TORONTO

STAFF REPORT ACTION REQUIRED

2014 Audited Consolidated Financial Statements

Date:	June 11, 2015
To:	Audit Committee
From:	Deputy City Manager & Chief Financial Officer Acting Treasurer
Wards:	All
Reference Number:	P:\2015\Internal Services\acc\ac15010acc (AFS20220)

SUMMARY

This report presents the City of Toronto's Consolidated Financial Statements for the year ended December 31, 2014 to Committee and Council for approval and provides highlights of the City's 2014 financial performance and financial condition as of December 31, 2014.

RECOMMENDATIONS

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

1. City Council approve the 2014 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 2014 Consolidated Financial Statements (attached as Appendix A) provide information about the City's overall financial position as at December 31, 2014 and its financial performance during the year. For 2014, the City had consolidated revenues of $11.3B, consolidated expenses of $10.5B, and a resulting annual accounting surplus of $0.8B. 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 2014 with consolidated assets (financial and non-financial) of $33.8B, offset by consolidated liabilities of $13.8B, resulting in an accumulated surplus as at December 31, 2014 of $19.9B (representing the amount by which both financial and non-financial assets exceed liabilities). It is important to recognize that the accumulated surplus of $19.9B is largely driven by the City's significant investment in Tangible Capital Assets ($25B 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 ($19.9B) is less than the City's total non-financial assets ($25B), reflecting the consolidated Net Debt of $5.4B as at December 31, 2014.

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 Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

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 by all stakeholders.

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 119 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;
- operating fund, capital fund, reserve and reserve fund balances; and,
- amounts to be recovered from future revenues,

are reflected in Note 17 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 8(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 2014 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

18 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 12 of the Consolidated Statements.

COMMENTS

The City’s 2014 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, 2014.

2014 Financial Highlights

- The net value of the City’s tangible capital assets has increased by $1.6B. The historical cost and accumulated amortization of assets as at December 31, 2014 were $39.4B and $14.4B respectively for a net book value of $25B (2013 - $23.4B). Tangible capital asset purchases during 2014 totalled $2.5B (2013 - $2.2B). Amortization of tangible capital assets during 2014 totalled $871M (2013 - $847M).

- The City's accumulated surplus increased by $0.8B to $19.9B as at December 31, 2014 due to an accounting surplus of $0.8B. 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 financial statements is shown on page 7 of this report.

- The City’s Net Debt (i.e. net liabilities - the amount by which liabilities exceed financial assets) increased by $0.8B to $5.4B (2013 - $4.6B).

- 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 $261M to $4.8B (2013 - $4.5B). Total long term debt issued during the year was approximately $652M, while debt repayments including sinking fund earnings totalled $391M. Page 16 of this report provides a breakdown of debt and debt repayments by entity.

- The gross employee benefits liability increased by $506M to $3.50B (2013 - $3.0B), while the net liability increased by $244M to $3.4B (2013 - $3.2B). Additional detail on this change is included on pages 16 to 18 of this report.

- The City collected consolidated revenues of $11.3B (2013 - $11.2B) and had consolidated expenses of $10.5B (2013 - $10.2B) for a net annual surplus on a full accrual accounting basis of $0.8B (2013 - $1.0B).

- Deferred revenue (largely revenues received that have been set aside for specific purposes by legislation, bylaws or third party agreements) increased by $315M to $2.0B (2013 - $1.7B).

- Cash and investments decreased by $210M to $5.0B (2013 - $5.3B), while accounts payable and accrued liabilities decreased by $148M to $2.8B (2013 - $2.9B).

- The City's investment in its government business enterprises decreased by $32M to $1.80B (2013 - $1.84B).

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 2014 final operating budget variance report to the Budget Committee for budgeting and rate setting purposes.

	(in $000's)	
	2014	**2013**
Surplus as reported in the Final Year-end Operating Variance Report	190,592	168,084
Accounting Adjustments for Financial Statement Presentation Purposes:		
Council Direction/Legislative Requirements: Transfer to Reserve and Reserve Funds	28,267	63,927
Differences between budget and financial reporting		
Build Toronto Dividend, timing difference	-	10,000
Transit Sunk Costs Accrual	5,200	(80,000)
City's agencies and corporations Surplus reported in Consolidated Statement of Operations and Accumulated Surplus	27,492	28,906
Government Business Enterprises's earnings, net of distributions	(32,066)	88,231
Water and Solid Waste (non-levy) City Operations	16,254	11,721
PSAB Adjustments (See Note 1 following)	36,586	41,586
Fund Balances (See Note 2 following)	445,048	572,189
Amounts to be recovered impacts (see Note 3 following)	70,610	117,024
Accounting Surplus for the year	**787,983**	**1,021,668**

Note 1: PSAB adjustments in 2014 relate to differences between amounts recorded in the consolidated financial statements and those budgeted, and are due to:

	2014 $'000s	**2013 $'000s**
Accrued vacation pay and lieu time	(3,058)	(1,481)
Loan related Deferred Revenue adjustment	2,541	13,988
Surplus properties transferred from Tangible Capital Assets to inventory	37,103	29,079
Total	**36,586**	**41,586**

Note 2: Fund balances:

