

# Reference Material

Tokyo Metropolitan Government

Annual Financial Report

Fiscal Year 2016

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This is a provisional English version of Fiscal Year 2016 Tokyo Metropolitan Government Annual Financial Report.

This material is furnished solely for the purpose of the reader's reference only.

If there is any conflict and/or discrepancy between this material and the Japanese original of the Annual Financial Report, information in the Japanese original prevails.

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# 1. Fiscal Year 2016 Tokyo Metropolitan Government Settlement of the Ordinary Account and Various Indicators

The following is a settlement report of the fiscal year 2016 Tokyo Metropolitan Government (TMG) ordinary account.

The ordinary account is a statistical and conceptual account used for determining the financial position of each local government as well as for analyzing overall local fiscal conditions. This account is reconfigured to conform to the accounting procedures of local governments according to standards established by the Ministry of Internal Affairs and Communications.

The ordinary account consists of a general account and some special accounts. The settlement presents a net calculation that has been adjusted to eliminate overlap between accounts.

## (1) Fiscal Year 2016 Summary of Financial Results

### [1] Revenues and Expenses

- **Total annual revenues amounted to 7,122.5 billion yen and total annual expenses were 6,743.9 billion yen, with a proforma balance of 378.6 billion yen. The actual balance, calculated by subtracting fiscal revenues to be carried forward from the proforma balance, was a surplus of 129.2 billion yen.**
- **This is due to increases in metropolitan tax revenues combined with efforts to revise expenditure through comprehensive inspections of measures and approaches to undertake autonomous reform, etc.**
- **Furthermore, the ordinary balance ratio stood at 79.6%.**
- **In order to adopt a steadfast approach towards the resolution of various issues facing Tokyo and create growth, and press forward with assertive approaches that will draw on the infinite potential of Tokyo, the promotion of “Wise-spending” approaches from the “Tomin First (Tokyo citizens first) perspective with an even greater focus on creativity than before, together with sustained medium to long term financial capabilities for the formation of a foundation for the implementation of measures, will be necessary.**

#### <Fiscal Year 2016 Settlement Results>

(in billion yen, %)

Item		FY2016	FY2015	Change in amount	Percentage of change
Total annual revenues	(A)	7,122.5	7,186.3	(63.8)	(0.9)
Total annual expenses	(B)	6,743.9	6,934.7	(190.9)	(2.8)
Proforma balance	(C=A-B)	378.6	251.5	127.1	-
Fiscal revenues to be carried forward	(D)	249.4	251.0	(1.5)	-
Actual balance	(C-D)	129.2	0.6	128.6	-
Ordinary balance ratio		79.6	81.5	-	-

Note: Fiscal revenues to be carried forward refers to financial resources that should be carried forward to the next fiscal year together with approved carry forward, carry-forward due to unforeseeable reasons, business balance carried forward, etc. and includes the balance of unsettled local consumption tax carried forward to the following fiscal year.

## [2] Main features

<Annual Revenues>

(in billion yen, %)

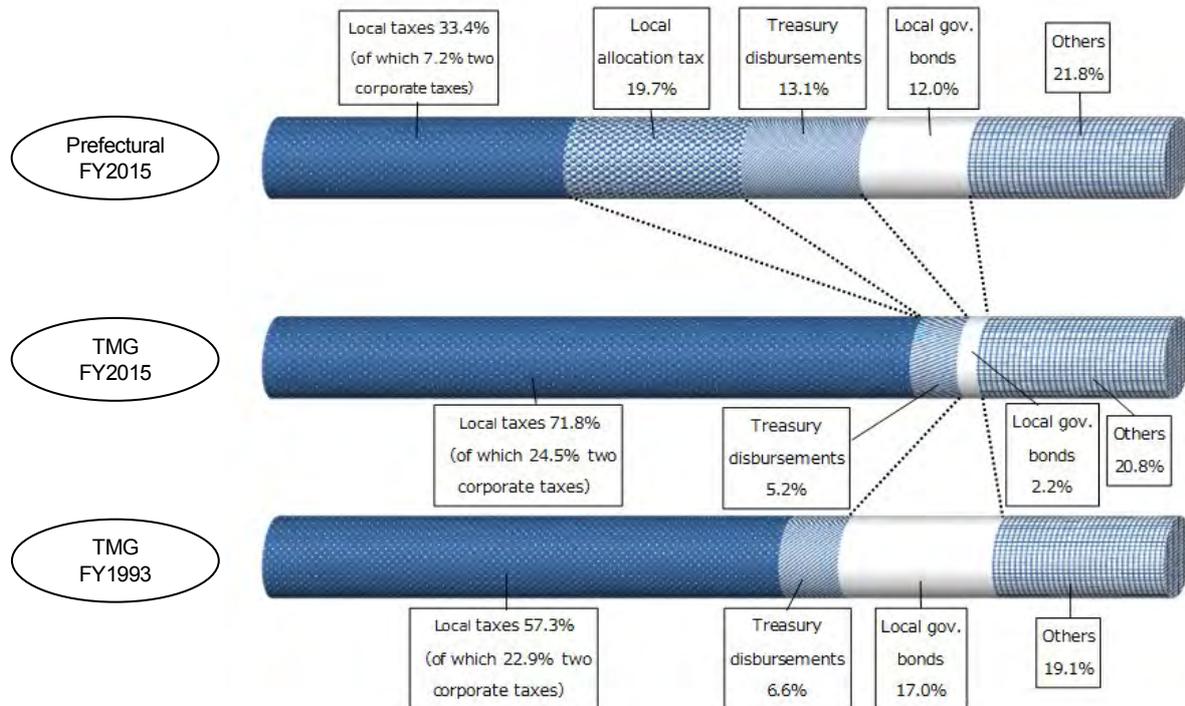
Item	FY2016		FY2015		Change in amount	Percentage of change
	Amount	% of total	Amount	% of total		
Metropolitan taxes	5,318.0	74.7	5,162.4	71.8	155.5	3.0
Two corporate taxes	1,892.6	26.6	1,763.5	24.5	129.1	7.3
Local transfer taxes	235.5	3.3	272.0	3.8	(36.4)	(13.4)
National treasury disbursements	349.1	4.9	375.8	5.2	(26.7)	(7.1)
TMG bonds	152.6	2.1	156.2	2.2	(3.6)	(2.3)
Others	1,067.3	15.0	1,219.9	17.0	(152.6)	(12.5)
Total revenues	7,122.5	100.0	7,186.3	100.0	(63.8)	(0.9)

Note: The two corporate taxes are the corporate enterprise tax and corporate inhabitant tax.

- Metropolitan tax revenues increased by 3.0% or 155.5 billion yen in total compared to the previous fiscal year mainly due to increases in the two corporate taxes resulting from corporate performance remaining strong, etc.
- Local transfer taxes decreased by 13.4% or 36.4 billion yen compared to the previous fiscal year mainly due to a decrease in special local corporate transfer taxes.
- While disbursements for ordinary construction works increased, national treasury disbursements decreased by 7.1% or 26.7 billion yen compared to the previous fiscal year due to decreases in grants for the promotion of reform in medical/nursing care delivery systems and social infrastructure development grants.
- TMG bonds decreased by 2.3% or 3.6 billion yen compared to the previous fiscal year as a result of their appropriate utilization in light of the financial condition and future financial burdens.
- Others decreased by 12.5% or 152.6 billion yen compared to the previous fiscal year mainly due to a 57.7 billion yen decrease in social infrastructure development fund transfers, resulting from the appropriate utilization of funds with a view to future financial demand, and the 47.9 billion yen decrease in amount carried forward.

(Reference) Features of TMG Revenue Structures

<<Revenue Structures of TMG and Other Prefectures>>



- About 70% of TMG's annual revenues are derived from local taxes (metropolitan taxes), and as a large part of this is comprised of revenue from the two corporate taxes, which are susceptible to economic fluctuation, TMG's finances have an inherently unstable structure. In addition, TMG is the only municipality that does not receive local allocation tax grants and consequently needs to perform financial management more self-reliantly than other municipalities.
- Meanwhile, in comparison to FY1993, in which expenses peaked, the percentage of revenue accounted for by local government bonds (TMG bonds) in FY2015 was lower.
- Following the collapse of the bubble economy, TMG utilized funds and issued the largest number of TMG bonds ever issued in order to supplement the fall in tax revenues. The result was that the TMG fell into an unprecedented financial crisis with a rapid increase in the balance of TMG bonds and a record actual balance deficit in FY1998, etc.
- Later, as a part of efforts towards fiscal reconstruction, the TMG endeavored to reduce investment expenses and control TMG bond issuance.
- The ratio of local government bonds to the overall TMG revenue for FY2015 was much lower, even in comparison to other prefectures, and the TMG is currently operating healthy financial management with low dependence on local government bonds.

