

Year-End 2022: Working towards Sustainability

Presentation to Audit Committee

July 7, 2023

Purpose and overview of the financial statements

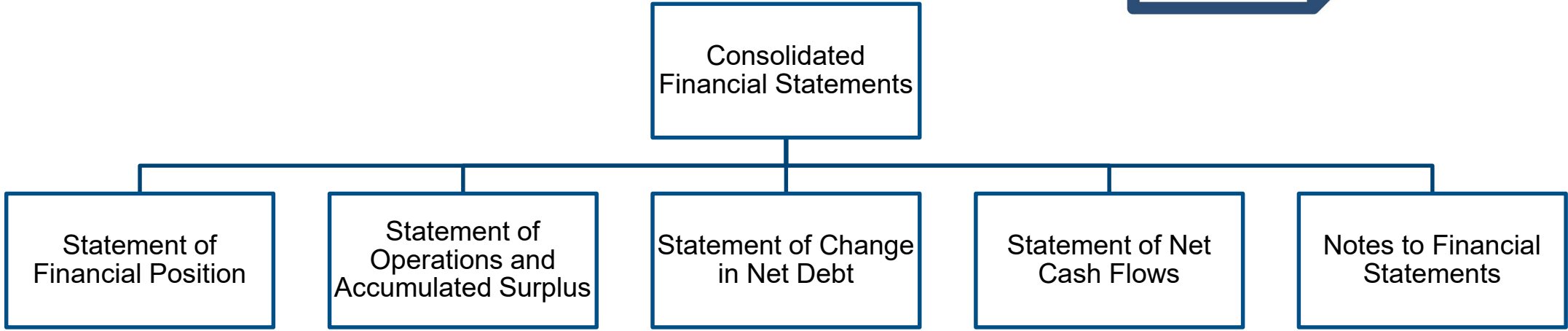
The City of Toronto prepares three sets of financial statements after year-end:

- The Consolidated Financial Statements;
- The Consolidated Trust Funds Financial Statements; and,
- The Sinking Fund Financial Statements.

The purpose of financial statements are to provide users of the statements information on:

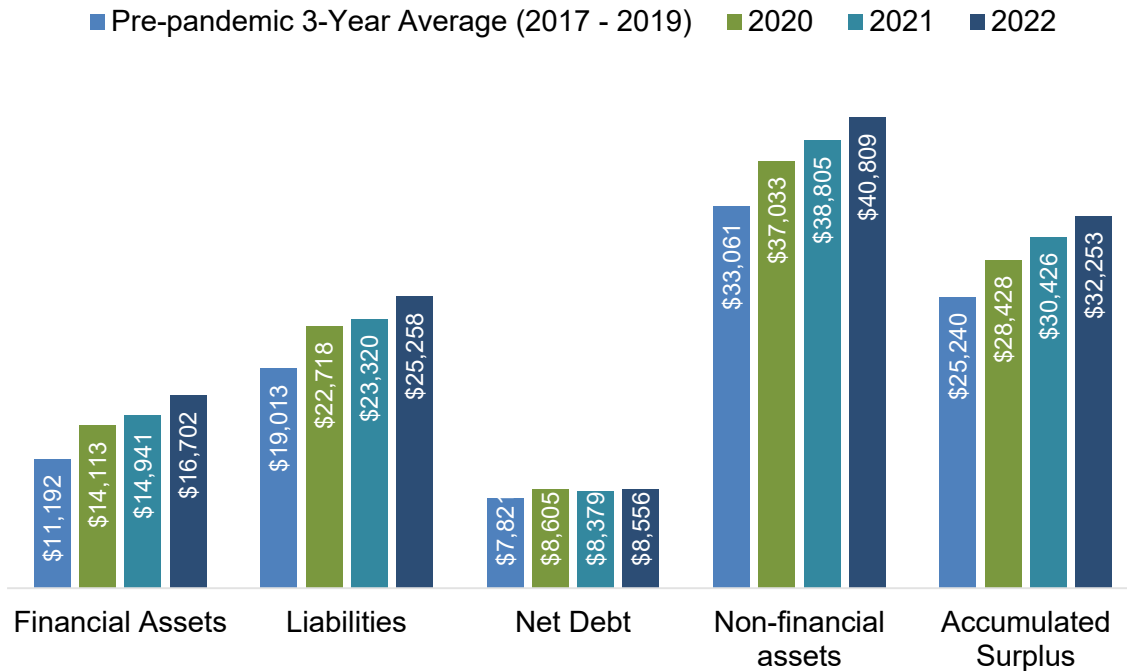
- the City's financial condition or financial position;
- the City's financial performance or financial results; and,
- the extent to which the City performed in accordance with its financial authorities and plan.