	2014 $'000s	**2013 $'000s**
Capital Fund Activity	(742.445)	(619,901)
Net Change to Reserve Fund Balances	(396,167)	(83,898)
Net Change to Tangible Capital Assets	1,583,660	1,275,988
Total	**445,048**	**572,189**

Note 3: Amounts to be recovered impacts:

	2014 $'000s	2013 $'000s
Principal Repayments on Long Term Debt	249,278	235,710
Interest earned on Sinking Funds	74,625	74,631
Changes in solid waste landfill liabilities	(15,543)	409
Changes in property and liability claims	6,015	(63,237)
Changes in employee benefit liabilities	(243,765)	(130,489)
Total	**70,610**	**117,024**

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, 2014 increased by $0.8B to $5.4B (2013 - $4.6B). This increase is due primarily to the City's financing of tangible capital assets, offset by its considerable accounting surplus during 2014. 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	**2014**	**2013**	**2012**	**2011**	**2010**
Liabilities	6.13%	13,828,081	13,117,281	12,505,032	11,672,374	10,899,622
Financial assets	6.67%	8,432,345	8,554,867	8,259,997	7,283,091	6,513,984
Net Debt	**5.32%**	**5,395,736**	**4,562,414**	**4,245,035**	**4,389,283**	**4,385,638**
Percentage Increase (decrease)		**18.26%**	**7.48%**	**(3.29%)**	**0.08%**	

The City's Net Debt has increased by a compound annual rate of 5.32% over the last four 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.

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. However, 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 years. The positive effects of implementing these financial plans are reflected in the City's AA (S&P, DBRS) 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 17 of Consolidated Financial Statements. These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities and environmental liabilities. In 2014, the total amount that must be recovered from future property taxes and other revenues grew by $511M to $8.7B (2013 - $8.2B). This increase mainly consists of:

- an increase of $244M in the net employee benefits liabilities as gross employee benefit liabilities increased by $506M offset by increase in unamortized loss of $262M. Further information is detailed on page 16 to 18 of this report;

- an increase of $15M in landfill closure and post-closure, as a result of the discount rate decrease for these liabilities;

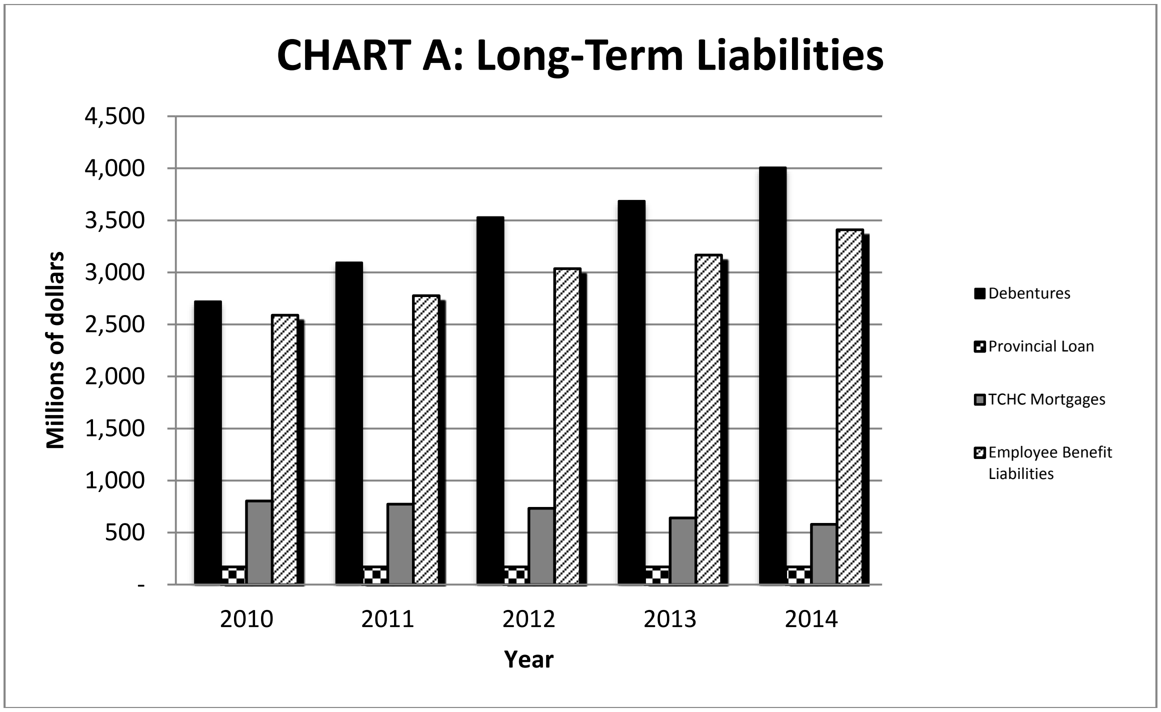
- a net increase of $261M in mortgages and net long term debt; offset by

- a decrease of $9M in TTC environmental liabilities.