## &lt;Annual Expenses&gt;

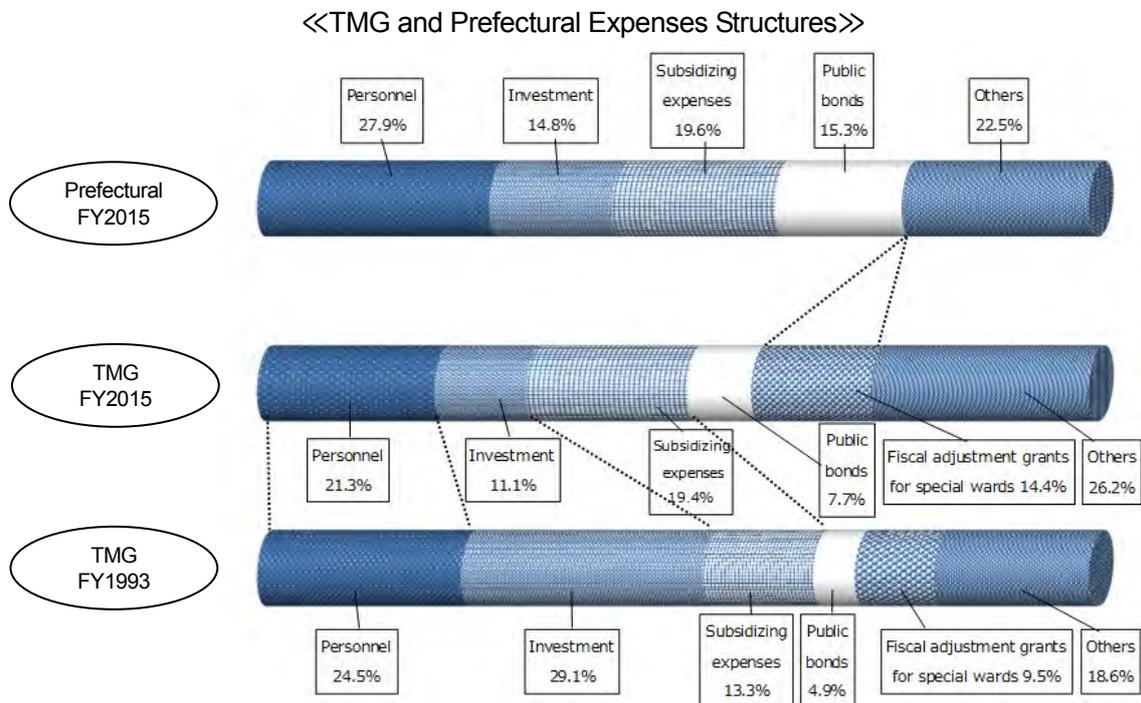
(in billion yen, %)

Item	FY2016		FY2015		Change in amount	Percentage of change
	Amount	% of total	Amount	% of total		
General expenses	4,592.0	68.1	4,459.0	64.3	133.0	3.0
Personnel expenses	1,494.8	22.2	1,475.5	21.3	19.3	1.3
Investment expenses	874.6	13.0	770.3	11.1	104.3	13.5
Subsidizing expenses	1,355.4	20.1	1,341.9	19.4	13.5	1.0
Others	867.1	12.9	871.3	12.6	(4.2)	(0.5)
Expenses for public bonds	476.0	7.1	531.3	7.7	(55.3)	(10.4)
Tax-related expenses etc.	1,675.9	24.9	1,944.4	28.0	(268.6)	(13.8)
Total expenses	6,743.9	100.0	6,934.7	100.0	(190.9)	(2.8)

Note: General expenses refers to expenses excluding public bonds, tax-related expenses for the allocation of a certain percentage of taxes such as local consumption tax grants to wards, towns, etc., and the reserves (principal) of the funds aimed at intensive and focused activities.

- In general expenses, while retirement allowances were reduced as a result of fewer retirees, personnel expenses increased by 1.3% or 19.3 billion yen compared to the previous fiscal year mainly due to a revision of salaries to increase and increased burden on cooperatives accompanying the year-round increased burden on employers following the integration of public pension schemes from October 2015 onwards.
- In general expenses, investment expenses increased by 13.5% or 104.3 billion yen compared to the previous fiscal year due to progress in the development of Musashino Forest Sport Plaza and transfer of jurisdiction of the site for the athletes village for the Tokyo 2020 Olympic and Paralympic Games (hereinafter the "Tokyo 2020 Games").
- In general expenses, subsidizing expenses increased by 1.0% or 13.5 billion yen compared to the previous fiscal year due to projects to popularize next-generation automobiles, etc. and expansion of municipal support projects to resolve the issue of children on waiting lists for school admissions, etc.
- Expenses for public bonds decreased by 10.4% or 55.3 billion yen from the last fiscal year, mainly due to a decrease in redemption funds for principal.
- Tax-related expenses decreased by 13.8% or 268.6 billion yen compared to the previous fiscal year. This is due to a decrease of 200 billion yen in deposits to the disaster prevention fund for town planning, reserved in FY2015 in preparation for future financial demand, and the 33.9 billion yen decrease in local consumption tax grants.

(Reference) Features of TMG Expenses Structures



Note: Tax-related expenses other than those related to fiscal adjustment grants for special wards are included under Others.

- A feature of the TMG that does not exist in other prefectures is that the “Fiscal Adjustment Grants for Special Wards”, which undertakes allocation of financial resources between TMG and Tokyo wards and financial resource adjustments between special wards, is recorded under the special ward system.
- In addition, when compared to FY1993, FY2015 shows a reduction in the ratio of personnel expenses and investment expenses to total expenses.
- The TMG’s stance of maintaining expenses levels for large-scale facilities construction and responses to national government economic measures, etc. even as tax revenues diminished following the collapse of the bubble economy, resulted in a financial crisis. The TMG subsequently steered towards financial reconstruction ahead of the government and other prefectures, reducing personnel numbers and pressing forward with prioritization of project activities, and after achieving financial reconstruction, continued in their efforts to revise measures through their project review activities. With efforts such as these, by FY2015, personnel expenses and investment expenses were down by about 10% and 60% respectively in comparison to FY1993.
- Meanwhile, due to increase in expenses related to social security, the ratio of allowances, etc. to total expenses has increased.
- In this way, the TMG is undertaking thorough internal efforts and promoting the metabolism of measures by aiming to review and redesign them through project review activities, etc. and is providing necessary administrative services in accordance with the needs of Tokyo citizens.

## &lt;Breakdown of Expenditures by Purpose&gt;

(in billion yen, %)

Item	FY2016		FY2015		Change in amount	Percentage of change
	Amount	% of total	Amount	% of total		
Gen. Service Admin.	344.6	5.1	740.9	10.7	(396.3)	(53.5)
Welfare	1,113.7	16.5	969.8	14.0	143.9	14.8
Hygiene	219.4	3.3	254.5	3.7	(35.1)	(13.8)
Commerce/manufacturing	373.4	5.5	359.2	5.2	14.2	4.0
Civil engineering	909.4	13.5	789.1	11.4	120.4	15.3
Police	623.2	9.2	604.0	8.7	19.2	3.2
Fire defense	225.5	3.3	221.9	3.2	3.6	1.6
Education	1,028.0	15.2	964.0	13.9	64.0	6.6
Public bonds	476.0	7.1	531.3	7.7	(55.3)	(10.4)
Others	1,430.6	21.2	1,500.0	21.6	(69.4)	(4.6)
Total expenses	6,743.9	100.0	6,934.7	100.0	(190.9)	(2.8)

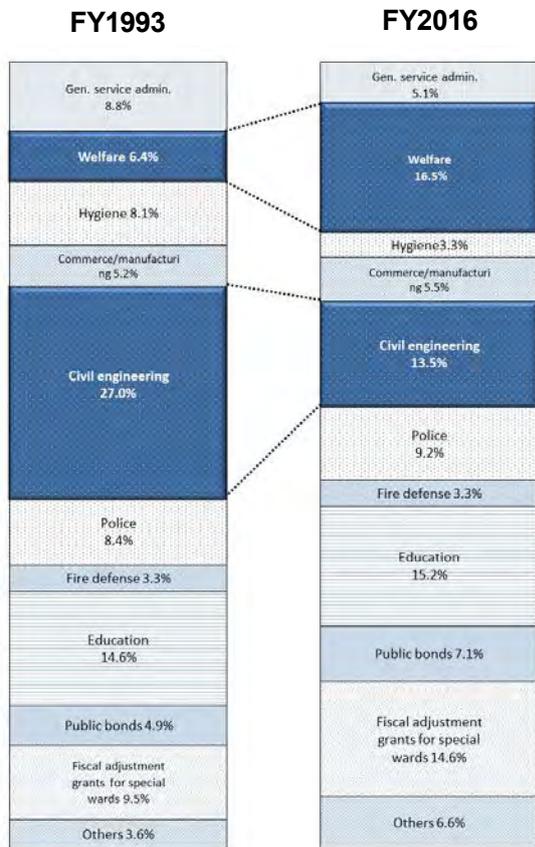
Note: Expenditure by purpose refers to expenses that have been itemized according to administrative purposes.