Financial statements play a crucial role in the City's **accountability** cycle.



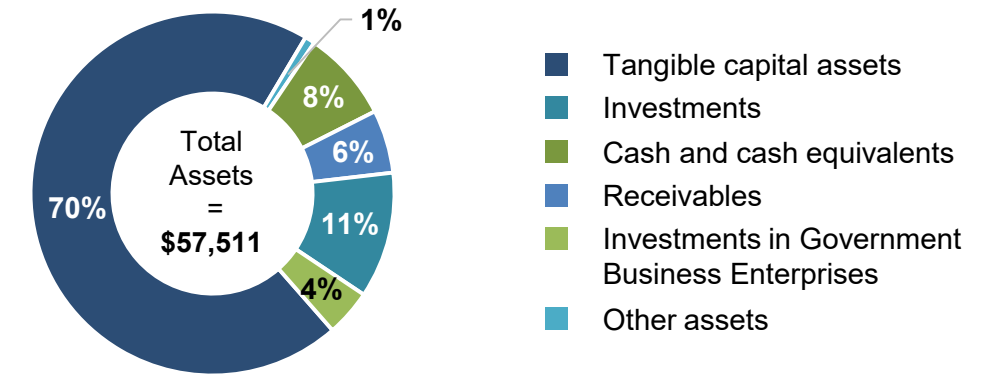
Financial position: Where we are

Balance Sheet: How are we doing?

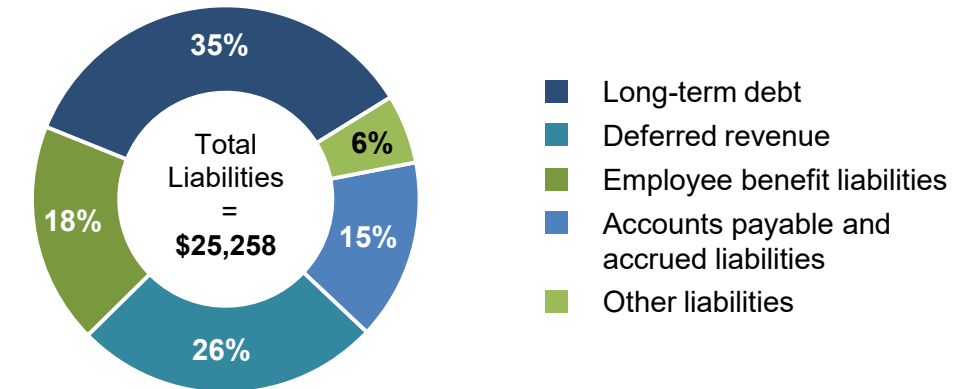


Overall, 2022's balances were fairly consistent with 2021's balances.

Asset Composition: What makes up the City's assets?

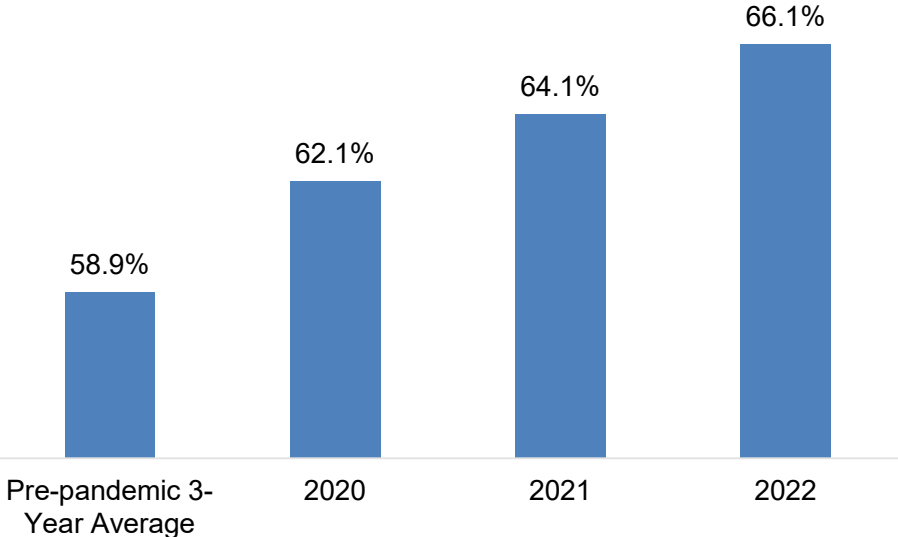


Liability Composition: What makes up the City's liabilities?