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

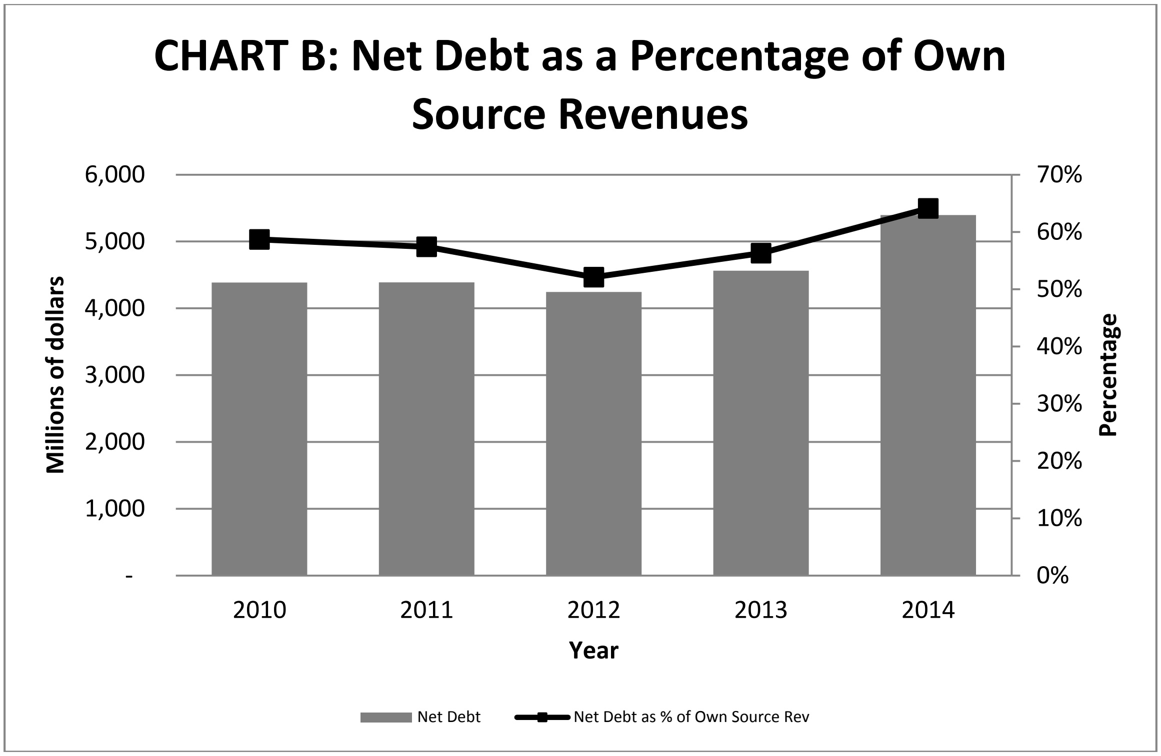
The growth of employee benefit liabilities in 2014 has been driven primarily by lower discount rates in 2014 and change in regulations announced by the Ontario Government in May 2014 to include six additional cancers presumed to be work-related for Toronto Firefighters under the Workplace Safety and Insurance Act (WSIA) ($82.4M). Council has contained some of the growth of this liability through changes in benefit plans and other cost containment initiatives.

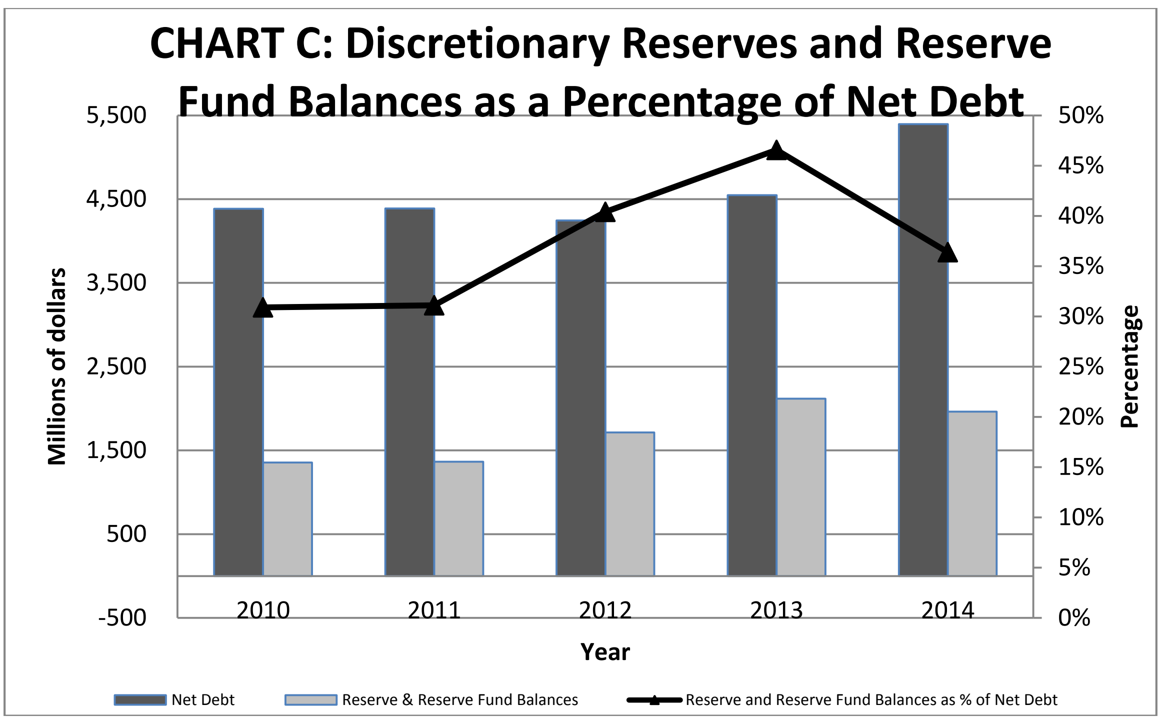
Chart A provides the breakdown of long-term liability growth by debt type.



