TORONTO

STAFF REPORT
ACTION REQUIRED

2013 Audited Consolidated Financial Statements

Date:	June 11, 2014
To:	Audit Committee
From:	Deputy City Manager and Chief Financial Officer Treasurer
Wards:	All
Reference Number:	P:\2014\Internal Services\acc\ac14008acc (AFS18690)

SUMMARY

This report presents the City of Toronto's Consolidated Financial Statements for the year ended December 31, 2013 to Committee and Council for approval and provides highlights of the City's 2013 financial performance and financial condition as of December 31, 2013.

RECOMMENDATIONS

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

1. City Council approve the 2013 Consolidated Financial Statements as attached in Appendix A.

Financial Impact

There are no financial implications as a result of this report.

This report and the accompanying 2013 Consolidated Financial Statements (attached as Appendix A) provide information about the City's overall financial position as at December 31, 2013 and its financial performance during the year. For 2013, the City had consolidated revenues of $11.2B, consolidated expenses of $10.2B, and a resulting annual accounting surplus of $1.0B. It is important to note that this 'accounting surplus' is presented on an accrual accounting basis which includes reserve, reserve fund and capital spending and revenues, and therefore does not represent the operating surplus that the City reports on a budget basis. The City ended 2013 with consolidated assets (financial and non-financial) of $32.3B, offset by consolidated liabilities of $13.1B, resulting in an accumulated surplus as at December 31, 2013 of $19.2B (representing the amount by which both financial and non-financial assets exceed liabilities). It is important to recognize that the accumulated surplus of $19.2B is largely driven by the City's significant investment in Tangible Capital Assets ($23.4B net of accumulated depreciation) which is non-financial in nature since these assets (e.g. the City's roads, bridges, parks, water infrastructure, etc.) do not provide liquidity (i.e. cash), and are not typically available for sale. The accumulated surplus ($19.2B) is less than the City's total non-financial assets ($23.7B), reflecting the consolidated Net Debt position of $4.5B as at December 31, 2013.

DECISION HISTORY

Annually, as required by Sections 231 and 232 of the *City of Toronto Act*, the City prepares and publishes an annual financial statement that consolidates the financial results of all City divisions and the agencies, corporations and government business enterprises that the City controls.

ISSUE BACKGROUND

The Consolidated Financial Statements are intended to provide Council, the public, the City's debenture holders, and other stakeholders, an overview of the state of the City's finances at the end of the fiscal year and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Consolidated Financial Statements and all other information included in the financial report are the responsibility of management.

As required under Section 231 of the *City of Toronto Act*, the financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as set by the Chartered Professional Accountants of Canada (CPA Canada) Public Sector Accounting Board (PSAB).

These Consolidated Financial Statements have been audited by Pricewaterhouse Coopers LLP whose role is to express an independent opinion on the fair presentation of the City's financial position and operating results and to confirm that the statements are free from material misstatement. The external auditor's opinion is to provide comfort to third parties that the financial statements can be relied upon.

Consolidated Financial Statements

The Consolidated Financial Statements include the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Summarizes the assets (financial and non-financial), liabilities, net debt, and accumulated surplus as at December 31st.
Consolidated Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities, and provides the calculation of the City's accumulated surplus at year end.
Consolidated Statement of Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.
Consolidated Statement of Cash Flows	Summarizes the City’s cash position and changes during the year by outlining the City’s sources and uses of cash.

The Consolidated Financial Statements combine the financial results of the City’s divisions with the financial results of the agencies and corporations, and government business enterprises that the City effectively controls. There are 118 entities that are directly included in the financial statements and these are listed in Note 1 to the Consolidated Financial Statements. There are also a number of subsidiaries of agencies and corporations which are not included in the entity count above. The notes to the statements provide further detail about the City’s financial results and are an integral part of the statements.

Plain Language Approach

At its meeting held on July 10, 2008 the Audit Committee, in its consideration of the City’s 2007 Consolidated Financial Statements, requested staff to move towards a plain language approach when submitting future Financial Statements. Various sections of this report and the notes to this year’s Consolidated Financial Statements have been written to incorporate plainer language. As generally accepted accounting principles require specific disclosures, and as certain items are complex, on occasion this limits management’s ability to simplify the language. A Glossary, which explains various terms used in the financial statements, has been included as Appendix C of this report.

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's balance sheet. This statement focuses on the City's assets (financial and non-financial) and liabilities. The difference between the liabilities and financial assets is the City's Net Debt, which represents the net liabilities that must be financed from future budgets.

The detailed breakdown of the accumulated surplus, including all of its components:

- amount invested in capital assets; and
- operating fund, capital fund, reserve and reserve fund balances; offset by,
- amounts to be recovered from future revenues,

is reflected in Note 18 to the Consolidated Financial Statements.

The City has received funds for specific purposes under legislation, regulation or agreements. The recognition of these funds as revenues has been deferred until related expenses occur in the future. For example, development charges, parkland dedication fees and certain Federal and Provincial government transfers received (such as public transit funding), are not recognized as revenues until such time as the projects are constructed. These restricted funds are included in liabilities as "Deferred Revenue" and not in the accumulated surplus. A breakdown of the City's deferred revenue obligatory reserve funds can be found in Note 9 (a) to the Consolidated Financial Statements.

As a result of the significant investment in tangible capital assets, there is a large accumulated surplus, which occurs at the same time that the City has a significant Net Debt, which must be financed through future revenues. Although tangible capital asset balances are considerable for municipalities – much larger on a percentage basis than any other level of government – they do not provide liquidity (i.e. cash), and are not typically available for sale, the proceeds of which could be used for other purposes. It is for this purpose that tangible capital assets are not included in the calculation of Net Debt, arguably the most important financial statistic for governments.

Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus is considered to be the municipal equivalent to the private sector's Statement of Income and Retained Earnings.

The Consolidated Statement of Operations and Accumulated Surplus provides a summary of the revenues, expenses, and surplus throughout the reporting period and outlines the change in accumulated surplus.

The 2013 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified "cash requirements" basis and amounts recorded in these financial statements on a "full accrual" basis. Note

19 outlines the adjustments to the approved budget, particularly exclusion of debt proceeds, principal payments, and tangible capital asset purchases, and inclusion of estimated amortization expense. These adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The accrual based budget typically results in a surplus, as the City must fund reinvestment in assets at amounts greater than their historical cost.

Consolidated Statement of Net Debt

The Consolidated Statement of Net Debt is unique to governments. This statement focuses on the debt of the City, adjusting the annual surplus for the impact of tangible capital assets: mainly deducting the costs to acquire assets, and adding back amortization charged during the year.

Net Debt is a term defined by the Public Sector Accounting Board (PSAB) as all liabilities (both shorter and longer term liabilities) less financial assets. Net Debt (also referred to as net liabilities) may be materially different than the amount of the City's consolidated outstanding debt captured as "Net long-term debt" on the City's Consolidated Statement of Financial Position, details of which are provided in Note 13 of the Consolidated Statements.