Financial position: How we were affected by the pandemic

Liquidity: Are we able to meet our external obligations?



Liquidity is a measure of the City’s financial health and shows whether we have sufficient financial assets on hand to meet our obligations to external entities.

The City has become more liquid since the pandemic, which means that the City has been maintaining larger proportions of assets that are cash or cash equivalents. The City has actively worked to protect and maintain its financial assets due to the increasing demands on our infrastructure and the uncertainty related to the pandemic.

Accounts Receivable (A/R) Turnover: How quickly are we able to collect A/R?



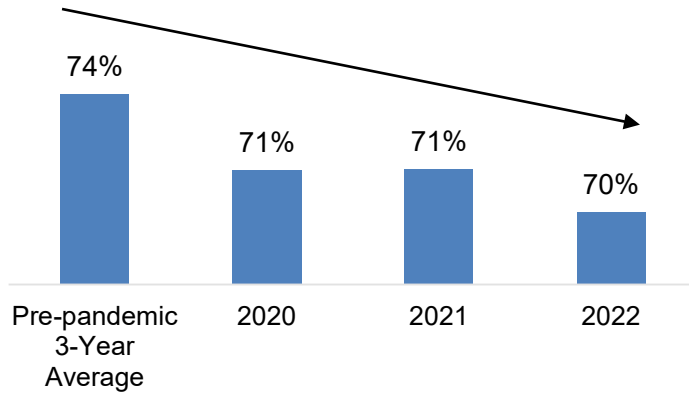
AR turnover is a measure of how quickly the City is able to collect A/R from external organizations.

The City is taking longer to collect on A/R, likely due to the general economic environment following the pandemic.

*Note: Pre-pandemic 3-Year average is the average of 2017, 2018 and 2019

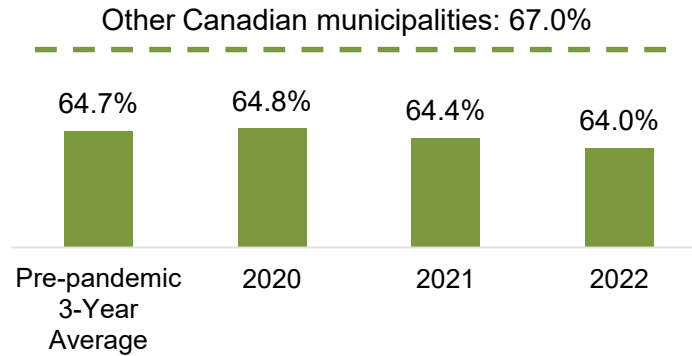
Financial position: Ties between debt and tangible capital assets

TCA's represent a significant portion of the City's assets.



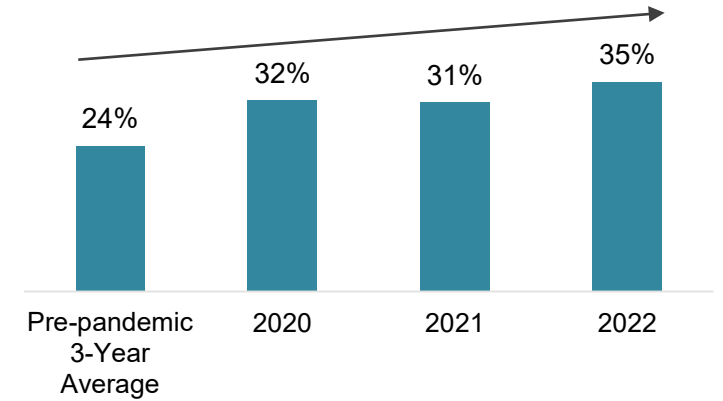
While significant, the proportion has decreased since pre-pandemic.