- General Service Administration decreased by 53.5% or 396.3 billion yen compared to the previous year mainly due to a decrease in deposits to the disaster prevention fund for town planning reserved in FY2015 in preparation for future financial demand.
- Welfare expenses increased by 14.8% or 143.9 billion yen compared to the previous year mainly due to the allocation of further reserves for the advanced welfare city realization fund and the expansion of municipal support projects to resolve the issue of children on waiting lists for school admissions, etc.
- Civil engineering expenses increased by 15.3% or 120.4 billion yen compared to the previous year mainly due to the allocation of new reserves for the fund for the elimination of utility poles and increased land costs accompanying the development of city planning roads.
- Other expenses decreased by 4.6% or 69.4 billion yen compared to the previous year mainly due to a 33.9 billion reduction in local consumption tax grants and a 12.8 billion yen decrease in transfer of tax on interest.

(Reference) Features of TMG Expenses Structures by Purpose, etc.

<<TMG Expenses Structure by Purpose >>

<<Expenses per Tokyo Citizen>>



Item	Purpose	FY2016	(Reference) FY1993
General service administration	Planning/admin and revitalization of municipalities, etc.	¥25,473	¥53,455
Welfare	Measures for children on waiting lists, the elderly, etc.	¥82,312	¥38,599
Hygiene	Realization of comfortable city environments, etc.	¥16,216	¥49,353
Commerce/manufacturing	Support for small/medium enterprises, revitalization of the tourism industry, etc.	¥27,596	¥31,673
Civil engineering	Development of roads, rivers, harbors, etc. and town development, etc.	¥67,215	¥164,221
Police	Police activities, etc.	¥46,060	¥51,076
Fire defense	Fire defense activities, etc.	¥16,667	¥20,250
Education	School education and preparations for the Tokyo 2020 Games, etc.	¥75,979	¥88,547
Public bonds	Redemption of TMG bonds and interest payments, etc.	¥35,183	¥30,041
Fiscal Adjustment Grants for Special Wards	Financial adjustments between the TMG and special wards, etc.	¥73,008	¥57,906
Others	Tax related grants to municipalities, etc.	¥32,727	¥21,997
<b>Total</b>		<b>¥498,436</b>	<b>¥607,118</b>

\*Total Tokyo population for FY2016 is as of January 1, 2017, as given in the "Population Register".

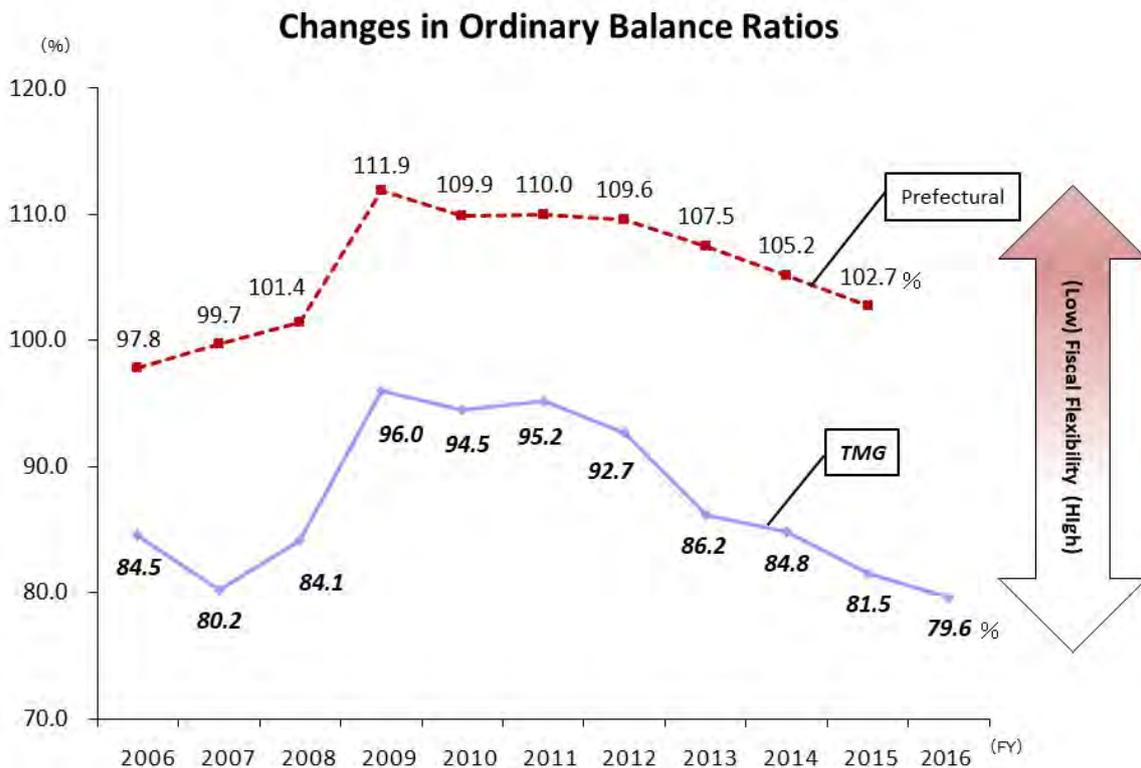
\*Total Tokyo population for FY1993 is as of March 1994, as given in the "Population Register".

- Comparisons between FY1993 and FY2016 shows an increase in the ratio of welfare expenses to total expenses and a decrease in civil engineering expenses.
- The increase in welfare expenses is mainly due to increased costs related to measures implemented for children and the elderly from the background of an aging society and falling birth rate.
- Meanwhile, with reductions in investment expenses due to prioritization of projects in accordance with urgency and necessity, the ratio of civil engineering expenses to total expenses has decreased significantly.
- In addition, expenses of 6,743.9 billion yen in the FY2016 fiscal results were translated into expenses per Tokyo citizen. Expenditure amounts for welfare expenses and education expenses, which cover school education related costs, have increased in comparison to other categories.
- In this way, efforts are made to establish an accurate understanding of the needs of Tokyo citizens, which change with the times, in order to conduct appropriate allocation of financial resources, such as the limited metropolitan tax revenues, etc. to the necessary measures.

### [3] Fiscal Indices

#### (i) Ordinary balance ratio

- The ordinary balance ratio is an indicator that measures fiscal flexibility by indicating the level of allocation of local taxes, etc. to expenses that are difficult to reduce by any simple means, such as personnel expenses, social assistance expenses, expenses for public bonds, etc. The lower this ratio, the greater the flexibility.
- The FY2016 ordinary balance ratio was 79.6%, an improvement of 1.9 percentage points from 81.5% in the previous fiscal year.
- This is mainly due to a decrease in expenses for public bonds and an increase in metropolitan tax revenues.
- *In recent years, the average prefectural figures have exceeded 100%, and the status of Tokyo's fiscal flexibility is high.*