COMMENTS

The City’s 2013 Consolidated Financial Statements, presented in Appendix A of this report, provide details of the state of the City’s finances at the end of the fiscal year, and the revenues and expenses for the year ended December 31, 2013.

New Accounting Standards adopted in 2013:

PS 3510 – Tax revenue

On January 1, 2013, the City adopted Public Sector Accounting Standard PS 3510, *Tax Revenue*. This standard was adopted on a retroactive basis from the date of adoption.

Under this standard, taxes receivable are recognized when:

a) they meet the definition of an asset;
b) the tax is authorized (i.e. the tax or tax levy is approved by Council); and,
c) the taxable event has occurred (e.g. the property assessment roll has been received by the City from the Municipal Property Assessment Corporation for the current year).

Under PS 3510, municipalities recognize property tax revenue using the approved municipal tax rates and the property assessment. The standard requires that tax revenue is reported net of tax concessions. Tax concessions represent various tax rebates (e.g. charity, heritage, and vacancy rebates) and tax incentive grants. Tax concessions of $41M were netted against tax revenues in 2013 (2012 - $31M).

In conjunction with implementation of PS 3510, presentation of the solid waste rebates totalling $182M (2012 - $178M) have been regrouped to net against solid waste revenues, as the rate charged is the net amount.

Both of these were new for 2013, with regrouping of 2012 comparatives.

PS 3410 - Government Transfers

On January 1, 2013, the City adopted the revised recommendations of Public Sector Accounting Standard PS 3410, *Government Transfers*. This standard was adopted on a prospective basis from the date of adoption.

The revised recommendations clarify the difference between eligibility criteria and stipulations and their roles in the recognition of government transfers by the transferring and recipient government.

Under PS 3410:

a) Government transfers received or receivable are recognized in revenue once the transfer is authorized and eligibility criteria if any are met, unless there are stipulations which give rise to an obligation that meets the definition of a liability. For example where the City has received a transfer from another government for a specific transit project such as the Toronto York Spadina Subway Extension, a liability exists until the funds are spent on the project;

b) Government transfers paid by the City to another entity or person are recognized as a liability and an expense when the transfer is authorized and all eligibility criteria have been met by the recipient. For example, under the Ontario Works program the City pays each eligible recipient on a monthly basis.

Adoption of this standard did not have a material effect on the financial results for the current year.

2013 Financial Highlights

- The net value of the City's tangible capital assets has increased by $1.3B. The historical cost and accumulated amortization of assets as at December 31, 2013 were $37.2B and $13.8B respectively for a net book value of $23.4B (2012 - $22.1B). Tangible capital asset purchases during 2013 totalled $2.2B (2012 - $2.3B). Amortization of tangible capital assets during 2013 totalled $847M (2012 - $802M).

- The City's accumulated surplus increased by $1.0B to $19.2B as at December 31, 2013 (2012 - $18.2B) due to an accounting surplus of $1.0B. A reconciliation of the City's operating budget surplus (as reported in the year-end operating budget variance report) to the accounting surplus reflected in the City's consolidated financial statements is shown on page 8 of this report.

- The City's Net Debt (i.e. net liabilities - the amount by which liabilities exceed financial assets) increased by $303M to $4.5B (2012 - $4.2B).

- Long-term debt, including both debentures (captured as Net Long Term Debt on the Financial Statements), and mortgage debt obligations of Toronto Community Housing Corporation, increased by $66M to $4.5B (2012 - $4.4B). Total long term debt issued during the year was approximately $471M, while debt repayments including sinking fund earnings totalled $405M. Page 17 of this report provides a breakdown of debt and debt repayments by entity.

- The gross employee benefits liability increased by $28M to $3.0B (2012 - $3.0B), while the net liability increased by $130M to $3.2B (2012 - $3.0B). Additional detail on this change is included on pages 18 and 19 of this report.

- The City collected consolidated revenues of $11.2B (2012 - $11.5B) and had consolidated expenses of $10.2B (2012 - $10.0B) for a net annual surplus on a full accrual accounting basis of $1.0B (2012 - $1.4B).

- Deferred revenue (largely revenues received that have been set aside for specific purposes by legislation, bylaws or third party agreements) increased by $118M to $1.7B (2012 - $1.6B).

- Cash and investments increased by $387M to $5.3B (2012 - $4.9B), while accounts payable and accrued liabilities increased by $244M to $2.9B (2012 - $2.7B).

- The City's investment in its government business enterprises increased by $61M to $1.84B (2012 - $1.78B).

Reconciliation to the Operating Budget Surplus

The following schedule reconciles the "accounting surplus" reported in the Consolidated Financial Statements to the cash based "operating budget surplus" as reported in the 2013 final operating budget variance report to the Budget Committee for budgeting and rate setting purposes.

	(in $000's)	
	2013	**2012**
Surplus as reported in the Final Year-end Operating Variance Report	168,084	248,183
Accounting Adjustments for Financial Statement Presentation Purposes:		
Prior Year Surplus carried forward and used in the Current Year Budget	-	(101,748)
Transfers to Reserves and Reserve Funds directed by Council or required by legislation	63,927	59,734
Surplus related to settlement of assessment appeals for six bank tower properties as reported to Committee and Council (EX32.11)	-	94,000
Differences between budget and financial reporting		
Build Toronto, Dividend budgeted and paid in 2013	10,000	-
Gain on Sale of Enwave	-	96,611
Enwave Dividends and Interest	-	13,193
Transit Sunk Costs Accrual	(80,000)	-
TPLC Dividends	-	40,000
City's agencies and corporations Surplus reported in Consolidated Statement of Operations and Accumulated Surplus	28,906	63,142
Government Business Enterprises' earnings, net of distributions	88,231	32,713
Water and Solid Waste (non-levy) City Operations	11,721	11,754
PSAB Adjustments (See Note 1 following)	41,586	31,136
Fund Balances (See Note 2 following)	572,189	767,578
Amounts to be recovered impacts (see Note 3 following)	117,024	70,157
Accounting Surplus for the year	**1,021,668**	**1,426,453**

Note 1: PSAB adjustments in 2013 relate to differences between amounts recorded in the consolidated financial statements and those budgeted, and are due to:

	2013 $'000s	**2012 $'000s**
Exhibition Place [deferred revenue]	-	5,111
Accrued vacation pay and lieu time	(1,481)	1,763
Loan related Deferred Revenue adjustment	13,988	-
TCHC Deferred Revenue	-	(1,367)
Surplus properties transferred from Tangible Capital Assets to inventory	29,079	25,629
Total	**41,586**	**31,136**

Note 2: Fund balances:

	2013 $'000s	**2012 $'000s**
Capital Fund Activity	(619,901)	(600,999)
Net Change to Reserve Fund Balances	(83,898)	(42,554)
Net Change to Tangible Capital Assets	1,275,988	1,411,131
Total	**572,189**	**767,578**

Note 3: Amounts to be recovered impacts:

	2013 $'000s	**2012 $'000s**
Principal Repayments on Long Term Debt	235,710	291,512
Interest earned on Sinking Funds	74,631	71,342
Changes in solid waste landfill liabilities	409	(2,742)
Changes in property and liability claims	(63,237)	(30,129)
Changes in employee benefit liabilities	(130,489)	(259,826)
Total	**117,024**	**70,157**

Financial Condition

An important measure of any government's financial condition is its Net Debt (also referred to as net liabilities): calculated as liabilities (e.g. trade and employment payables, mortgages and debentures) less financial assets (e.g. cash, receivables, and investments).