Age of our TCA's: Net Book Value of TCA as a % of Historical Cost of TCA



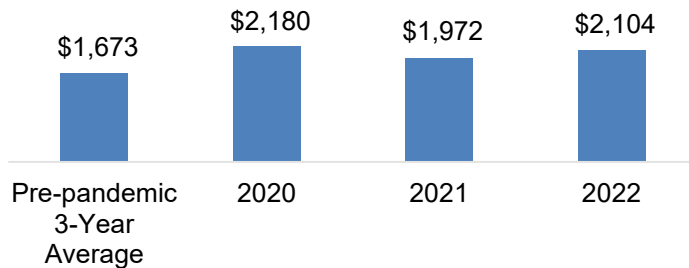
A higher ratio indicates that we own and use newer assets to deliver services.

The City obtains Long-term Debt (LTD) to acquire TCA's.



The City is increasingly reliant on LTD to finance and acquire TCA's.

The City uses sinking funds to repay LTD.



Debt Service Costs: What does it cost?

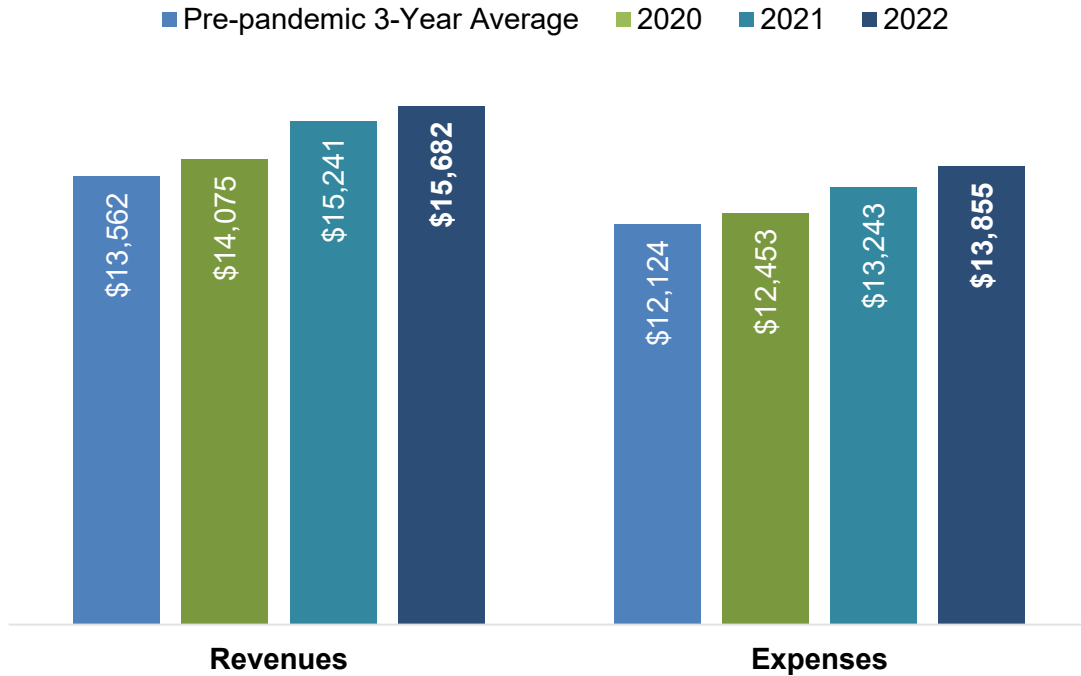
5.3%
2021: 5.5%

5.3% of the City's revenues are used to pay for debt service costs (interest, principal).



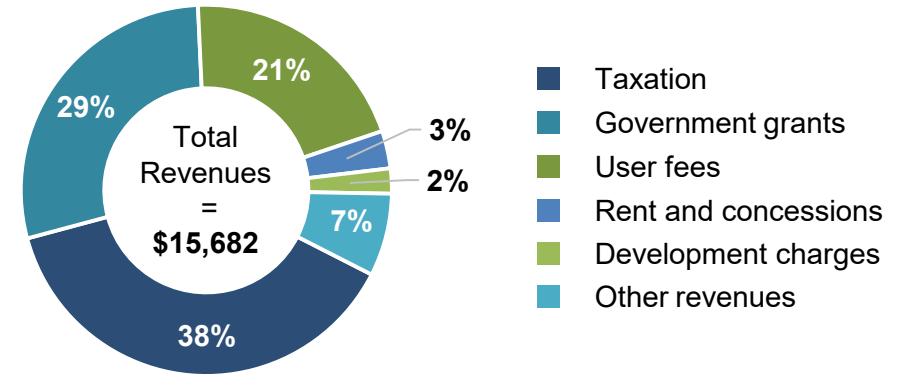
Financial performance: How we operated

Income Statement: How did we perform?