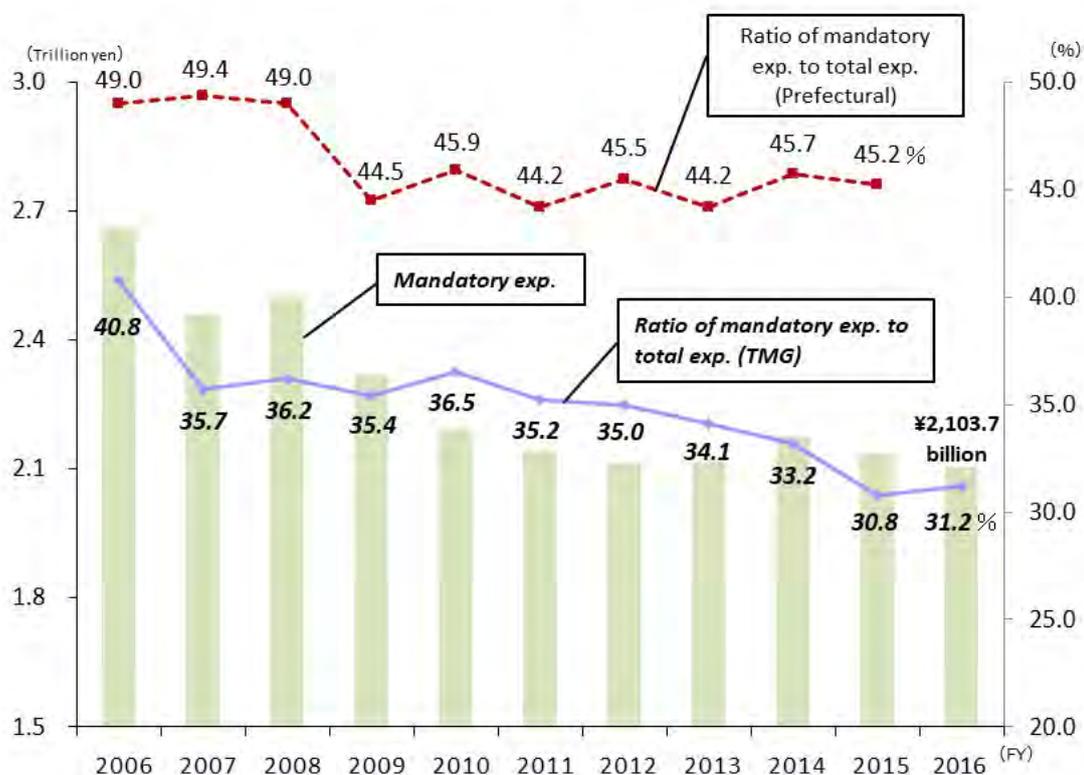


Note: Prefectural ratios are weighted averages. For FY2006, calculations were made with tax reduction supplementary bonds and extraordinary financial countermeasures bonds excluded from ordinary general revenues sources, etc. while for FY2007 to FY2015, calculations were made with extraordinary tax revenue supplementary bonds and extraordinary financial countermeasures bonds excluded from ordinary general revenues sources, etc.

(ii) Mandatory expenses

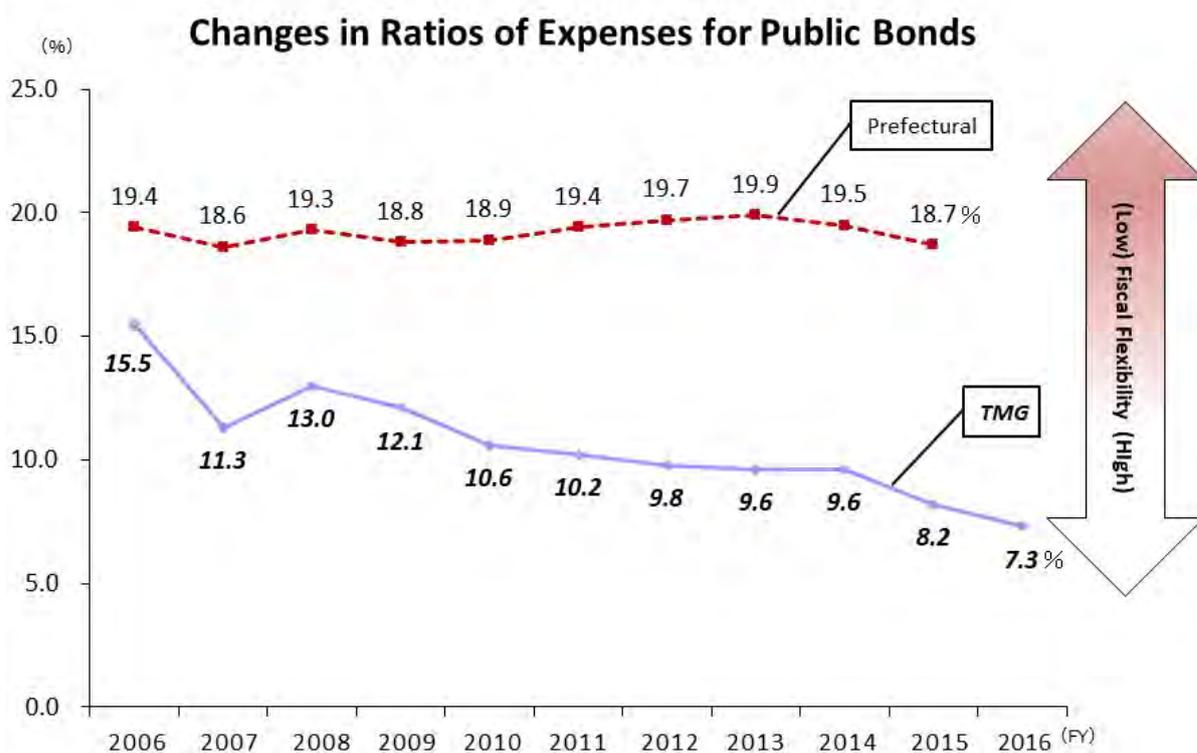
- Mandatory expenses refers to the expenses of local governments for which expenditure is mandatory, namely personnel expenses, social assistance expenses and expenses for public bonds, and the lower the ratio of these mandatory expenses to total expenses, the higher the financial flexibility.
- Mandatory expenses for FY2016 came to 2,103.7 billion yen, a decrease of 1.5% or 32.3 billion yen compared to the previous year.
- In addition, the ratio of mandatory expenses to total expenses has shown a generally decreasing trend in recent years.
- This is mainly due to thorough internal efforts such as reduction in numbers of personnel and the appropriate utilization of TMG bonds, such as controlled issuance with future burdens taken into consideration.
- Prefectural ratios have remained at around 45% in recent years, and the status of Tokyo's fiscal flexibility is high.

Changes in Mandatory Expenses and Ratio to Total Expenses



(iii) Ratio of expenses for public bonds

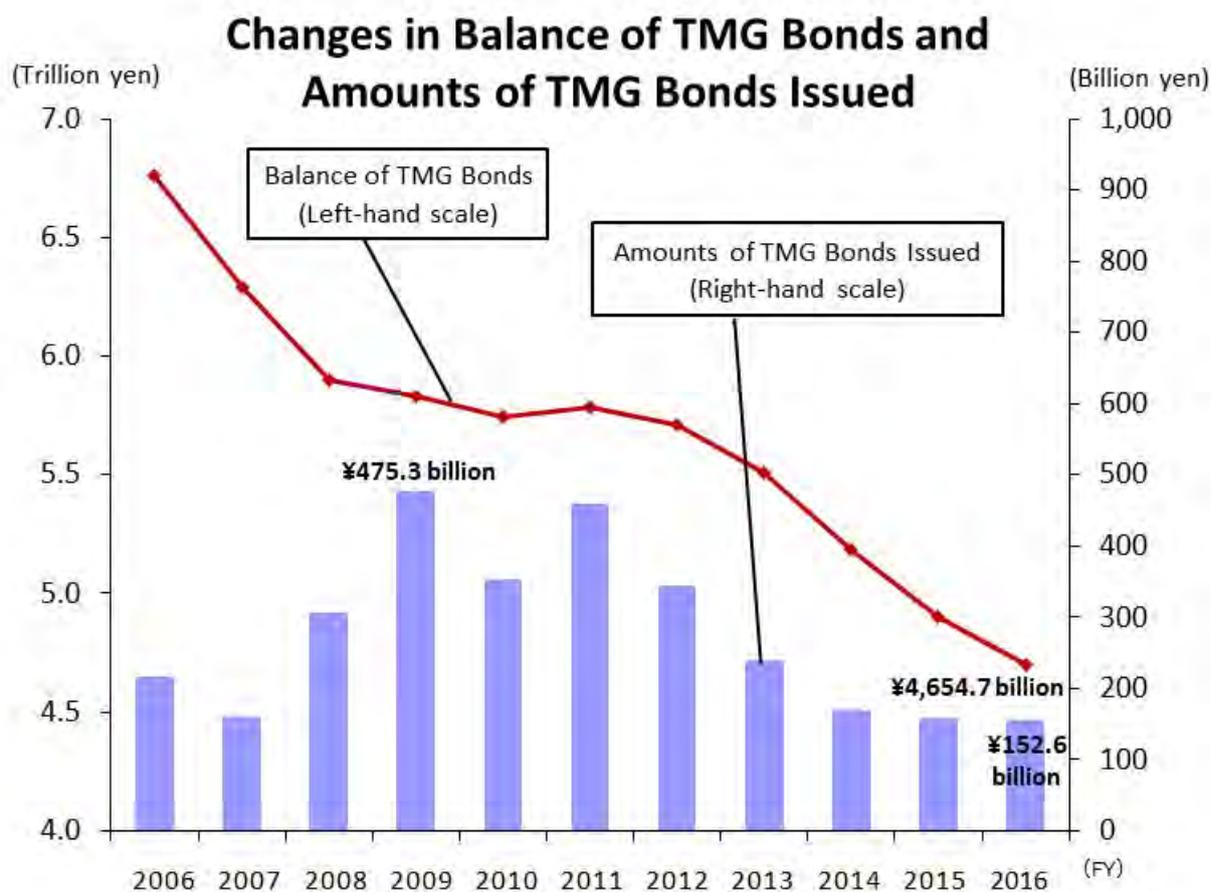
- The ratio of expenses for public bonds is an indicator of the level of allocation of general revenue sources to the redemption of local government bonds, and the lower this ratio, the greater the fiscal flexibility.
- The FY2016 ratio of expenses for public bonds was 7.3%, an improvement of 0.9 percentage points from 8.2% in the previous fiscal year.
- This was mainly due to a decrease in redemption funds for principal for public bonds, and an increase in metropolitan tax revenues.
- In recent years, the average prefectural figures have remained at around 20%, and the status of Tokyo's fiscal flexibility is high.