The City's Net Debt as at December 31, 2013 increased by $303M to $4.5B (2012 - $4.2B). This increase is due primarily to the City's financing of tangible capital assets, offset by its considerable accounting surplus during 2013. For more information on the change in Net Debt, please refer to the Consolidated Statement of Change in Net Debt.

Table 1
Net Debt – 5 year Summary ($000's)

Net Debt	4 Year Average Annual Increase	2013	2012	2011	2010	2009
Liabilities	5.99%	13,117,281	12,505,032	11,672,374	10,899,622	10,392,487
Financial assets	6.23%	8,569,386	8,259,997	7,283,091	6,513,984	6,728,291
Net Debt	**5.55%**	**4,547,895**	**4,245,035**	**4,389,283**	**4,385,638**	**3,664,196**
Percentage Increase		**7.13%**	**(3.29%)**	**0.08%**	**19.69%**	

The City's Net Debt has increased by a compound annual rate of 5.55% over the last four (4) years, attributable mainly to increases in long-term debt to third parties and in long-term net employee benefit liabilities. Both of these items are dealt with in more detail later in this report.

In order to improve the City's financial position, the City continues to implement its Long Term Fiscal Plan. Some key measures included in the plan are: tax policies which enhance economic competitiveness and improve Toronto's business climate, utilization of user rate adjustments for environmental and cost control purposes, working with the Province to continue the upload of social service program costs, and working with other orders of government to obtain permanent, sustainable funding for transit and social housing.

While debt financing has grown and will continue to grow due to state of good repair funding requirements and increased focus on expanding public transit infrastructure to meet the demands of a growing population, the City's updated Capital Plan, which includes a non-debt financing strategy to fund additional capital needs, ensures a solid financing plan is in place for the next five (5) years. The positive effects of implementing these financial plans are reflected in the City's AA and Aa1 (Moody's) independent credit ratings.

Another key indicator of a government's financial condition is the amount that must be recovered from future revenues as included in Note 18 of the Consolidated Financial Statements. These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities and environmental liabilities. In 2013, the total amount that must be recovered from future property taxes and other revenues grew by $263M to $8.2B (2012 - $7.9B). This increase mainly consists of:

- an increase of $130M in the net employee benefits liabilities as unamortized gains increased $103M. Further information is detailed on pages 18 & 19 of this report;

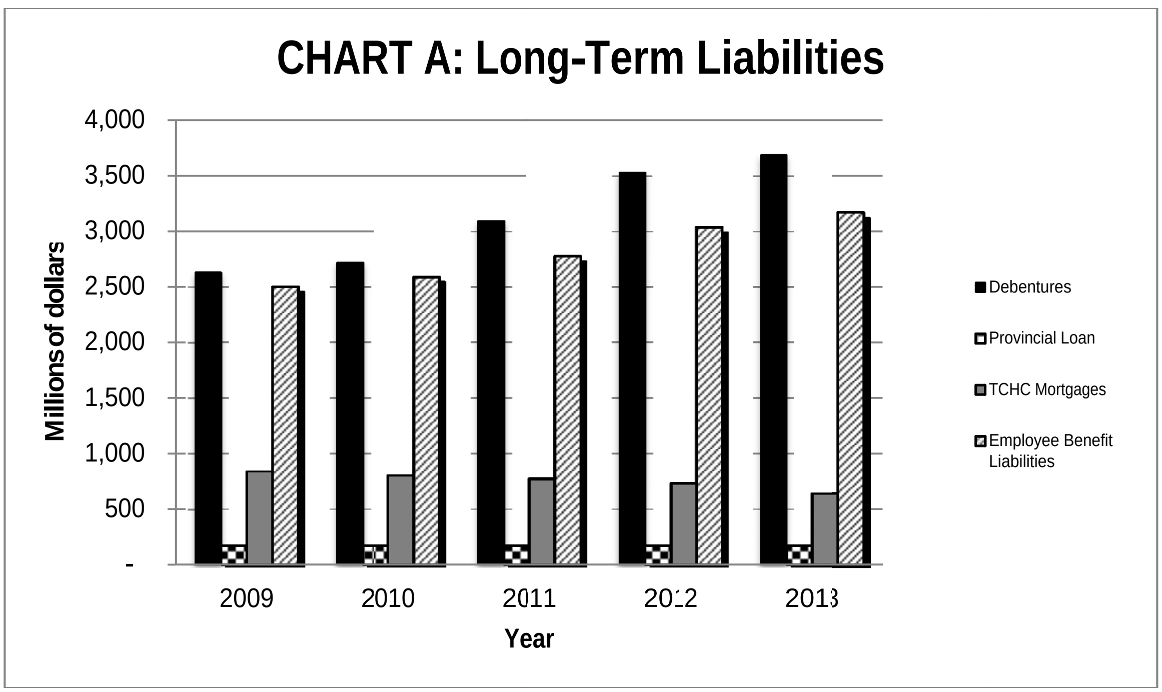
- an increase of $63M in the property and liability claims provision, as a result of the discount rate decrease for these liabilities; and,

- a net increase of $66M in mortgages and net long term debt.

The significant growth in net long-term debt has been driven mainly by the need to finance transit capital expenditures.