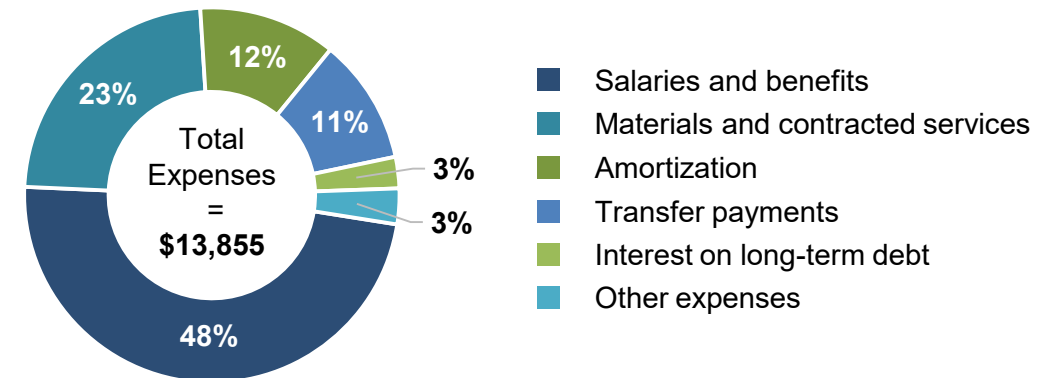


Although the City's performance is consistent with prior year's results, financial sustainability may be at risk if the growth of expenses outpace the growth of revenues.

Revenue Composition: What makes up the City's revenues?



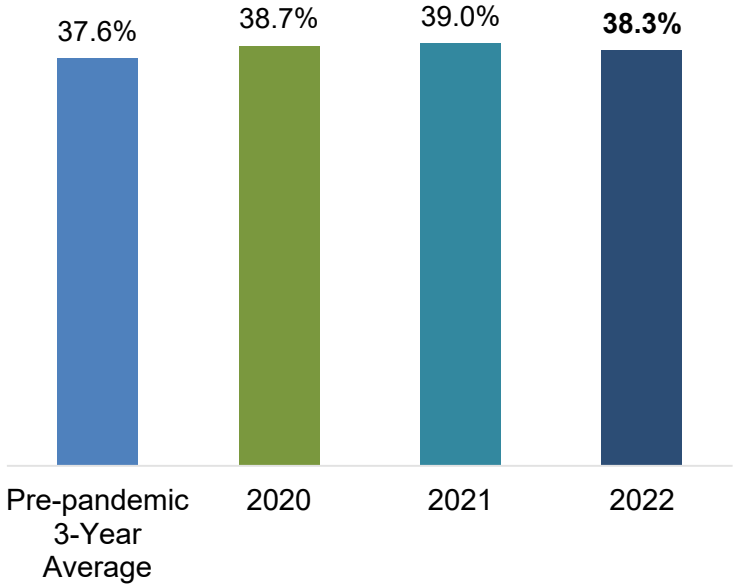
Expense Composition: What makes up the City's expenses?



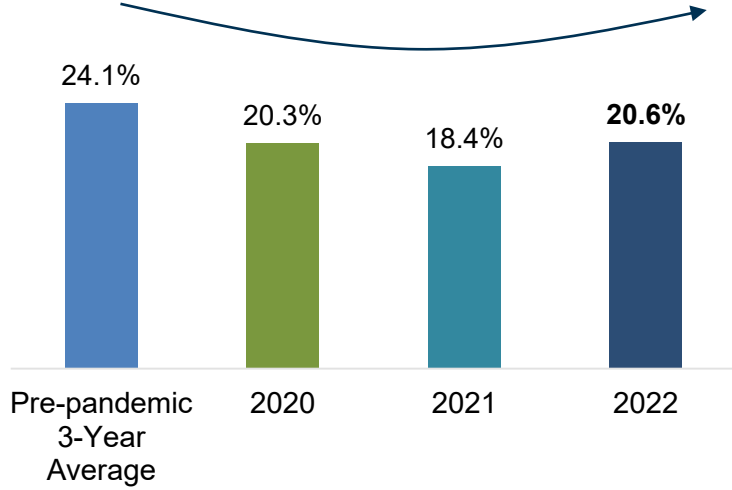
Financial performance: Our major sources of revenue

Taxation, government grants, and user fees, on a combined basis, represent 87% of the City's revenues.