Note: Prefectural ratios are weighted averages, excluding partial-affairs-associations, etc.

(iv) Current TMG bonds balance

- The balance of TMG bonds (ordinary account bonds) as of the end of fiscal 2016 was 4,654.7 billion yen, which represents a decrease of 5.0% or 245.1 billion yen from the previous fiscal year.
- The amount of TMG bonds issued increased temporarily due to the response to reduced metropolitan tax revenues caused by the Lehman Shock and the response to the Great East Japan Earthquake, but has since decreased and the balance of TMG bonds also continues to decrease.
- The appropriate utilization of TMG bonds will be continued in light of the financial condition and future financial burdens.



Note: Current TMG bonds balance in the ordinary account settlement excludes sinking fund reserves for allocation to principal redemption of bullet local bonds, and therefore does not coincide with the amount stated for TMG bonds in the balance sheet.

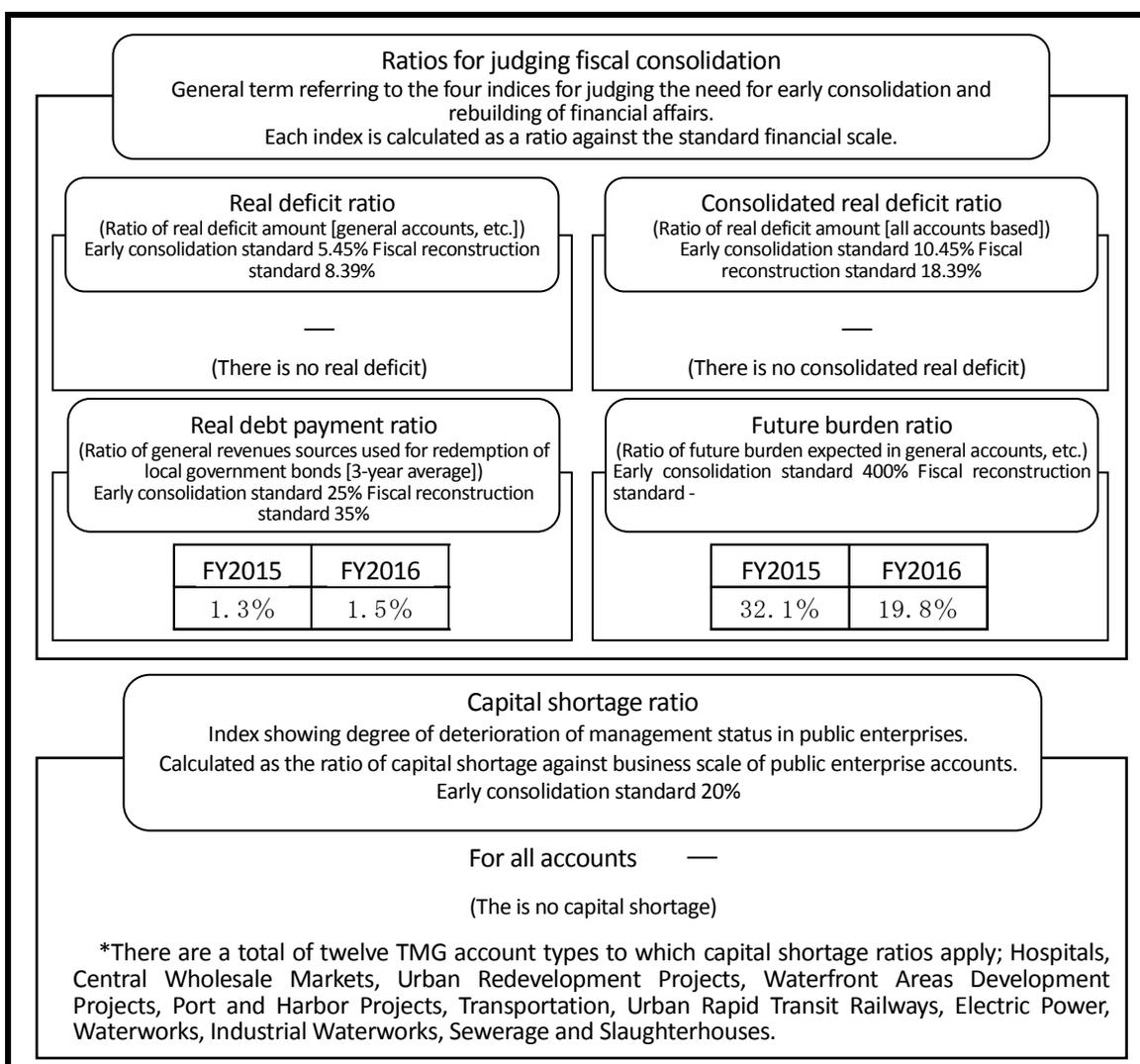
#### [4] Ratios set forth by the Law on the Fiscal Consolidation of Local Governments

From a background of serious fiscal deterioration in some local governments, the Law on the Fiscal Consolidation of Local Governments was enacted as a mechanism to facilitate prompt responses for cases where fiscal consolidation or reconstruction of financial status is deemed necessary.

The ratios to judge fiscal consolidation and capital shortage ratios based on this law, focus on stock as well as on flow, and serve as indicators that clarify the overall finances of local governments by including expenses in the general accounts in relation to public entities accounts and third-sector public/private enterprises as well as general accounts, etc. (almost the same scope as ordinary accounts).

This law requires local governments to calculate the ratios, receive inspection of the results by the audit committee, report the results to the assembly, and announce the results to residents on an annual basis.

Ratios for TMG, calculated from the FY2016 financial results, are as shown below.



- Notes:
1. Standard financial scale indicates the scale of operational general revenue sources for local governments under standard conditions.
  2. Judgment criteria, such as the early consolidation standard, have been defined for each index, and if any of these exceed the standard, efforts to achieve fiscal consolidation, through the formulation of fiscal consolidation plans, etc. must be undertaken.