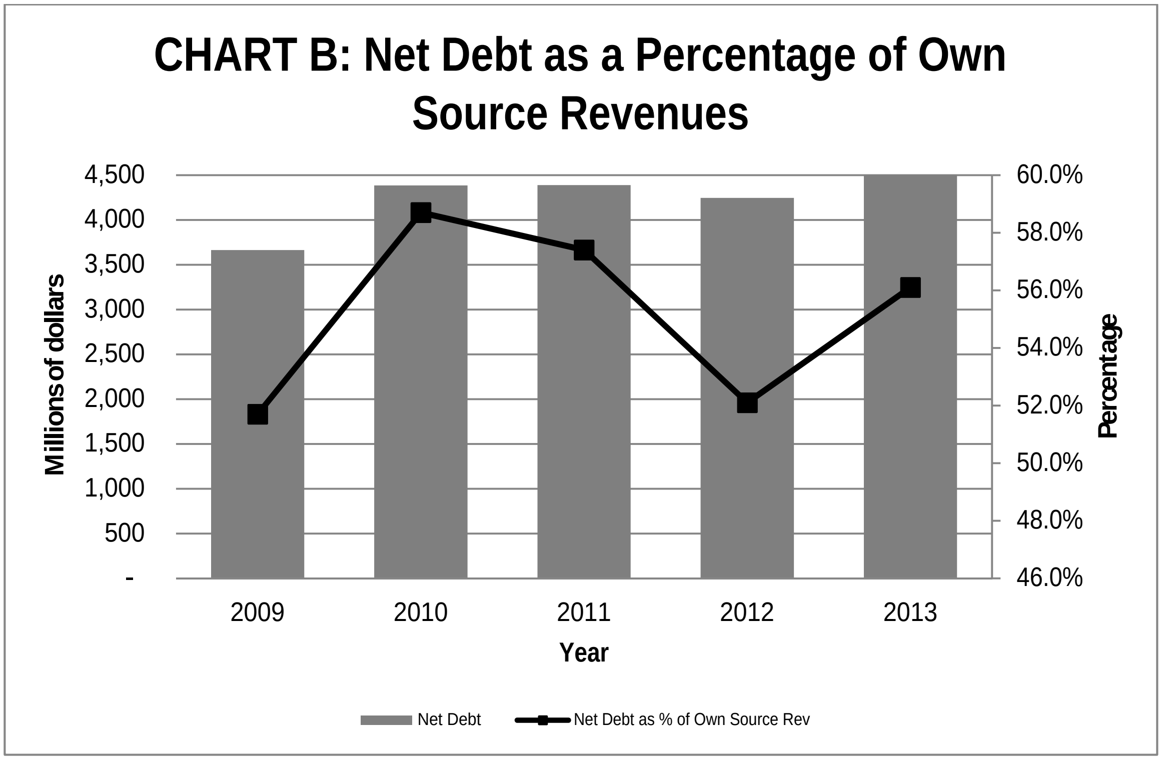
The growth of employee benefit liabilities in 2013 has been driven primarily by changes in the mortality tables that better reflect the City's experience. The increase in the liability due to the new mortality tables was partially offset by a decrease resulting from higher discount rates. Council has contained some of the growth of this liability through changes in benefit plans and other cost containment initiatives.

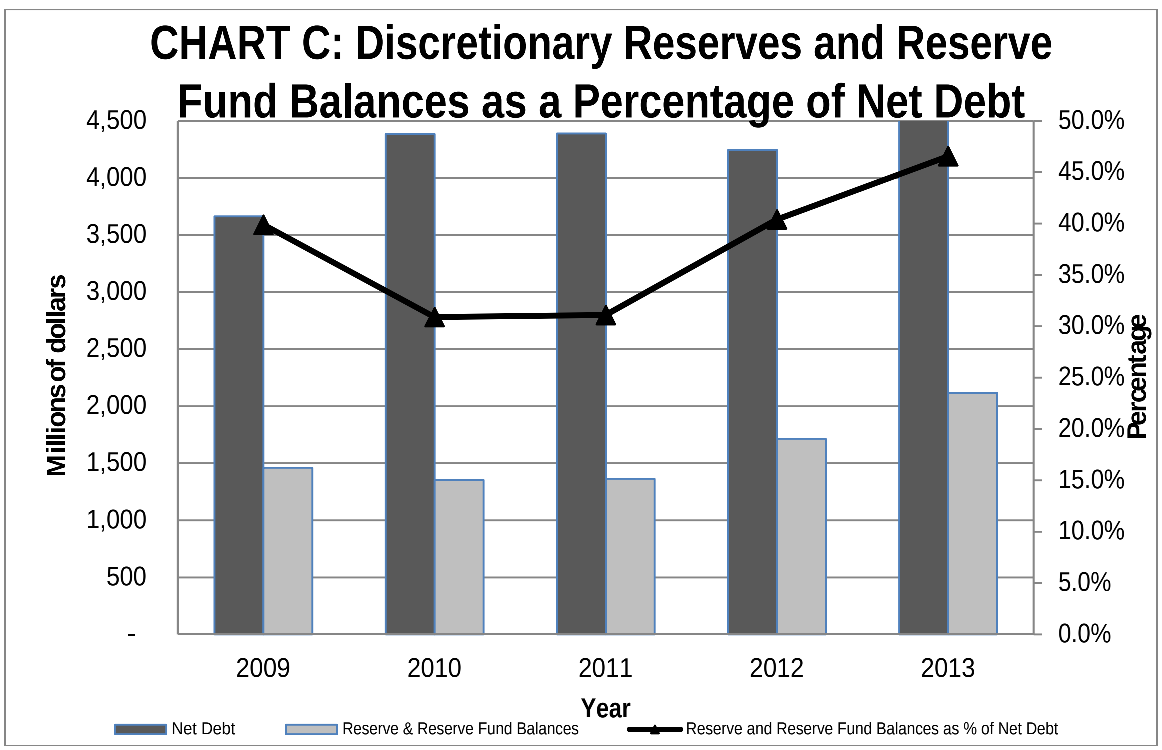
Chart A provides the breakdown of long-term liability growth by debt type.



Information on the mortgage liabilities of TCHC is provided in Note 12, the provincial loan and the City's debenture debt is outlined in Note 13, while further detail about the City's employee benefit liabilities is provided in Note 14 of the Consolidated Financial Statements.

To put the City's net liability (i.e. Net Debt) into a different context, Chart B expresses the Net Debt as a percentage of the City's own source revenues (excluding government transfers and earnings from government business enterprises). The net liability as a percentage of own source revenues has gone from 51.7% to 56.1% over the last five (5) years.





The City's Net Debt substantially exceeds the City's reserve and reserve fund balances as shown in Chart C. Reserves and Reserve Fund balances (summarized in Note 18) increased substantially in 2013, with the capital financing reserve increasing approximately $187M. The vast majority of the reserve and reserve funds are committed to fund capital projects identified in the ten (10) year capital plan, and future known liabilities, leaving only a small portion available for discretionary spending. Also, the current balances of some reserve funds (e.g. Employee Benefits) provide only a small portion of the funding to cover the future obligations for which they have been set aside.

The balances of all the Obligatory Reserve Funds (summarized in Note 9) are restricted for specific purposes as designated by legislation or contractual agreements and all capital reserves/reserve funds are required to replace and maintain capital assets.

If the Obligatory Reserve Funds were included in Chart C, then the Reserve and Reserve Fund Balances would be 76.0 % of Net Debt (2012 - 69.4%).

For financial statement purposes, PSAB requires that Obligatory Reserve Fund balances (such as development charges and unspent provincial public transit funding) be classified as deferred revenue (Note 9(a) of the Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements (Note 18), are lower than those included in staff reports to the Budget Committee.

Comparison to Other Jurisdictions

Table 2 provides a comparison of key financial indicators for a selection of large Canadian cities – 2013 figures.

Table 2

2013 *($ millions)*						
	Toronto	**Montreal**	**Ottawa**	**Calgary**	**Edmonton**	**Vancouver**
Investments	4,662	2,754	1,046	3,318	1,349	1,296
Investments in GBE's*	1,836	-	382	2,460	2,262	-
Interest bearing long-term debt	4,497	9,248	1,872	3,661	2,426	789
(Net Debt) / Net Financial Assets **	(4,547)	(5,297)	(1,259)	586	1,102	(206)

* Government Business Enterprises – In other Canadian municipalities as compared above, these types of investments are primarily in electric utility systems and other utility systems such as natural gas and water. Details of Toronto's investment are provided in Note 6 to the Consolidated Financial Statements.