Information on the mortgage liabilities of TCHC is provided in Note 11, the provincial loan and the City's debenture debt is outlined in Note 12, while further detail about the City's employee benefit liabilities is provided in Note 13 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 58.7% to 64.1% over the last five 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 decreased in 2014 by $154M mainly due to capital funding from the Capital Financing Reserve. 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 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 66% of Net Debt (2013 – 76%).

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 8(a) of the Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements (Note 17), 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 – 2014 figures.

Table 2

2014 *($ millions)*						
	Toronto	**Montreal**	**Ottawa**	**Calgary**	**Edmonton**	**Vancouver**
Financial Investments	4,572	2,942	1,097	3,697	1,606	1,439
Investments in GBE's*	1,804	-	393	2,528	2,340	-
Interest bearing long-term debt	4,758	9,552	1,774	3,626	2,823	868
(Net Debt) / Net Financial Assets **	(5,396)	(5,090)	(1,439)	949	1,051	(64)
Tangible capital assets	24,970	11,206	13,186	14,292	11,630	6,374

* 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 GBEs are provided in Note 5 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, 2014 with 2013 comparatives is as follows:

	(in $'000s)	
Accounts Receivable	**2014**	**2013**
Government of Canada	155,458	170,185
Government of Ontario	328,893	190,679
Other municipal governments	23,437	28,055
School board	519	394
Utility fees	146,942	155,953
Other fees and charges	398,349	414,630
Total	**1,053,598**	**959,896**

Accounts receivable balances increased by $94M in 2014. The increase consists primarily of the following:

- decrease in receivable from Government of Canada ($15M) due to the following:

	($ millions) **Increase (Decrease)**
Increase in HST rebates receivable	12.1
Toronto York Spadina Subway Extension (TYSSE)	(26.7)
Other increases and decreases	(0.4)
Total	**(15.0)**

- increase in receivable from Government of Ontario ($138M) due primarily to the following:

	($ millions) **Increase (Decrease)**
Provincial Gas Tax Accrual	81.0
Change in accrual of Ice Storm Recovery	19.1
Ministry of Municipal Affairs and Housing - Affordable Housing Renovation and Retrofit Program increased accrual	17.7
Ministry of Community and Social Housing increased accrual	17.7
Other increases and decreases	2.5
Total	**138.0**

- decrease in receivable from York Region ($5M), due primarily to lower receivable at year end from York Region for their contribution to the TYSSE;

- decrease in Utility fees receivable ($9M) primarily attributable to lower consumption in 2014 as compared to 2013; and

- decrease in other fees and charges ($16M) due primarily to:

	($ millions) **Increase (Decrease)**
Decrease in receivable in Court Services	(5.8)
Decrease in Parking Tag revenue accrual	(6.4)
Decrease in customer billings at year end	(3.2)
Other increases and decreases	(0.6)
Total	**(16.0)**

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	**2014**	**2013**
Current year	157,732	165,888
Prior year	27,255	28,085
Previous years	52,899	33,436
Interest/penalty	48,602	45,114
Less: allowance for doubtful accounts	(34,121)	(33,007)
Net receivables	**252,367**	**239,516**

Other Assets (Note 3)
Other Assets increased by $19M to $262M (2013 - $243M) due primarily to increase in TCHC's equity in joint ventures.

Investments (Note 4)
Investments decreased by $90M to $4.6B (2013 - $4.7B) due primarily to higher cash outflows for capital projects.

Investment in government business enterprises (GBEs) (Note 5)
Investment in government business enterprises decreased by $32M to $1.80B (2013 - $1.84B). This is primarily due to dividends in excess of the IFRS surplus of Toronto Hydro of $48M and an increase in Toronto Parking Authority of $14M.

Additional information regarding the City's GBEs as at December 31, 2014, including 2014 transactions for all GBEs with the City and condensed financial results, are provided in Note 5 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable (Note7)
The breakdown of accounts payable and accrued liabilities at December 31, 2014, with 2013 comparatives, is as follows:

	(in thousands of dollars)	
Accounts Payable	**2014**	**2013**
Local Board trade payables	771,245	732,763
City trade payables and accruals	1,151,408	1,162,483
Payable to school boards	347,506	416,827
Provision for tax appeals & rebates	278,386	346,965
Credit balances on property tax accounts	135,337	105,130
Wages accruals	103,231	170,667
Total	**2,787,113**	**2,934,835**

- Local Board trade payables are higher ($38M) in 2014 primarily due to increases in Toronto Transit Commission (TTC) trade payables.