## (2) Analysis Based on New Public Accounting Procedures

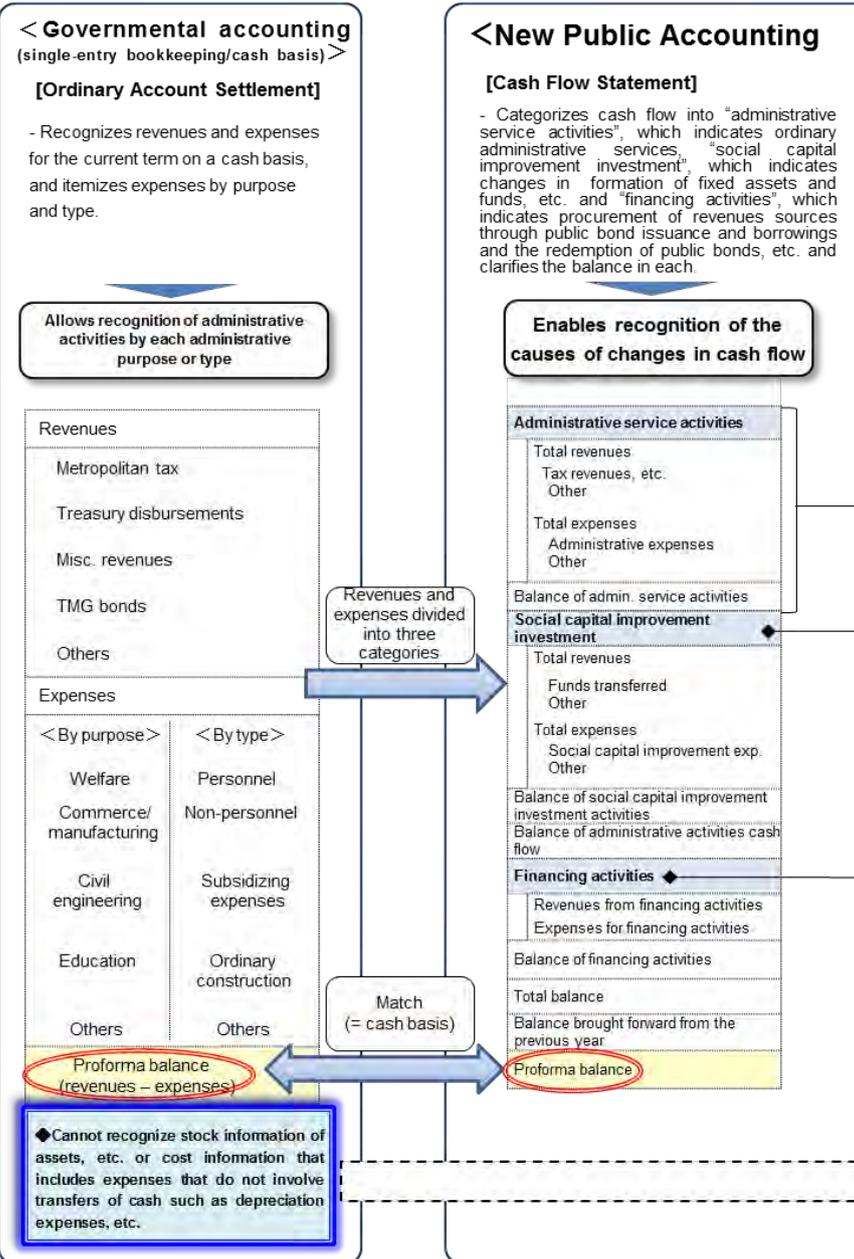
### [1] Summary of Financial Statements

- **TMG's financial statements consist of four tables: the "Balance Sheet", the "Administrative Cost Statement", the "Cash Flow Statement" and the "Statement of Changes in Net Assets". TMG provides "Administrative Cost Statement" in place of the "Profit and Loss Statement" and also provides "Statement of Changes in Net Assets" in place of "Statement of Change in Shareholders' Equity." This is because TMG is not a profit-making organization.**

**TMG's finances in fiscal year 2016, as shown in the financial statements, are summarized below.**

- **About TMG's assets and liabilities in the balance sheet, assets as of the end of fiscal year 2016 increased from the previous fiscal year to 3,441.4 billion yen (an increase of 566.6 billion yen from the end of the previous fiscal year), while liabilities were 7,120.0 billion yen (a decrease of 245.4 billion yen from the end of the previous fiscal year). In assets, the balance of fund reserves was 4,241.5 billion yen (an increase of 368.2 billion yen from the end of the previous fiscal year), and in liabilities, the balance of TMG bonds was 6,059.3 billion yen (a decrease of 189.7 billion yen from the end of the previous fiscal year). The ratio of liabilities to assets is 20.9% (a 1.1 percentage point decline from the previous fiscal year).**
- **The administrative cost statement indicates that the balance for the current period stood at 742.1 billion yen (an increase of 98.9 billion yen compared to the previous year), and revenues continued to exceed expenses.**
- **In the cash flow statement, the balance for administrative service activities cash flow shows revenues exceeding expenses by 893.9 billion yen, expenses exceeding revenues by 522.1 billion yen in the balance of social capital improvement investment activities, and in the balance for financing activities, expenses exceeded revenues by 244.7 billion yen, but in the pro forma balance, found by adding the balance for administrative service activities cash flow, the balance of social capital improvement investment activities, the balance for financing activities and the balance brought forward from the previous fiscal year to the total balance, revenues exceeded expenses by 378.6 billion yen.**
- **The statement of changes in net assets shows that net assets increased 812.1 billion yen, in tandem with progress in social capital improvements.**
- **Given these factors, it is possible to say that TMG's financial soundness is maintained.**

**[2] Summary of Financial Statements**



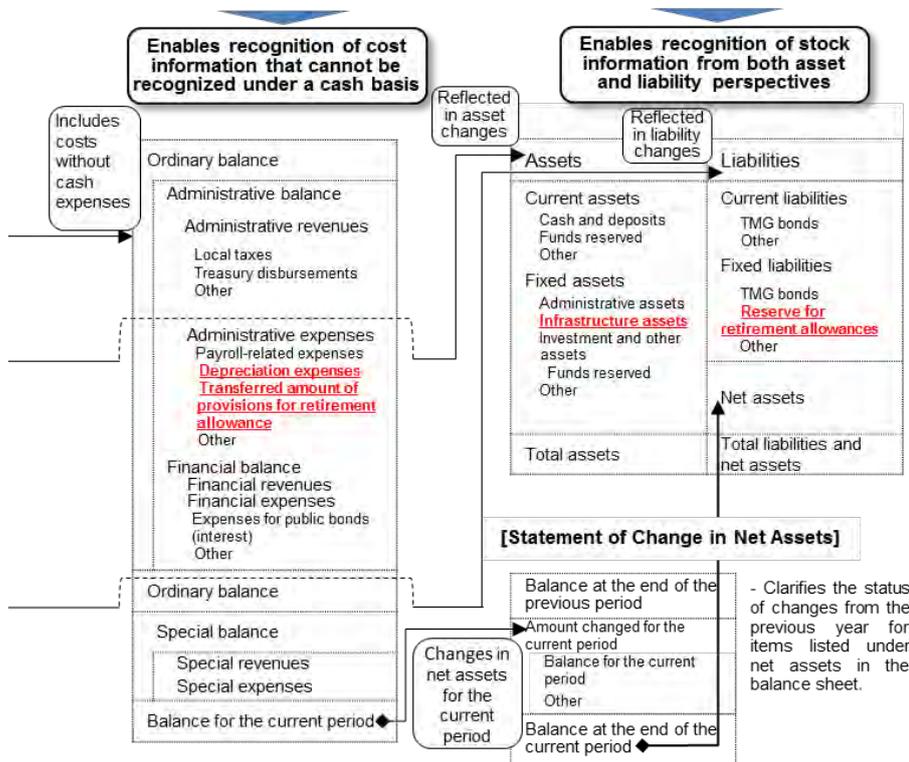
## (Double-entry Bookkeeping/Accrual Basis)>

### [Administrative Cost Statement]

- Recognizes "expenses" over a single accounting period on an accrual basis, and clarifies the corresponding relationship between "expenses" and "revenues" and the balance between the two
- Costs without cash expenses such as depreciation expenses and transfer to reserve, etc. are included under expenses.

### [Balance Sheet]

- Categorizes accounts as "Assets", "Liabilities" and "Net assets", and clarifies stock information regarding infrastructure assets such as roads and bridges, etc. and balance of funds, TMG bonds, etc.



◆ By conducting financial analyses from a different perspective to that of government accounting, through recognition of stock information of assets, etc. and cost information on an accrual basis, it is possible to strengthen management and enrich accountability.

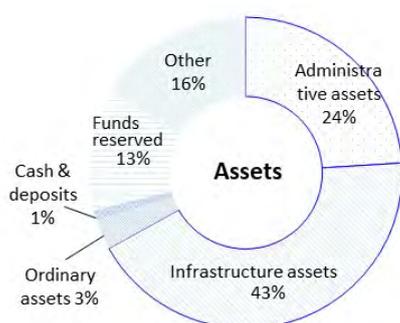
### [3] Balance Sheet

- The balance sheet is to be compiled to give a clear picture of the status of TMG's assets, liabilities, and net assets as of March 31 (however, this includes the variation during the settlement period).
- In the balance sheet, the amount of assets, such as land and buildings, is equal to the total of liabilities, such as TMG bonds and borrowings, and net assets.

#### <Balance sheet points>

- The assets section shows the extent of assets possessed by the TMG. As shown in Figure 1, administrative assets provided for official use or for use by the public, such as TMG office buildings and TMG schools, etc. and infrastructure assets such as roads, etc. account for about 70% of all TMG assets. In addition, funds reserved, which account for over 10% of assets and serve a significant role as preparations for future financial demands, increased by 368.2 billion yen compared to the previous year as of end FY2016.
- The liabilities section shows the extent of the burden that will be passed down to future generations, such as TMG bonds, arrearage and borrowings, etc. As shown in Figure 2, TMG bonds, which account for over 80% of liabilities, had decreased by 189.7 billion yen compared to the previous year as of end FY2016.