** Net Debt / Net Financial Assets is a measure on the Statement of Financial Position, and not a summary of items in this table.

The City compares favourably on its investment level. Edmonton compares favourably on its net financial position largely because of its significant investment in Epcor, a subsidiary involved in electricity transmission and distribution, water, wastewater and infrastructure.

Analysis of Key Asset and Liability Accounts

Accounts Receivable

The breakdown of accounts receivable at December 31, 2013 with 2012 comparatives is as follows:

Accounts Receivable	(in $'000s) 2013	2012
Government of Canada	170,185	326,193
Government of Ontario	190,679	297,752
Other municipal governments	28,055	44,971
School board	394	9,608
Utility fees	155,953	144,468
Other fees and charges	429,149	382,432
Total	**974,415**	**1,205,424**

Accounts receivable balances decreased $231M in 2013. The decrease consists primarily of the following:

- decrease in receivable from Government of Canada ($156M) due to the following:

	($ millions) **Increase (Decrease)**
Receipt of Federal Gas Tax instalment in 2013	(77.2)
Receipt of Canada Strategic Infrastructure Fund (CSIF) in 2013	(81.7)
Other increases and decreases	2.9
Total	**(156.0)**

- decrease in receivable from Government of Ontario ($107.1M) due primarily to the following:

	($ millions) **Increase (Decrease)**
Light Rail Vehicle (LRV) funds received in 2013 accrued in 2012 and prior years	(102.6)
Ministry of Transportation – Move Ontario (York Spadina Extension)	(46.5)
Accrual of Ice Storm Recovery from the Province for 2013	44.5
Other increases and decreases	(2.5)
Total	**(107.1)**

- decrease in receivable from York Region ($16.9M), due primarily to lower receivable at year end from York Region for their contribution ($16M) to the Toronto York Spadina Subway Extension.

Offset by:

- Increase in Utility fees receivable ($11.5M) primarily attributable to average increase in water rates of 9%; and

- Increase in other fees and charges ($46.7M) due primarily to increases in: customer billing at year end ($22M); new loans for sustainable energy Better Business Partnership ($2M), Energy Conservation ($8M) and Green Energy ($8M).

Taxes Receivable
Taxes receivable consists of all outstanding taxes, items that have been added to the tax roll (such as utilities arrears, drainage charges, and local improvement charges), accumulated penalties and interest charges, net of an allowance for uncollectible taxes.

A breakdown of this receivable is as follows:

	(in thousands of dollars)	
Taxes Receivable	**2013**	**2012**
Current year	165,888	157,045
Prior year	28,085	27,891
Previous years	33,436	32,271
Interest/penalty	45,114	39,537
Less: allowance for doubtful accounts	(33,007)	(31,866)
Net receivables	**239,516**	**224,878**

Other Assets (Note 4)
Other assets are mainly loans receivable from various organizations and TCHC's equity in joint ventures. Other Assets increased by $81M to $243M (2012 - $162M) due primarily to:

- TCHC finalizing a financing transaction on November 1, 2013 with Infrastructure Ontario (IO) of which $94M is restricted for investment in future capital assets; offset by
- Vendors repaying two of the Vendor-take-back-mortgages in connection with land sale transactions in July 2013 to Build Toronto with fair value of $15M.

Investments (Note 5)
Investments increased by $248M to $4.7B (2012 - $4.4B) due primarily to increases in reserves and reserve funds; dividends received from Build Toronto and Toronto Hydro; and, lower cash requests from TTC.

Investment in government business enterprises (GBEs) (Note 6)
Investment in government business enterprises increased by $61M to $1.84B (2012 - $1.78B). This is primarily due to increases in the value of Toronto Hydro of $39M and Toronto Parking Authority of $20M.

Additional information regarding the City's GBEs as at December 31, 2013, including 2013 transactions for all GBEs with the City and condensed financial results, are provided in Note 6 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable (Note 8)
The breakdown of accounts payable and accrued liabilities at December 31, 2013 with 2012 comparatives is as follows:

	(in thousands of dollars)	
Accounts Payable	**2013**	**2012**
Local Board trade payables	732,763	725,041
City trade payables and accruals	1,162,483	957,117
Payable to school boards	416,827	330,762
Provision for tax appeals & rebates	346,965	389,639
Credit balances on property tax accounts	105,130	66,885
Wages accruals	170,667	221,169
Total	**2,934,835**	**2,690,613**

- City trade payables and accruals are higher ($205M) in 2013 primarily due to higher accruals at year end ($99M); higher year end trade payable outstanding at year end $19M; accrual of $80M for Scarborough Subway extension sunk costs and, increase in Municipal Services Damage Guarantee (MSDG) deposits ($13M).

- Payable to school boards was higher ($86M) in 2013 due to higher net tax levy for the Toronto District School Board.

- The provision for tax assessment appeals decreased by approximately $43M as a lower number of pending appeals as at December 31, 2013 reduced the overall provision requirement. Since a majority of accounts are paid in full based on the original levy, a reduction to the provision for pending appeals will also reduce the estimated amount payable if the appeals were successful.

- The $38M increase in credit balances on property tax accounts is primarily due to the processing of assessment appeals on accounts which were paid in full prior to the appeal adjustment.

- Wage accruals were lower by $51M primarily due to payment for outstanding union settlements in 2013 which had been accrued in 2012.

Deferred Revenue (Note 9)

Deferred Revenue increased by $118M to $1.7B (2012 - $1.6B) primarily as a result of:

- increase in net funds received for Development Charges, Building Code and Planning Act of $100M;
- increase in Obligatory Reserve Funds for Water and Wastewater of $81M due to higher contributions as compared to withdrawals for capital purchases; and
- increase in contribution from Metrolinx ($46M) and Federal Government (13M) for Union station; offset by
- decrease in Obligatory Reserve Funds for Public Transit of $77M due to withdrawals for transit capital purchases; and
- decrease in deferred revenue from third party agreements (13M), Subdividers' Deposits ($11M), State of Good Repair ($12M) and City's agencies and corporations ($10M).

Other Liabilities (Note 10)

Other Liabilities increased by $48M to $647M (2012 - $599M), mainly as a result of:

- an increase in the property and liability claims provision ($63M); offset by,
- a decrease in Toronto Transit Commission (TTC) unsettled accident claims ($13M); and
- a decrease in Build Toronto environmental liabilities ($9M).

Net Long-Term Debt, including TCHC Mortgages (Notes 12 and 13)

Net long-term debt increased by $66M to $4.5B (2012 - $4.4B) as follows:

	($ millions)
Issuance of Debt – City	300.0
– TCHC	170.1
– City's agency (i.e. Leaside Arena)	1.1
Debt Repayment – City	(205.9)
Debt Repayment – TCHC	(33.8)
Interest earned on sinking funds	(74.6)
Mortgage repayments	(91.2)
Total	**65.7**

Table 3 below lists all consolidated debt issued in 2013.