- Payable to school boards was lower ($69M) in 2014 due to higher deposits and tax levy offset by much higher withdrawal by Toronto District School Board as compared to 2013.

- The provision for tax assessment appeals decreased by approximately $69M as there were fewer appeals pending as at December 31, 2014.

- The $30M increase in credit balances on property tax accounts is primarily due to the processing of assessment appeals which have not yet been refunded.

- Wage accruals were lower by $67M, as December 31, 2014 was a pay day.

Deferred Revenue (Note 8)
Deferred Revenue increased by $315M to $2B (2013 - $1.7B) primarily as a result of:
- increase in net funds received for Development Charges, Building Code and Planning Act of $251M;
- increase in Obligatory Reserve Funds for Water and Wastewater of $66M due to higher contributions as compared to withdrawals for capital purchases;
- increase in contribution from Metrolinx ($24M) for Union Station;
- increase in funds received for park levy payments of $33M; offset by
- decrease in Obligatory Reserve Funds for Public Transit of $58M due to withdrawals for transit capital purchases.

Other Liabilities (Note 9)
Other Liabilities increased by $2M to $649M (2013 - $647M), mainly as a result of:
- an increase in Toronto Transit Commission (TTC) unsettled accident claims ($14M);
- an increase in tree guarantee deposits and tree planting donations of $2M; offset by,
- a decrease in property and liability claims provision ($6M); and

- a decrease in Toronto Transit Commission (TTC) environmental liabilities ($8M)

Net Long-Term Debt, including TCHC Mortgages (Notes 11 and 12)
Net long-term debt increased by $260.8M to $4.8B (2013 - $4.5B) as follows:

	($ millions)
Issuance of Debt – City	600.0
– TCHC	51.6
Debt Repayment – City	(243.2)
Debt Repayment – TCHC	(11.4)
Interest earned on sinking funds	(74.6)
Mortgage repayments	(61.6)
Total	**260.8**

Table 3 below lists all consolidated debt issued in 2014.

Table 3: Debt Issued - 2014 ($000's)

	Total	TCHC ≤ 5 years	City 10 years	City & TCHC 30 years
Summary by Service				
Transportation	107,000	-	25,000	82,000
Transit	493,000	-	275,000	218,000
Social Housing	51,647	5,955	-	45,692
	651,647	5,955	300,000	345,692

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)

	2014	2013	2012	2011	2010
Property taxes	3,459,542	3,154,240	3,130,763	2,686,200	2,282,342
TCHC	1,260,439	1,280,510	1,235,113	1,281,873	1,377,951
Lakeshore Arena Corporation	19,932	38,937	39,234	39,547	-
Leaside Arena	991	1,052	-	-	-
TDSB	17,013	22,410	26,371	30,190	33,815
Net long-term debt	**4,757,917**	**4,497,149**	**4,431,481**	**4,037,810**	**3,694,108**

Employee Benefit Liabilities (Note 13)
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 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, 2014 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 13 of the Consolidated Financial Statements) increased by $506M to $3.5B (2013 - $3.0B), primarily due to the following:

- decrease in the non-OMERS pension plan liabilities ($8M) as the financial situation of each of the five pension plans improved in 2014; offset by
- increase in sick leave benefits ($63M) primarily due to decrease in discount rate;
- increase in workers' compensation benefits ($116M) primarily due to Ontario Government announcing in May 2014 that current regulations will be expanded to include six additional cancers presumed to be work-related for Toronto Firefighters; and
- increase in post-employment benefits ($335M), primarily due to the decrease in discount rate.

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

	2014	2013	2012	2011	2010
Sick Leave	552,420	489,170	471,472	479,559	434,545
WSIB	548,985	432,533	428,767	459,565	410,670
Post Retirement and LTD	2,436,744	2,102,038	2,076,852	2,115,655	1,799,982
Pension	-	7,969	26,694	123,980	29,185
Gross Liabilities	**3,538,149**	**3,031,710**	**3,003,785**	**3,178,759**	**2,674,382**
Unamortized Gain/(Loss)	(127,902)	134,772	32,208	(402,592)	(85,425)
Net Liabilities	**3,410,247**	**3,166,482**	**3,035,993**	**2,776,167**	**2,588,957**

While the gross employee benefit liabilities increased significantly 16% ($506M), the unamortized actuarial loss changed by $262M in 2014 (from gain of $134M in 2013 to loss of $128M in 2014), resulting in an overall increase in net employee benefit liabilities of $244M (from $3.17B in 2013 to $3.41B in 2014).

The $262M increase in unamortized loss is primarily related to:

- a decrease in the discount rate of approximately .08 to 1.0% for the various benefits; partially offset by
- unamortized gains from differences in actual and expected 2014 benefit payments.