**[Figure 1] Breakdown of Assets**



Administrative assets and infrastructure assets account for about 70%

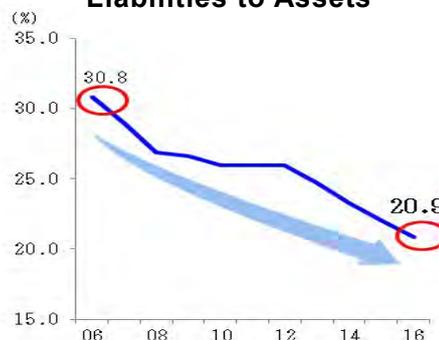
**[Figure 2] Breakdown of Liabilities**



TMG Bonds (current liability + fixed liability) account for about 80%

- As shown in Figure 3, a comparison of ratios of liabilities to assets between end FY2006, 10 years ago, and FY2016, shows a decrease of 9.9 percentage points. Since end FY2016, the ratio of liabilities to assets has maintained a generally decreasing trend, and this indicates that the formation of assets is progressing without increasing future burden.

**[Figure 3] Changes in Ratio of Liabilities to Assets\***



\*Calculated by multiplying the liabilities section total/assets section total by 100.

- The net assets section shows the difference between the total amount of assets and the total amount of liabilities in the balance sheet. With the promotion of fund reserves in preparation for the future and redemption of TMG bonds in order to lighten the burden for future generations, the difference as of end FY2016 increased by 812.1 billion yen.

## Assets

**<Reserve for deficits due to non-payment>**  
As some uncollected revenues such as fees, etc. may become deficit due to non-payment in the future, the projected uncollectable amount has been recorded under reserve.

**<Funds reserved>**  
Records cash, etc. in preparation for financial resource adjustments between fiscal years and future financial needs.  
\*Fiscal adjustment funds and sinking funds scheduled for reversal in the next fiscal year are treated as current assets, while funds that do not fall under current assets are treated as fixed assets.

**<Infrastructure assets>**  
Records amounts related to roads and bridges, etc.

## Liabilities

**<TMG bonds>**  
As TMG bonds must be paid in the future, they are recorded as liabilities.  
\*TMG bonds scheduled for redemption in the next fiscal year are treated as current liabilities while TMG bonds scheduled for redemption in the fiscal year after the next fiscal year or later are treated as fixed liabilities.

## Net assets

Accumulation of net assets conducted in FY2016.

### <Balance Sheet>

(in billion yen, %)

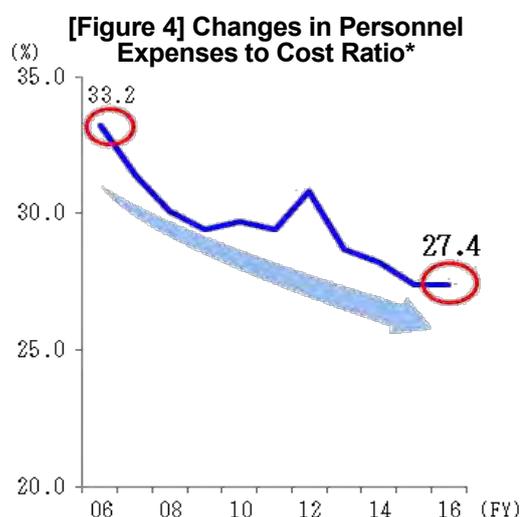
Item	FY2016	FY2015	Change in amount	Percentage of change
<b>Assets</b>				
I Current assets	1,423.3	1,426.7	(3.3)	(0.2)
Cash and deposits	390.5	261.9	128.5	49.1
Uncollected revenues	78.7	91.8	(13.1)	(14.3)
Reserve for deficits due to non-payment	(10.4)	(12.6)	2.2	(17.5)
Funds reserved	810.8	890.8	(79.9)	(9.0)
Other	153.7	194.7	(40.9)	(21.0)
II Fixed assets	32,618.0	32,047.9	570.0	1.8
Administrative assets	8,171.6	8,106.4	65.1	0.8
Ordinary assets	1,069.9	1,078.7	(8.8)	(0.8)
Infrastructure assets	14,598.3	14,310.5	287.7	2.0
Funds reserved	3,430.7	2,982.5	448.2	15.0
Other	5,347.3	5,569.6	(222.2)	(4.0)
<b>Total assets</b>	<b>34,041.4</b>	<b>33,474.7</b>	<b>566.6</b>	<b>1.7</b>
<b>Liabilities</b>				
I Current liabilities	427.6	431.1	(3.5)	(0.8)
TMG bonds	335.0	343.0	(7.9)	(2.3)
Reserve for bonus	85.6	83.4	2.1	2.5
Other	6.8	4.7	2.1	44.7
II Fixed liabilities	6,692.4	6,934.2	(241.8)	(3.5)
TMG bonds	5,724.2	5,906.0	(181.8)	(3.1)
Reserve for retirement allowances	951.8	1,009.0	(57.1)	(5.7)
Other	16.2	19.1	(2.8)	(14.7)
<b>Total liabilities</b>	<b>7,120.0</b>	<b>7,365.4</b>	<b>(245.4)</b>	<b>(3.3)</b>
<b>Total net assets</b>	<b>26,921.3</b>	<b>26,109.2</b>	<b>812.1</b>	<b>3.1</b>
<b>Total liabilities and net assets</b>	<b>34,041.4</b>	<b>33,474.7</b>	<b>566.6</b>	<b>1.7</b>

#### [4] Administrative Cost Statement

- The administrative cost statement is compiled to recognize “expenses” arising from administrative services activities provided by TMG during a single accounting period on an accrual basis and clarify the corresponding relationship between “expenses” and the “revenues” and the difference between the two (hereinafter, “the balance”).
- A surplus in the balance for the current period in the administrative cost statement indicates that the expenses arising from administrative services provided during the period were basically paid within the revenues such as tax revenues of the same period.

#### <Administrative cost statement points>

- The administrative cost statement also records costs without cash expenses as expenses. The recording of expenses that are not recognized under government accounting, in an accrual basis administrative costs statement, enables the recognition of cost information.
  - Examples of costs without cash expenses –
  - In relation to expenses required for public facilities, etc. government accounting only recognizes the initial construction costs and annual maintenance costs. Meanwhile, the accrual basis approach focuses on the decrease of the asset value of a building, etc. as time passes, and records the amount of decrease each year, in accordance with the operational life of the asset, as depreciation expenses.
  - The main accrual basis cost related to personnel expenses is transfer to reserve for retirement allowances. This recognizes that even if the payment of retirement allowances is some years later, the cost in terms of amount of increase of future retirement allowances is attributable to this fiscal year, and records this as an expense. Furthermore, as shown in Figure 4, when looking at the ratio of personnel expenses to costs in order to ascertain administrative services efficiency, there has been a generally decreasing trend since FY2006.



\*Calculated using the formula (Payroll related expenses + amount transferred to reserve for retirement allowances + amount transferred to reserve for bonuses) / (administrative expenses + financial expenses) x 100. Furthermore, recording of reserve for bonuses commenced from FY2012 onwards, together with recording of the relevant amount as amount transferred to reserve for bonuses (recorded under amount transferred to reserves for other allowances in FY2012).

- The balance for the current period for FY2016 shows that revenues exceeded expenses by 742.1 billion yen. Balance for the current period, an item that corresponds to “Net profit for the current period” in the profit and loss statements of private enterprises, is a part of the items that comprise net assets, and is allocated to funds reserved in preparation for future financial needs and the redemption of TMG bonds to alleviate the burden on future generations.

<Administrative Cost Statement>

(in billion yen, %)

**Administrative balance**

<Depreciation expenses>  
The amount of decrease in value of depreciable assets such as buildings and important property, not recognized under government accounting, is recorded under expenses.

<Amount transferred to reserve for retirement allowances>  
The amount of increase of future retirement allowances, not recognized under government accounting, is recognized as costs attributable to this fiscal year, and recorded under expenses.

**Financial balance**

<Expenses for public bonds (Interest)>  
Records interest paid on TMG bonds

The balance for the current period can also be utilized in preparation for future financial needs, such as fund reserves, etc.