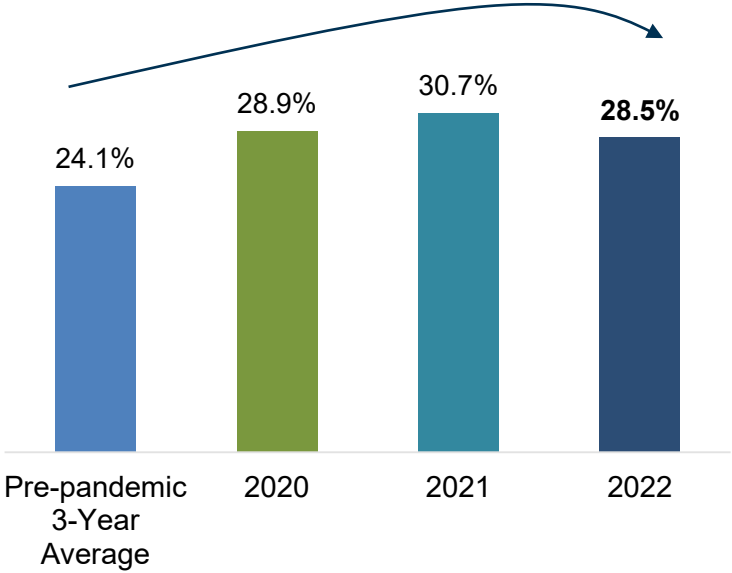
Taxation as a % of revenues



User Fees as a % of revenues



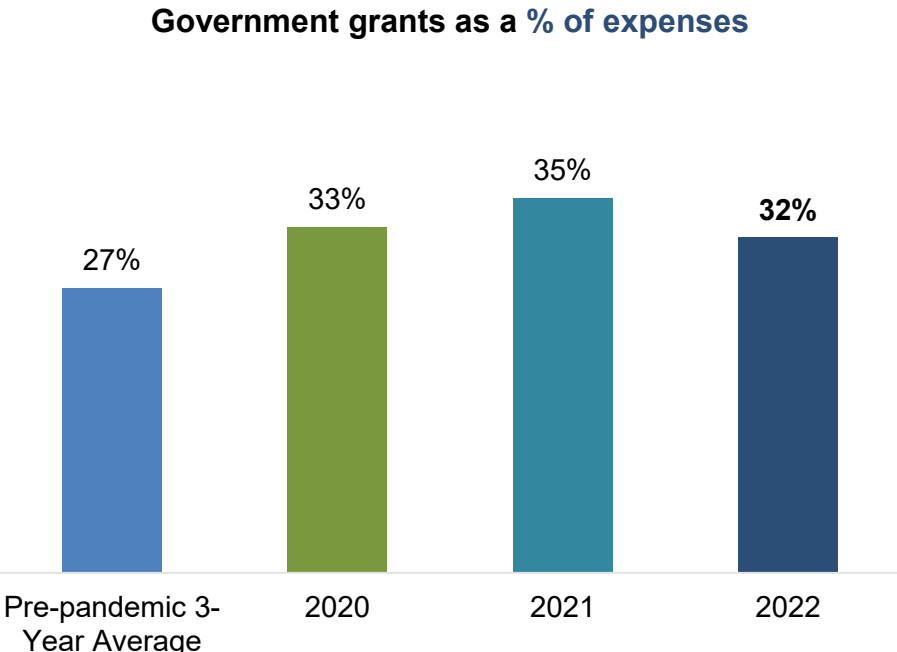
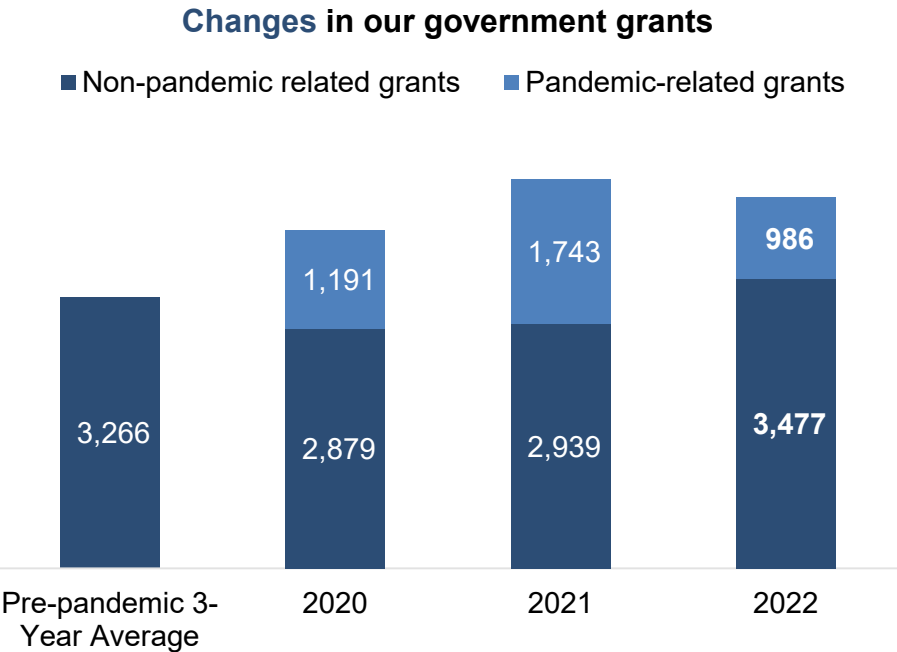
Government grants as a % of revenues