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)

	2014	2013	2012	2011	2010
City	2,033,942	1,703,964	1,720,870	1,809,615	1,585,821
City Legacy Pensions	-	7,969	26,694	123,980	29,185
Police	695,038	599,325	568,949	581,651	514,160
Other Entities	809,169	720,452	687,272	663,513	545,216
Gross Liabilities	**3,538,149**	**3,031,710**	**3,003,785**	**3,178,759**	**2,674,382**
Unamortized Gain/(Loss)	(127,902)	134,772	32,208	(402,592)	(85,425)
Net Liabilities	**3,410,247**	**3,166,482**	**3,035,993**	**2,776,167**	**2,588,957**

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 change in the change in the post-65 retiree benefit plan for Fire fighters) the City's gross liability had been decreasing since 2011. However with the decrease in discount rates in 2013 and 2014 the gross liability has been increasing with substantial increase in 2014 primarily due to the expansion of Ontario Government regulations to include additional cancers presumed to be work related.

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

Tangible Capital Assets (Note 14)
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, 2014 with 2013 comparatives, is presented in Note 14 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

During the year, consolidated asset additions totalled $2.5B, with the most significant portion being:

- Building and Building Improvements of $613M (consisting of $186M at the TCHC, $124M at the TTC, $14M at the Library, and $228M at the City);
- Transit Infrastructure of $331M; and,
- Vehicles additions of $197M, primarily: $160M for TTC, $31M for City and $6M for Toronto Police Services.
- Machinery and Equipment purchases of $220M, primarily:
    - Infrastructure equipment of $50M for Water and Wastewater treatment plant equipment, pumping stations and Road Traffic Signals; and
    - General equipment of $170M, primarily: Green Lane Landfill gas and leachate collection systems, computer hardware, water meters, security systems, police and transit equipment.

- Linear assets of $350M: $197M for Water & Wastewater and $153M for Roads.

During the year, amortization of tangible capital assets increased by $24M to $871M (2013 - $847M), mainly as a result of an increase in TTC amortization of $16M and TCHC amortization of $11M offset by decrease in amortization of $3M in Police Services.

Consolidated Annual Accounting Surplus

Table 7

Consolidated Accounting Surplus (in thousands of dollars)					
	2014 Budget	**2014 Actual**	**Difference: Positive / (Negative) Variance**	**Change**	**2013 Actual**
Revenues					
Property Taxation	3,726,450	3,768,009	41,559	1.1%	3,696,738
Municipal Land Transfer Tax	356,298	449,604	93,306	26.2%	360,884
Taxation from other governments	94,701	111,598	16,897	17.8%	111,292
User Charges	2,796,993	2,753,273	(43,720)	(1.6%)	2,638,543
Funding transfers from other governments	3,121,836	2,752,112	(369,724)	(11.8%)	2,952,158
Government Business Enterprise Earnings	-	73,281	73,281	-	175,544
Investment Income	185,034	270,603	85,569	46.2%	232,244
Development Charges	223,686	132,523	(91,163)	(40.8%)	164,004
Rent and Concessions	424,961	426,929	1,968	0.5%	438,698
Other	640,735	511,685	(129,050)	(20.1%)	462,454
Total	**11,570,694**	**11,249,617**	**(321,077)**	**(2.8%)**	**11,232,559**
Expenses					
General Government	858,210	798,088	60,122	7.0%	770,411
Protection to persons and property	1,727,462	1,820,074	(92,612)	(5.4%)	1,656,046
Transportation	2,855,722	2,819,666	36,056	1.3%	2,769,289
Environmental services	1,086,574	919,204	167,370	15.4%	838,344
Health services	427,172	429,491	(2,319)	(0.5%)	422,038
Social and family services	2,069,879	1,915,780	154,099	7.4%	1,963,092
Social Housing	725,321	727,715	(2,394)	(0.3)%	758,024
Recreational and cultural services	1,039,648	911,428	128,220	12.3%	905,987
Planning and development	154,744	120,188	34,556	22.3%	127,660
Total	**10,944,732**	**10,461,634**	**483,098**	**4.4%**	**10,210,891**
CONSOLIDATED ANNUAL ACCOUNTING SURPLUS	**625,962**	**787,983**	**162,021**	**(25.9%)**	**1,021,668**

Table 7 provides a comparison of 2014 Consolidated Revenues and Expenses versus budget, and also shows 2013 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 18 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 2014 property taxes made up 33.5% (2013 – 32.9%) of the City's operating revenue.

Municipal Land Transfer Tax (MLTT) exceeded budget by $93M primarily due to stronger than expected average home prices and sales volumes.

Taxation from other governments (Payment in Lieu (PIL) of Taxes) revenue exceeded budget by $17M primarily due to settlements reached during 2014 with property owners, which increased the payments received and revenues above expectations.

User Charges were under budget by $44M due primarily to delayed capital expenditures resulting in increased amounts in deferred revenues at year end.

Funding Transfers from other governments were under budget by $370M primarily due to:

- Lower than budget spending on the Toronto-York Spadina Subway Extension by $216M;
- Lower than budget spending on Union Station by $55M;
- Ontario Works operating subsidies lower by $99M, due primarily to lower subsidies for the Ontario Works Financial Assistance Program.

Government Business Enterprise Earnings ($73M) represent the earnings from Toronto Hydro Corporation, Toronto Parking Authority and Toronto Port Lands Company. Details are available in Note 5 and Appendix 1 of the Consolidated Financial Statements.

Investment earnings were higher than budget by $86M due to more robust cash flow in 2014, increases in reserves and reserve funds, and higher cash balances due to the overall annual surplus achieved in 2014. This resulted in increased investment balances and additional income.