Table 3: Debt Issued – 2013 ($000's)

	Total	TCHC = 5 years	City 10 years	TCHC 20 years	Leaside 20 years
Summary by Service					
General Government	19,659	-	19,659	-	-
Protection	26,901	-	26,901	-	-
Transportation	170,504	-	170,504	-	-
Recreation & Culture	1,052	-	-	-	1,052
Planning & Dev	82,936	-	82,936	-	-
Social Housing	170,158	30,021	-	140,137	
	471,210	30,021	300,000	140,137	1,052

Table 4 lists consolidated net long-term debt from all sources for the past five years:

Table 4: Five year comparison of Net Long-Term Debt & Mortgages ($000's)

	2013	2012	2011	2010	2009
Property taxes	3,154,240	3,130,763	2,686,200	2,282,342	2,440,214
TCHC	1,280,510	1,235,113	1,281,873	1,377,951	1,161,161
Lakeshore Arena Corporation	38,937	39,234	39,547	-	-
Leaside Arena	1,052	-	-	-	-
TDSB	22,410	26,371	30,190	33,815	37,837
Net long-term debt	**4,497,149**	**4,431,481**	**4,037,810**	**3,694,108**	**3,639,212**

Employee Benefit Liabilities (Note 14)

Employee benefit liabilities represent the amount payable to employees or third parties in future years for services that were rendered by the employees in the current or past years. These amounts represent amounts payable for items such as workers compensation, long term disability, health care benefits for early retirees, and pensions for those retirees covered by the City's legacy pension plans. Actuarial valuations are undertaken every three (3) years to calculate the liabilities, estimating expected future costs and then calculating the present value based on the applicable municipal bond rate (the discount rate) as at December 31, 2013 in accordance with PSAB standards.

The gross employee benefits liability for the City and its consolidated entities (identified as "Total employee accrued benefit obligation" in Note 14 of the Consolidated Financial Statements) increased by $28M to $3.0B (2012 - $3.0B), primarily due to the following:

- decrease in the non-OMERS pension plan liabilities ($19M) as the financial situation of each of the five (5) pension plans improved in 2013; offset by
- increase in sick leave benefits ($18M) primarily in Police Services;
- increase in workers' compensation benefits ($4M); and
- increase in post-employment benefits ($25M).

Table 5: Employee Benefit Liabilities by Type for the City and its Consolidated Entities ($000's)

	2013	2012	2011	2010	2009
Sick Leave	489,170	471,472	479,559	434,545	429,000
WSIB	432,533	428,767	459,565	410,670	357,725
Post Retirement and LTD	2,102,038	2,076,852	2,115,655	1,799,982	1,565,054
Pension	7,969	26,694	123,980	29,185	109,685
Gross Liabilities	**3,031,710**	**3,003,785**	**3,178,759**	**2,674,382**	**2,461,464**
Unamortized Gain/(Loss)	134,772	32,208	(402,592)	(85,425)	41,950
Net Liabilities	**3,166,482**	**3,035,993**	**2,776,167**	**2,588,957**	**2,503,414**

While the gross employee benefit liabilities increased by slightly less than 1% ($28M), the unamortized actuarial gain increased by $103M in 2013 (from $32M in 2012 to $135M in 2013), resulting in an overall increase in net employee benefit liabilities of $130M (from $3.03B in 2012 to $3.17B in 2013).

The $103M increase in unamortized gains is primarily related to:

- an increase in the discount rate of approximately 0.5% for each of: post employment, post retirement, sick leave and WSIB benefits; partially offset by
- updated changes in assumptions resulting from an experience study undertaken in 2013.

As actuarial gains and losses are amortized over the estimated average remaining service life of the employee group, these actuarial gains and losses will be recognized over the next 13.2 to 15.1 years.

Table 6 below, shows employee benefits liabilities by entity.

Table 6: Employee Benefit Liabilities by Entity ($000's)

	2013	2012	2011	2010	2009
City	1,703,964	1,720,870	1,809,615	1,585,821	1,429,634
City Legacy Pensions	7,969	26,694	123,980	29,185	109,685
Police	599,325	568,949	581,651	514,160	479,673
Other Entities	720,452	687,272	663,513	545,216	442,472
Gross Liabilities	**3,031,710**	**3,003,785**	**3,178,759**	**2,674,382**	**2,461,464**
Unamortized Gain/(Loss)	134,772	32,208	(402,592)	(85,425)	41,950
Net Liabilities	**3,166,482**	**3,035,993**	**2,776,167**	**2,588,957**	**2,503,414**

Due to various measures undertaken by the City to contain the growth in employee benefit liabilities (such as reduced drug costs, reduced administrative fees with Benefit Carrier, negotiated benefit plan design changes for Unionized and Management employees, and changes in the post-65 retiree benefit plan for Fire fighters) the City's gross liability has decreased by $106M since 2011.

The improvement in the legacy pension plans is a result of the improved economy and better investment returns.

Tangible Capital Assets (Note 15)
Note 1 to the consolidated financial statements outlines the significant accounting policies including an overview of the policy for recording tangible capital assets. In short, tangible capital assets are recorded at cost and amortized over their useful lives.

The breakdown of tangible capital assets, as well as accumulated amortization, as at December 31, 2013 with 2012 comparatives, is presented in Note 15 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

During the year, consolidated asset additions totalled $2.2B, with the most significant portion being:

- Building and Building Improvements of $333M (consisting of $113M at the TCHC, $85M at the TTC, $23M at the Library, $34M at the Toronto Police Service and $76M at the City);

- Transit Infrastructure of $435M; and,

- Machinery and Equipment purchases of $212M consisting of:
    - Infrastructure equipment ($20M) mainly related to Water and Wastewater treatment plant equipment and Road Traffic Signals;
    - General equipment ($192M) such as Green Lane Landfill gas and leachate collection systems, computer hardware, water meters, security systems, police and transit equipment.

During the year, amortization of tangible capital assets increased by $45M to 847M (2012 - $802M), mainly as a result of an increase in TTC amortization of $29M and increase in City amortization of $12M.