*Note: Pre-pandemic 3-Year average is the average of 2017, 2018 and 2019

Financial performance: A closer look at our government grants

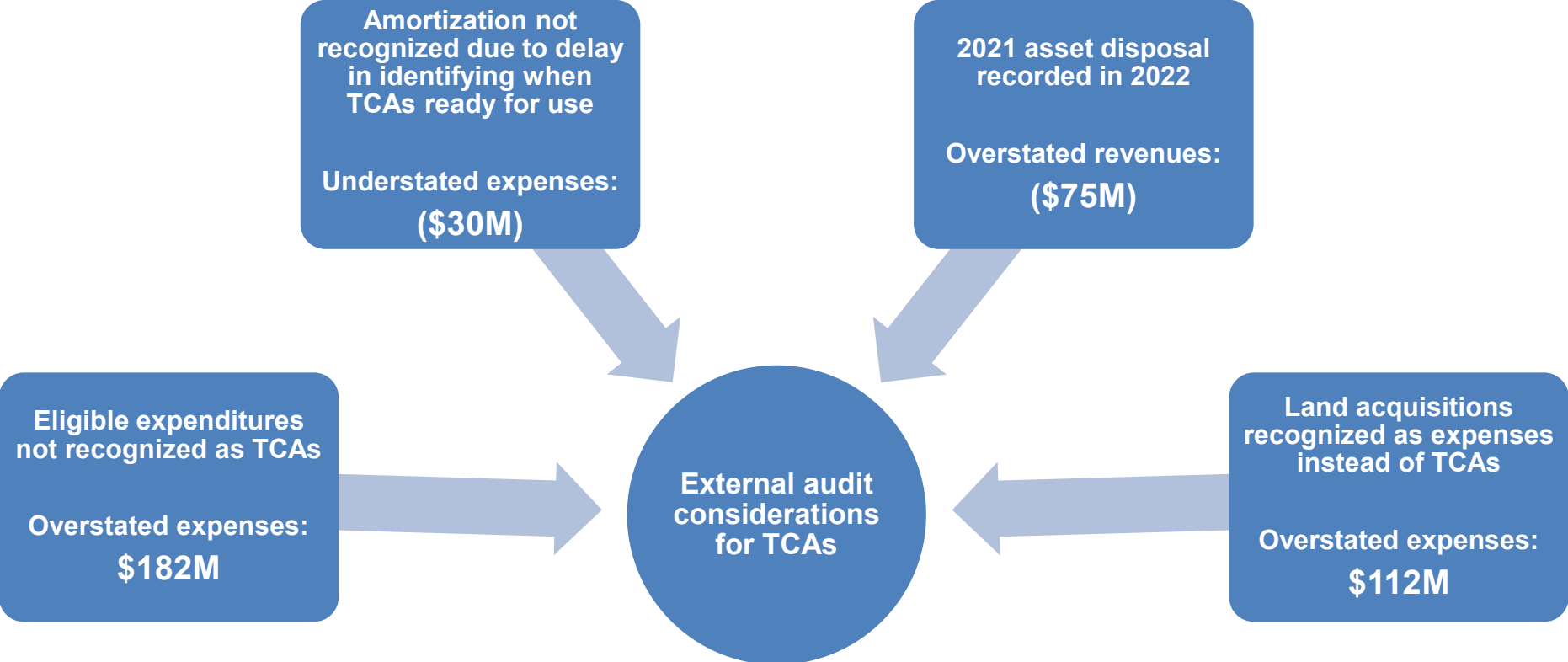
Government grants are used to support various service delivery costs, including the City's pandemic-related initiatives.