Development Charges applied to capital spending were under budget by $91M, 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 $129M primarily due to:

- Lower than budgeted recoveries in Toronto-York Spadina Subway Extension of $77M due to scheduling and budget challenges which resulted in delays in keeping the project on schedule;
- Lower than budgeted recoveries in Transit Priority Projects and Infrastructure projects of $24M due to unanticipated delays;
- Lower than budgeted recoveries in Parks and Recreation of $9M; and
- Lower than budgeted recoveries of $11M for donations, recoveries from third parties 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 full tax rate increases on the commercial, industrial and multi-residential assessment base (representing 51.5% 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.

Table 8: Consolidated Revenues – 5 year Summary

		(in thousands of dollars)				
Revenues	**Avg. Annual Increase**	**2014**	**2013**	**2012**	**2011**	**2010**
Property taxes	2.41%	3,879,607	3,808,030	3,807,904	3,555,309	3,527,901
Municipal land transfer tax (MLTT)	12.66%	449,604	360,884	349,798	324,065	278,980
Personal vehicle Tax (PVT)	N/A	-	-	-	723	42,766
User charges	3.97%	2,753,273	2,638,543	2,482,754	2,436,025	2,355,963
Government transfers	(3.49%)	2,752,112	2,952,158	3,054,218	3,148,351	3,173,242
Gain on Sale of Enwave	N/A	-	-	96,611	-	-
GBE Earnings	(16.75%)	73,281	175,544	180,097	188,041	153,294
Investment Income	0.40%	270,603	232,244	246,760	248,397	265,990
Development Charges	9.58%	132,523	164,004	141,133	94,952	92,162
Rent and Concessions	3.40%	426,929	438,698	395,470	386,073	372,959
Other	(1.42%)	511,685	462,454	720,915	604,560	540,861
Total	**1.02%**	**11,249,617**	**11,232,559**	**11,475,660**	**10,986,496**	**10,804,118**
Percentage Increase		0.15%	(2.12%)	4.45%	1.69%	

Consolidated Expenses

Gross consolidated expenses for 2014 totalled $10.5B (2013 - $10.2B). Expense variance explanations by major program areas, are as follows:

- Costs for General Government were lower than budget by $60M, primarily due to lower spending in Facilities due to various State of Goods Repair (SOGR) maintenance projects.

- Costs for Protection to persons and property were $93M higher than budget primarily due to:

- An increase of $34M for Police Services, as a result of increased employee benefit liabilities of $37M less lower spending of $3M and a net increase of $69M for Fire Services, as a result of $83M in increased workers compensation primarily due to Ontario Government including six additional cancers as presumed to be work-related, net of $14M in cost reductions; offset by
- Lower spending in Court Services ($7M) and Municipal Licensing and Standards (MLS) ($4M) primarily due to salary and benefits savings.

- Costs for Transportation were $36M lower than budget primarily due to:
  - Lower spending in TTC of $57M primarily due to the reduction in healthcare benefits being utilized, reduced maintenance costs for Subway infrastructure, facilities and streetcars, lower fuel costs and lower accident claims; offset by
  - Higher than budgeted net spending of $12.3M in Transportation Services due to higher than expected costs for winter maintenance, higher salt usage, utility costs, traffic signal maintenance, offset by underspending in salaries and benefits, lower contractor costs for roads and bridge repairs etc; and
  - Higher PSAB adjustments for increased employee benefits ($4.5M)

- Environmental services spending was lower than budget by $167M due primarily to:
  - Lower spending at Toronto Water of $102M related to $90M from various State of Good Repair maintenance projects, and $12M primarily due to savings in salaries and benefits;
  - Lower spending at Solid Waste of $47M, with $39M attributable to various maintenance projects and $8M due to lower than planned expenditures for salaries and benefits and savings from capital financing due to delayed issuance of debt and scheduling of debt charges; and
  - lower spending at Sanitary Sewer of $7M and Green Lane of $13M.