Item	FY2016	FY2015	Change in amount	Percentage of change
Ordinary Balance				
I Administrative balance				
Administrative revenues	6,167.9	6,050.1	117.8	1.9
Local taxes	5,315.9	5,156.7	159.1	3.1
National treasury disbursements	267.4	284.0	(16.6)	(5.8)
Fees and charges	153.5	148.7	4.7	3.2
Other	430.9	460.4	(29.4)	(6.4)
Administrative expenses	5,349.7	5,316.1	33.5	0.6
Tax-related expenses	1,367.6	1,439.4	(71.7)	(5.0)
Payroll-related expenses	1,338.9	1,314.0	24.8	1.9
Subsidizing expenses	1,115.7	1,097.8	17.9	1.6
Investment expenses	459.4	403.6	55.8	13.8
Depreciation expenses	171.1	169.0	2.0	1.2
Transfer to reserve for deficit due to non-payment	8.8	10.2	(1.4)	(13.7)
Transfer to reserve for bonus	85.6	83.4	2.1	2.5
Transfer to reserve for retirement allowances	64.1	84.6	(20.5)	(24.2)
Other	738.1	713.6	24.4	3.4
II Financial balance				
Financial revenues	15.5	15.3	0.1	0.7
Financial expenses	78.4	89.3	(10.9)	(12.2)
Expenses for public bonds (Interest)	76.3	86.8	(10.4)	(12.0)
Other	2.0	2.5	(0.4)	(16.0)
Ordinary balance	755.3	659.9	95.3	-
Special balance				
Special revenues	50.5	19.5	30.9	158.5
Special expenses	63.8	36.3	27.4	75.5
Balance for the current period	742.1	643.1	98.9	-

Note: Investment expenses are the sum total of subsidiary investment expenses, independent investment expenses and investment expenses directly controlled by the national government.

## [5] Cash Flow Statement

- The cash flow statement is prepared to categorize the cash flow of the TMG's finances according to "administrative services activities", "social capital improvement investment", and "financing activities", undertaken for funding and repayments, etc. and to indicate the cash balance status in each.
- The balance of administrative service activities indicates the difference in revenues and expenses accompanying the delivery of ordinary administrative services, and the balance of social capital improvement investment activities indicates the difference in revenues and expenses accompanying the formation of fixed assets and others.
- The balance of administrative activities cash flow is the combination of these two balances. The proforma revenues and expenses by the government accounting method (see page 1) is the sum of the balance of administrative activities cash flow, the balance of financing activities, and the balance brought forward from the previous fiscal year. Consequently, the cash flow statement can be said to show government accounting settlements as divided into each activity category.

### <Cash flow statement points>

- The balance of administrative service activities in FY2016 was 893.9 billion yen in net revenues. This is largely attributed to 118.1 billion yen of increase in revenues due to increased tax revenues.
- The balance of social capital improvement investment activities for FY2016 was 522.1 billion yen in net expenses. This is because the 370.3 billion yen in funds reserved for the enhancement of welfare, such as the resolution of issues concerning children on waiting lists, and the promotion of elimination of utility poles, etc. exceeded the 57.1 billion yen in funds transferred.
- The balance of financing activities for FY2016 was 244.7 billion yen in net expenses. This is because 397.7 billion yen in expenses for public bonds (principal) allocated to the redemption of past TMG bonds exceeded TMG bond revenues of 152.6 billion yen.
- The proforma balance, which is the sum of the balance of social capital improvement investment activities, the balance of financing activities, the balance of administrative services activities (893.9 billion yen) and the balance brought forward from the previous year (251.5 billion yen), indicates a surplus. The proforma balance of 378.6 billion yen consists mainly of financial resources that should be carried over to the next fiscal year, and will be utilized in the next fiscal year.

### Administrative service activities

This indicates cash balance for ordinary administrative services such as payment of salaries and purchase of property, etc.

### Social capital improvement investment activities

This indicates cash balance derived from formation of fixed assets and changes to funds, etc.

This is the sum total of the balance of administrative services activities and the balance of social capital improvement investment activities.

### Financing activities

This indicates the cash balance for procurement of revenues sources through TMG bond issuance and borrowings, and redemption of TMG bonds, etc.

Corresponds to the amount derived by subtracting total annual expenses from total annual revenues under government accounting.

## <Cash Flow Statement>

(in billion yen, %)

Item	FY2016	FY2015	Change in amount	Percentage of change
<b>Administrative service activities</b>				
Total revenues	6,184.8	6,066.7	118.1	1.9
Tax revenues etc.	5,558.5	5,439.2	119.2	2.2
Other	626.2	627.4	(1.1)	(0.2)
Total expenses	5,290.9	5,253.4	37.4	0.7
Tax-related expenses	1,367.6	1,439.4	(71.7)	(5.0)
Administrative expenses	3,841.9	3,721.8	120.0	3.2
Other	81.3	92.0	(10.7)	(11.6)
<b>Balance of administrative service activities</b>	<b>893.9</b>	<b>813.3</b>	<b>80.6</b>	<b>-</b>
<b>Social capital improvement investment activities</b>				
Total revenues	530.9	660.4	(129.5)	(19.6)
Funds transferred	57.1	123.8	(66.6)	(53.8)
Other	473.7	536.5	(62.8)	(11.7)
Total expenses	1,053.0	1,237.6	(184.6)	(14.9)
Social capital improvement expenses	381.3	351.1	30.1	8.6
Fund reserve	370.3	588.5	(218.2)	(37.1)
Other	301.3	297.9	3.4	1.1
<b>Balance of social capital improvement activities</b>	<b>(522.1)</b>	<b>(577.2)</b>	<b>55.1</b>	<b>-</b>
<b>Balance of administrative activities cash flow</b>	<b>371.8</b>	<b>236.0</b>	<b>135.7</b>	<b>-</b>
<b>Financial activities</b>				
Revenues from financing activities	155.1	159.7	(4.5)	(2.8)
TMG bonds	152.6	156.3	(3.6)	(2.3)
Other	2.5	3.4	(0.9)	(26.5)
Expenses related to financing activities	399.9	443.6	(43.7)	(9.9)
Expenses for public bonds (principal)	397.7	442.1	(44.4)	(10.0)
Other	2.1	1.5	0.6	40.0
<b>Balance of financing activities</b>	<b>(244.7)</b>	<b>(283.9)</b>	<b>39.2</b>	<b>-</b>
<b>Total balance</b>	<b>127.0</b>	<b>(47.8)</b>	<b>174.9</b>	<b>-</b>
<b>Balance brought forward from the previous year</b>	<b>251.5</b>	<b>299.4</b>	<b>(47.8)</b>	<b>-</b>
<b>Proforma balance</b>	<b>378.6</b>	<b>251.5</b>	<b>127.0</b>	<b>-</b>

## [6] Statement of Changes in Net Assets

- The statement of changes in net assets is compiled to clearly indicate the changes in net asset items, which show the balance between assets and liabilities in the balance sheet, during a single accounting period.
- Furthermore, the administrative costs statement's balance for the current period is recorded as surplus in the statement of changes in net assets, and the balance at the end of the current period given in the statement of changes in net assets corresponds to the total amount given under net assets in the balance sheet.

### <Statement of changes in net assets' points>

- Based on deliberations by the Tokyo Accounting Standards Board, the TMG revised its accounting standards in 2007, and in addition to conventional balance sheets, administrative cost statements and cash flow statements, created the "Statement of Changes in Net Assets", which clarifies changes in net assets recorded on the balance sheet in a single accounting period.
- Of the items in the statement of changes in net assets, "Opening balance equivalents" indicates the status of assets when the TMG first started creating balance sheets in FY2006, and the given value has not changed in subsequent fiscal years. Additionally, "National treasury disbursements" refers to the portion of treasury disbursements that will be allocated to expenses for social capital improvements. Other than these, there is also "Assessed value of donated assets", which records assets that have been received without any corresponding expense, and "Amounts transferred to wards, towns, etc.", which records exemptions when assets are transferred to wards, towns, etc. when a business is transferred.
- At the end of fiscal year 2016, net assets stood at 26,921.3 billion yen, an increase of 812.1 billion yen from 26,109.2 billion yen in the previous fiscal year. The increase is due primarily to a rise in national treasury disbursements for social capital improvement and balance for the current period etc.

### <Statement of Changes in Net Assets>

Shows each item

(in billion yen)

The statement of changes in net assets is a table that lists each item of net assets from left to right and the variation factors over a single fiscal year from top to bottom.

Shows variation factors in net assets

	Opening balance equivalent	National treasury disbursements	Charges and transfers etc.	Assessed value of donated assets	Amounts transferred to wards, towns etc.	Cross-accounting transaction account	Other surplus	Total
Balance at the end of the previous period	19,021.8	1,204.1	87.3	327.7	(88.7)	(1.8)	5,558.7	26,109.2
Amount changed for the current period	-	81.0	4.9	18.6	(34.5)	(0)	742.1	812.1
Change in fixed assets etc.	-	81.0	4.9	18.6	(34.5)	9.4	-	79.5
Change in TMG bonds etc.	-	-	-	-	-	(9.4)	-	(9.4)
Other intra-bureau transactions	-	-	-	-	-	(0.1)	-	(0.1)
Balance for the current period	-	-	-	-	-	-	742.1	742.1
Balance at the end of the current period	19,021.8	1,285.1	92.3	346.3	(123.3)	(1.9)	6,300.8	26,921.3