Consolidated Annual Accounting Surplus

Table 7

Consolidated Accounting Surplus					
(in thousands of dollars)					
	2013 Budget	**2013 Actual**	**Difference: Positive / (Negative) Variance**	**Change**	**2012 Actual**
Revenues					
Property Taxation	3,669,871	3,696,738	26,867	0.7%	3,701,304
Municipal Land Transfer Tax	321,474	360,884	39,410	12.3%	349,798
Taxation from other governments	92,149	111,292	19,143	20.8%	106,600
User Charges	2,778,849	2,638,543	(140,306)	(5.0%)	2,482,754
Funding transfers from other governments	3,482,798	2,952,158	(530,640)	(15.2%)	3,054,218
Gain on Sale of Enwave	-	-	-	-	96,611
Government Business Enterprise Earnings	-	175,544	175,544	-	180,097
Investment Income	185,275	232,244	46,969	25.4%	246,760
Development Charges	253,131	164,004	(89,127)	(35.2%)	141,133
Rent and Concessions	438,096	438,698	602	0.1%	395,470
Other	580,563	462,454	(118,109)	(20.3%)	720,915
Total	**11,802,206**	**11,232,559**	**(569,647)**	**(4.8%)**	**11,475,660**
Expenses					
General Government	797,759	770,411	27,348	3.4%	646,346
Protection to persons and property	1,654,571	1,656,046	(1,475)	(0.1%)	1,558,447
Transportation	2,830,866	2,769,289	61,577	2.2%	2,828,174
Environmental services	1,088,538	838,344	250,194	23.0%	810,859
Health services	422,184	422,038	146	0.0%	397,210
Social and family services	2,116,663	1,963,092	153,571	7.3%	1,999,896
Social Housing	904,446	758,024	146,422	16.2%	850,026
Recreational and cultural services	1,010,912	905,987	104,925	10.4%	861,716
Planning and development	137,454	127,660	9,794	7.1%	96,533
Total	**10,963,393**	**10,210,891**	**752,502**	**6.9%**	**10,049,207**
CONSOLIDATED ANNUAL ACCOUNTING SURPLUS	**838,813**	**1,021,668**	**182,855**	**21.8%**	**1,426,453**

Table 7 provides a comparison of 2013 Consolidated Revenues and Expenses versus budget, and also shows 2012 actuals. The table also provides a comparison of expense by type or category of service.

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements (see Note 19 in the Consolidated Financial Statements). The budget is however, adjusted to exclude purchases of tangible capital assets from expenses, to also exclude debt principal from revenues and expenses, and to allow for amortization of tangible capital assets.

Consolidated Revenues

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of the City's many revenue sources. In 2013 property taxes made up 32.9% (2012 – 32.3%) of the City's operating revenue.

Municipal Land Transfer Tax (MLTT) exceeded budget by $39M primarily due to higher than anticipated home sales and average home prices.

Taxation from other governments (Payment in Lieu (PIL) of Taxes) revenue exceeded budget by $19M due to lower than expected appeals and other billing adjustments along with an increase in overall levies issued in 2013.

User Charges were under budget by $140M due primarily to lower than budgeted spending of $140M on Capital projects funded from obligatory reserve funds for Water/Wastewater, resulting in lower revenue being recognized in 2013 than budgeted.

Funding Transfers from other governments were under budget by $531M primarily due to:

- Under-spending in TTC projects including the Toronto-York Spadina Subway Extension by $460M; and
- Ontario Works operating subsidies were lower by $95M, due mainly to lower subsidies than budget for the Ontario Works Financial Assistance Program; offset by,
- Accrual of Ice Storm Recovery from the Province for 2013 for $45M.

Government Business Enterprise Earnings ($176M) represent the earnings from Toronto Hydro Corporation, Toronto Parking Authority and Toronto Port Lands Company. Details are available in Note 6 and Appendix 1 of the Consolidated Financial Statements.

Investment earnings were higher than budget by $47M due to more robust cash flow in 2013, dividends received from Build Toronto and Toronto Hydro, increases in reserves and reserve funds, and the overall annual surplus achieved in 2013. This resulted in increased investment balances and additional income.

Development Charges applied to capital spending were under budget by $89M, due to under-spending on capital projects. As an obligatory reserve, development charge revenues are not recognized until the funds are spent for the intended purposes.

Other Revenues were lower than budget by $118M primarily due to:

- Parking Authority's share of net income retained to fund capital projects was less than budgeted by $25M;
- Return of excess funding from the Yonge Dundas redevelopment project of $14M;
- lower than expected volume of utility cuts resulting in lower capital recoveries in Transportation of $25M;
- lower recoveries in Parks and Recreation by $15M due to lower than budgeted donations and recoveries related to Section 37 agreements; and
- lower than budgeted recoveries of $15M for donations, sale of publications and other recoveries.

Five Year Summary of Consolidated Revenues

The five year summary of revenues outlined in Table 8, below, demonstrates that property taxes continue to be one the slowest growing revenue sources for the City. The City is limited by provincial legislation and Council policy from extending tax rate increases on the commercial, industrial and multi-residential assessment base (which is 52.8% of the City's tax revenue base) on the same basis as the residential base.

As a result of the slow growth of property tax revenue, more reliance has been placed on user fees, the Municipal Land Transfer Tax, senior government transfers and other sources of revenue to meet expenses and minimize property tax rate increases. The City undertook a User Fee Review in 2011 which allows the City to set user fee prices with the objective of full cost recovery, where appropriate.

Table 8: Consolidated Revenues – 5 year Summary

		(in thousands of dollars)				
Revenues	**Avg. Annual Increase**	**2013**	**2012**	**2011**	**2010**	**2009**
Property taxes	2.42%	3,808,030	3,807,904	3,555,309	3,527,901	3,460,234
Municipal Land Transfer Tax (MLTT)	18.35%	360,884	349,798	324,065	278,980	183,892
Personal Vehicle Tax (PVT)	N/A	-	-	723	42,766	51,717
User charges	5.17%	2,638,543	2,482,754	2,436,025	2,355,963	2,156,408
Government transfers	(0.34%)	2,952,158	3,054,218	3,148,351	3,173,242	2,993,468
Gain on Sale of Enwave	N/A	-	96,611	-	-	-
GBE Earnings	11.22%	175,544	180,097	188,041	153,294	115,012
Investment Income	(4.75%)	232,244	246,760	248,397	265,990	282,217
Development Charges	18.58%	164,004	141,133	94,952	92,162	83,144
Rent and Concessions	5.45%	438,698	395,470	386,073	372,959	355,005
Other	(2.89%)	462,454	720,915	604,560	540,861	520,422
Total	**2.44%**	**11,232,559**	**11,475,660**	**10,986,496**	**10,804,118**	**10,201,519**
Percentage Increase		(2.12%)	4.45%	1.69%	5.91%	

Consolidated Expenses

Gross consolidated expenses for 2013 totalled $10.2B (2012 - $10.1B).
Expense variance explanations by major program areas, are as follows:

- Costs for General Government are lower than budget by $27M, primarily due to:
  - Savings of $15M for negotiated wage settlements;
  - Lower spending of $45M on various State of Good Repair projects related to corporate facilities maintenance work; and
  - Lower spending of $10M mainly due to delaying of system upgrades and system maintenance projects; offset by
  - Ice storm costs of $45M accrued in 2013, which had not been budgeted.

- Costs for Transportation (including Roads/Traffic signals maintenance and Transit) were $62M lower than budget primarily due to:
  - Lower spending at TTC of $48M due to lower market prices of diesel fuel, delays in filling budgeted positions, and reduced maintenance costs for buses and streetcars. In addition, expenses were lower as a result of reduced utilization of

certain healthcare benefits, reduced accident claim settlement costs and lower retroactive pay;
    - Lower spending at TTC of $89M on various repair and maintenance projects such as the Leslie Barns LRT Maintenance and Storage Facility ($53M), and the Automatic Train Control Re-signalling project ($36M); offset by
    - Accrual of $80M for City reconfirming its support for a Scarborough subway.