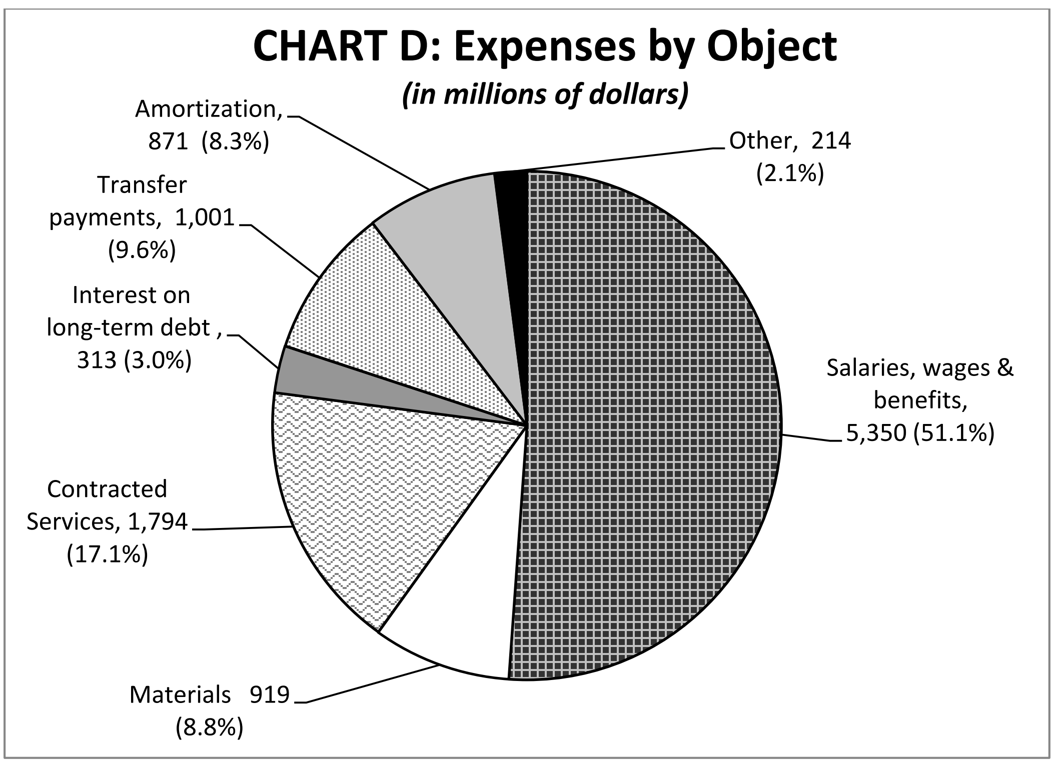
- Social and Family Services spending was lower than budget by $154M, primarily due to:
  - Ontario Works (OW) financial benefits were under spent by $115M due to a lower than budgeted OW caseload;
  - Children's Services was under budget by $26M primarily due to under-spending in purchased child care, delayed capital spending related to minor construction projects, and staff turnover; and
  - Long-Term Care Homes and Services (LTCHS) were under budget by $5M primarily due to strict expenditure controls.

- Recreational and cultural services was lower than budget by $128M due primarily to:
    - Lower spending of $11M due to delays to planned hiring, as well as delays in the opening of new recreation facilities;
    - Lower spending of $80M on repairs and maintenance for Recreation and State of Good repair projects; and
    - Lower spending of $36M due to projects not started or unfinished: North-West Planting and Nursery ($18M), Booth Avenue Park ($7M), Forestry Special Projects ($9M) and Heritage Services ($2M)

- Planning and development was lower than budget by $35M due primarily to:
    - Lower spending of $24M do major projects; and
    - Under spending at Toronto Waterfront Revitalization Corporation $13M.

Consolidated Expenses by Object

Chart D breaks down gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 51.1% of the total amount. Principal re-payments on debt are not included in accounting analyses, as they are considered financing transactions for accounting purposes and are not considered expenses.



Note 20 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:

- growing demand for services;
- 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 growth;
- accessing non-property tax revenue sources that grow with the economy to ensure long term sustainable funding; and
- improper funding of Provincial cost-shared programs and reduced funding for Social Housing has resulted in significant financial pressure to the City.

In 2014, 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 2014 to help address them.
Highlights include:

- The City continued to adopt strict budget guidelines for City divisions, agencies and corporations: resulting in a 1.1% increase in net expenditures for 2014 Approved Operating Budget. The City, in approving the 2014 Operating Budget, reduced the use of one-time funding sources by more than 45% cutting it from $47M in 2013 to $26M in 2014;
- The 2014 Operating Budget included efficiency savings of $21M realized from Shelter, Support & Housing Administration, Court Services, Fire Services, Facilities Management & Real Estate, Transportation Services, Information & Technology, City Clerk's Office and Toronto Public Library;
- During 2014, the Deputy City Manager & Chief Financial Officer reported back to City Council on opportunities to accelerate the implementation of shared services. Completed opportunities included: enhanced use of City's Internal Audit Division by agencies not having their own internal audit resources; expansion of City's lessor service to Toronto Transit Commission and Toronto Parking Authority; Establishment of Centre of Excellence for Fleet Services, Internal Audit, Real Estate and Procurement;
- The Province, Metrolinx and the City continued to jointly plan for new transit lines with Provincial contributions of $8.4B towards the plan. Metrolinx is responsible for delivering the Eglinton Scarborough Crosstown, Finch West and Sheppard Ave East Light Rail Transit (LRT) projects, and the Province/Metrolinx have agreed to contribute to City's Scarborough RT replacement (subway) project;
- In its 10 year Capital Plan, the City continued to implement a non-debt capital funding plan to fund an additional $2.1B in TTC/Transportation capital project priorities from operating budget surpluses, increases in Development Charge revenues, sales of assets and dividends from City's agencies and corporations. Commissioned a Special Task Force with TTC Chair, CEO and CFAO and the City Manager and CFO to seek and secure funding for "unfunded TTC Capital Projects" and a restoration of operating funding from the Province; and

- For 2014, 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 &
Chief Financial Officer

SIGNATURE

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Mike St. Amant
Acting Treasurer

ATTACHMENTS

Appendix A: 2014 Consolidated Financial Statements
Appendix B: Key Issues/Risks Facing the City of Toronto
Appendix C: Glossary