*Note: Pre-pandemic 3-Year average is the average of 2017, 2018 and 2019

Tangible capital assets: Current year's external audit findings

During the City's year-end audit, the City's external auditors, KPMG LLP, identified various findings associated with tangible capital assets (TCAs). These findings were not formally reflected in the City's financial statements, but will help inform the City's ongoing improvements to the TCA reporting process.



Tangible capital assets: How we are improving our process

As part of the audit, a number of pain points were identified in the processes around TCA. The City is working to improve the processes around TCA and are considering KPMG's observations and recommendations.



People

- Increase training around TCA processes and capitalization criteria to strengthen and maintain financial acumen

Policy & process

- More frequent review of divisional TCA decisions
- Update of the TCA policy and processes

Technology

- Use technology to track project statuses, as well as identify data trends to assess when assets are ready for use or disposal

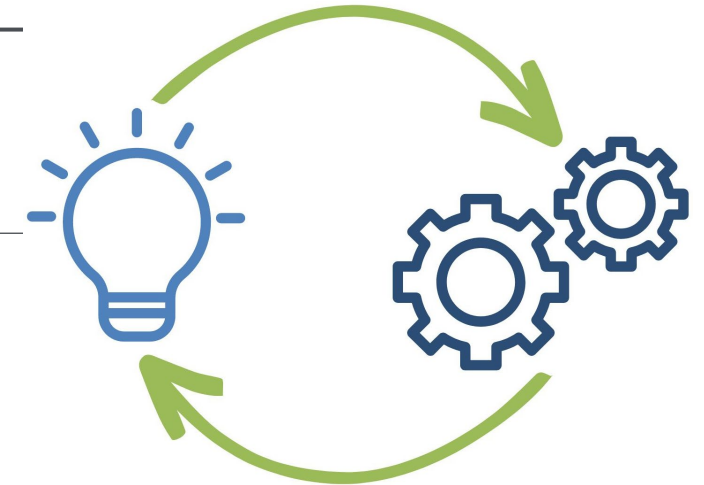
Data

- Enhance TCA records to support financial reporting and management reporting practices
- Strengthen availability of asset inventory details

New accounting standards: What we are working on

The Public Sector Accounting Board (PSAB) has made several changes to Public Sector Accounting Standards (PSAS). These changes will impact our financial statements in future fiscal years. The City is working on adopting these changes.

| | | Predicted impact on the City | Policy / Guideline | Training | Stakeholder engagement |
|---------|------------------------------------|------------------------------|--------------------|-------------|------------------------|
| FY 2023 | Financial instruments (FI) | Minor | In progress | In progress | In progress |
| | Asset retirement obligations (ARO) | Significant (due to volume) | Completed | Completed | In progress |
| FY 2024 | Revenue | Minor | In progress | In progress | In progress |
| | Purchased intangibles | Minor | In progress | Pending | Pending |
| | Public private partnerships | Minor | In progress | Pending | Pending |



PSAB has also released its new Conceptual Framework and Reporting Model. This will be investigated and implemented as part of fiscal 2027.

The City has also played a role in shaping future changes to accounting standards. The City responded in conjunction with several other municipalities on the International Public Sector Accounting Standards Board (IPSASB) consultation paper on Natural Resources.

Thank you