- Environmental services spending was lower than budget by $250M due primarily to:
    - Lower spending at Toronto Water of $155M related to various State of Good Repair maintenance projects for Water Services Repairs and Water Main and Sewer Rehabilitation and Replacements;
    - Lower spending of $21M at Toronto Water due to savings in salaries and benefits arising from unfilled vacancies ($14M); energy and utility efficiencies from optimization of water and wastewater production processes, and delays in capital projects for odour and corrosion control ($3M); and other continuous improvement initiatives ($5M);
    - Lower spending at Solid Waste of $51M mainly attributable to various maintenance projects; and
    - Savings of $11M at Solid Waste due to lower than planned expenditures for salaries and benefits of $7M from vacant positions; $8M for lower payment-in-lieu-of-taxes, consumption of utilities, supplies and equipment etc.; offset by higher costs of $4M for fleet maintenance and fuel.

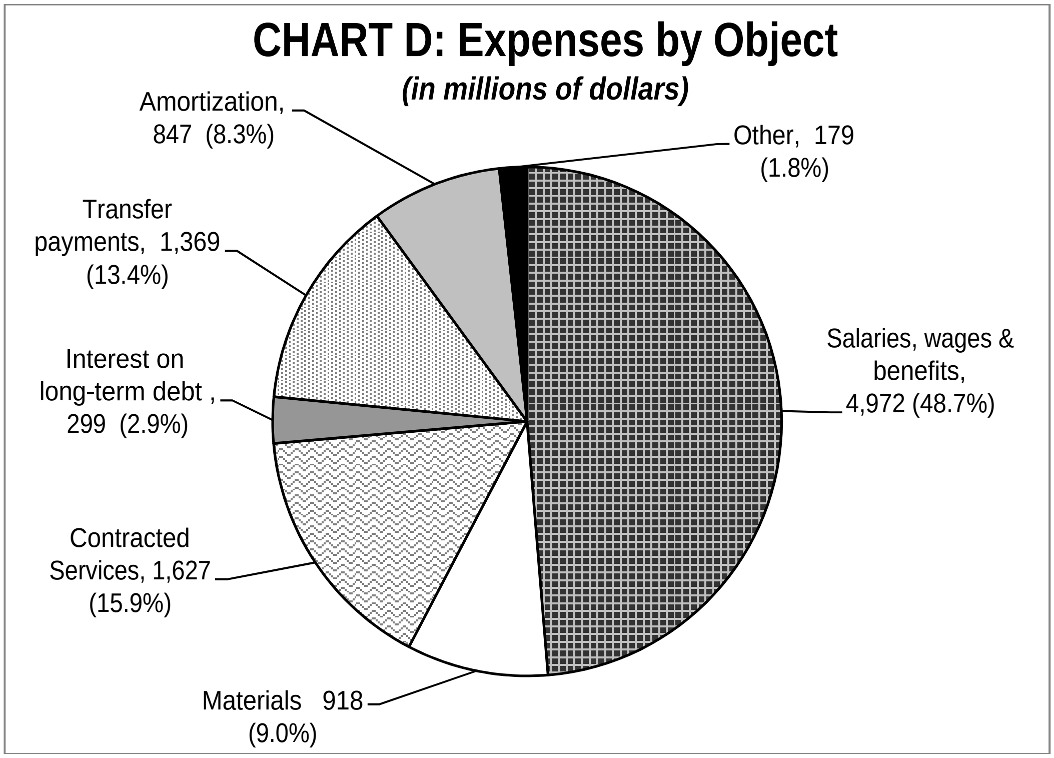
- Social and Family Services spending was lower than budget by $154M, due to the following:
    - Ontario Works (OW) financial benefits were under spent by $145M due to a lower than budgeted OW caseload (98,077 actual vs. 108,500 budgeted), caseload mix (higher proportion of singles as compared to families), and lower special diet expenditures and Housing Stabilization Fund expenditures as well as salary savings from caseload contingent staff; and
    - Children's Services were under budget by $18M due primarily to delayed capital spending related to minor construction projects, non-receipt of provincial funding, and staff turnover.

- Social Housing spending was lower than budget by $146M, due primarily to lower amortization expense of $129M, largely associated with TCHC.

- Recreational and cultural services was lower than budget by $105M due primarily to:
    - Lower spending of $3M for a cost recovery program (Asian Long Horn Beetle Program), and salaries and benefit savings from unfilled seasonal and permanent positions, which were partially offset by the unbudgeted July storm damage clean-up costs; and
    - Lower spending of $109M on repairs and maintenance for Recreation projects and Park related IT projects.

Consolidated Expenses by Object

Chart D breaks down the gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 48.7% of the total amount. It should be noted that principal re-payments on debt are not included as they are considered financing transactions for accounting purposes and are not considered expenses.



Note 21 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenses by object.

Risks and Mitigation

The City continues to face a number of risks that could have a negative impact on the City's financial future. These risks include: lack of long-term dedicated funding to assist the City in addressing its infrastructure deficit, including building and expanding the transit system to meet the City's strategic goals, and accessing non-property tax revenue sources that grow with the economy to ensure long term sustainable funding.

In 2013, the City continued to make progress to address these risks by continuing to implement its Long Term Financial Plan. Appendix B lists eight (8) specific financial issues/risks and the actions taken in 2013 to help address them.

Highlights include:

- The completion of eight (8) Service Efficiency Studies with savings being realized in 2012 through to 2014 (Fleet Services, Shelter & Housing, Real Estate Services, Solid Waste Management, Toronto Public Library, TTC and Transportation Services);
- During 2012 and into 2013, a number of other Service Efficiency Studies were initiated with savings expected for future years;
- Continued cost containment, continuous improvements and other program review initiatives to ensure appropriate and efficient use of resources;
- Negotiated collective agreements/union contracts with TCEU Local 416 (Toronto Parking Authority) and CUPE Local 1600 for four (4) years on favourable terms. Additionally, the City is expected to achieve efficiencies, savings and liability reductions of approximately $150M over 2012 to 2015 through negotiated changes to workplace practices and benefits. Increased management flexibility as a result of the new agreements will also provide improvements and further cost reductions;
- In 2013, the City put a non-debt funding plan in place to fund additional 10-year capital needs of $534M for TTC transit needs and $671M for the ongoing rehabilitation work on the Gardner Expressway, road resurfacing and reconstruction and key capital works. Non-debt strategies to fund the additional capital needs included the use of operating budget surpluses, increases in Development Charge revenues, sale of assets and dividends from City's agencies and corporations; and
- For 2013, the City continued to reduce tax rate ratios for business/non-residential properties. Council is on track to meet its objectives of reducing the tax ratio for commercial, industrial and multi-residential properties to 2.5 times the residential tax rate by 2020.

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SIGNATURE

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Roberto Rossini
Deputy City Manager and
Chief Financial Officer

SIGNATURE

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Giuliana Carbone
Treasurer

ATTACHMENTS

Appendix A: 2013 Consolidated Financial Statements
Appendix B: Key Issues/Risks Facing the City of Toronto
Appendix C: Glossary