revenue</b>	<b>12,684,370</b>	<b>15,250,347</b>	(2,565,977)
Rental revenue	1,999,209	3,647,526	
Cost of sales	(1,330,620)	(1,949,835)	
<b>Net Rental Income</b>	<b>668,589</b>	<b>1,697,691</b>	(1,029,102)
<b>Total Net Revenues</b>	<b>13,352,959</b>	<b>16,948,038</b>	(3,595,079)
Project Management Fees	4,945,148	583,672	
Interest Income	3,358,072	2,929,254	
Income from Equity Accounted Investments	9,089,455	11,613,372	
Other Income	166,000	826,307	
FMV gains on investment property	5,472,000	622,000	
<b>Total Other Income</b>	<b>23,030,675</b>	<b>16,574,605</b>	6,456,070
<b>Expenses</b>			
General & Administrative	7,957,604	7,634,306	
Depreciation & Amortization	16,250	56,931	
Interest Expense	1,144,429	1,523,412	

	2019	2018	Year over year change
Project Investigative Costs	387,325	24,184	
<b>Total Expenses</b>	<b>9,505,608</b>	<b>9,238,833</b>	266,775
<b>Net Income and Comprehensive Income</b>	<b>26,878,026</b>	<b>24,283,810</b>	2,594,216

Total 2019 net income and Comprehensive Income of \$26.9 million demonstrated an increase over 2018 (\$24.3 million), as a result of factors including:

- increased project management fees (2109: \$4.9 million vs 2018: \$583,672), which in 2019 included consulting fees from TPLC of \$4.5 million in relation to the sale of a property; and
- fair market value gains on investment property of \$5.47 million in 2019 (vs \$622,000 in 2018); offset by
- reduced net revenues from development and rental activities (2019: \$13.4 million vs 2018 \$16.9 million); and
- reduced equity investment income (2019: \$9 million vs 2018: \$11.6 million) in relation to jointly-owned investments in various properties.

## Balance Sheet

As at December 31, 2019, Build had total assets of \$273.8 million, as compared to \$294.3 million in 2018. The decline in total assets was primarily related to a reduction in real estate inventory during 2019.

Total liabilities as at December 31, 2019 were \$40.9 million, as compared with \$55.6 million a year prior as a result of a reduction in debt (total of \$29 million as at December 31, 2019, vs \$42 million as at December 31, 2018).

Build Toronto's balance sheet is summarized in the table below:

**Table 3**

<b>Build Toronto Inc. Audited Consolidated Balance Sheet, December 31 (\$)</b>			
	2019	2018	2019 vs 2018
Current Assets	210,107,126	208,380,652	
Non-Current Assets	63,694,958	85,878,201	
<b>Total Assets</b>	<b>273,802,084</b>	<b>294,258,853</b>	(20,456,769)
Current Liabilities	11,344,305	25,120,729	
Non-Current Liabilities	29,544,657	30,450,825	
<b>Total Liabilities</b>	<b>40,888,962</b>	<b>55,571,554</b>	(14,682,592)

<b>Build Toronto Inc. Audited Consolidated Balance Sheet, December 31 (\$)</b>			
Shareholder's Equity	232,913,122	238,687,299	(5,774,177)
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>273,802,084</b>	<b>294,258,853</b>	(20,456,769)

## Capital Structure

The company's capital structure is comprised of Debt and Shareholder's Equity, as follows.

**Table 4**

	<b>December 31 2019</b>	<b>December 31 2018</b>
Shareholder's Equity	232,913,122	238,687,299
Total Debt	29,406,808	42,591,083
<b>Total</b>	<b>262,319,930</b>	<b>281,278,382</b>

## Shareholder's Equity

As at December 31, 2019, Build had total Shareholder's Equity of \$232.9 million, a decrease over 2018 (\$238.7 million), as a result of a dividend paid to the Shareholder of \$25 million, and a transfer of property to the shareholder of \$7.6 million, which taken together totalled approximately \$32.6 million, exceeding 2019 net income of \$26.9 million.

**Table 5**

<b>Build Toronto Inc. Audited Consolidated Statement of Shareholder's Equity for the year ended December 31 (\$)</b>		
	<b>2019</b>	<b>2018</b>
<b>Shareholder's Equity beginning of year</b>	<b>238,687,299</b>	<b>242,159,489</b>
Net Income	26,878,026	24,283,810
Transfer to Shareholder- property	(7,652,203)	
Transfer to Shareholder- promissory note		(2,756,000)
Dividend Paid	(25,000,000)	(25,000,000)
<b>Shareholder's Equity end of year</b>	<b>232,913,122</b>	<b>238,687,299</b>

### 3. Executive Compensation

In December 2017, City Council adopted a recommendation to amend Build Toronto's Shareholder Direction which directed that Build Toronto shall not hire employees, other than its CEO, without the prior consent of CreateTO. Build Toronto therefore no longer reports executive compensation as all executives are also officers of and paid by CreateTO.

### CONTACT

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### SIGNATURE

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Heather Taylor  
Chief Financial Officer and Treasurer

Chris Murray  
City Manager

### ATTACHMENTS

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Attachment 1: CreateTO 2019 Annual Report  
Attachment 2: Build Toronto 2019 Audited Annual Financial Statements