TORONTO

STAFF REPORT
ACTION REQUIRED

2015 Audited Consolidated Financial Statements

Date:	June 14, 2016
To:	Audit Committee
From:	Deputy City Manager & Chief Financial Officer Treasurer
Wards:	All
Reference Number:	P:\2016\Internal Services\acc\ac16009acc (AFS22019)

SUMMARY

This report presents the City of Toronto's Consolidated Financial Statements for the year ended December 31, 2015 to Committee and Council for approval and provides highlights of the City's financial performance during 2015 and financial condition as of December 31, 2015.

RECOMMENDATIONS

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

1. City Council approve the 2015 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 2015 Consolidated Financial Statements (attached as Appendix A) provide information about the City's overall financial position as at December 31, 2015 and its financial performance during the year. For 2015, the City had consolidated revenues of $12.0B, consolidated expenses of $10.8B, and a resulting annual accounting surplus of $1.2B. 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 2015 with consolidated assets (financial and non-financial) of $36.4B, offset by consolidated liabilities of $15.2B, resulting in an accumulated surplus as at December 31, 2015 of $21.2B (representing the amount by which both financial and non-financial assets exceed liabilities). It is important to recognize that the accumulated surplus of $21.2B is largely driven by the City's significant investment in Tangible Capital Assets ($27.0B net of accumulated depreciation). These assets are non-financial in nature since they represent items such as roads, bridges, parks, water infrastructure, etc. These assets do not provide liquidity in some cases, do not generate income and are not typically available for sale. The accumulated surplus ($21.2B) is less than the City's total non-financial assets ($27.3B), reflecting the consolidated Net Debt of $6.1B as at December 31, 2015. Net Debt as shown in the Financial Statements (i.e. financial assets less financial liabilities) is not the same as Long Term Debt shown in the City's budget presentation.

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 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 (financial assets less financial liabilities), and accumulated surplus (all assets less all liabilities) 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 Change in 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 122 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,

is 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 2015 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 Change in 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 2015 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, 2015.

New Accounting Standard adopted in 2015:

PS 3260 – Liability for Contaminated Sites.

On January 1, 2015, the City adopted the Public Sector Accounting Standard PS 3260, *Liability for contaminated sites.* This standard was adopted on a prospective basis from the date of adoption.

Liabilities are recorded when all of the following are met: environmental standards exist; contamination exceeds the standard; the City is directly responsible or accepts responsibility for the contamination; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made.

Adoption of this standard did not have a material effect on the financial results for the current year, the liability recorded is $6.5M.

2015 Financial Highlights

- The net value of the City's tangible capital assets has increased by $2.0B. The historical cost and accumulated amortization of assets as at December 31, 2015 were $42.0B and $15.0B respectively for a net book value of $27.0B (2014 - $25.0B). Tangible capital asset purchases during 2015 totalled $2.9B (2014 - $2.5B) while amortization charged was $851M (2014 - $871M).

- The City's accumulated surplus increased to $21.2B as at December 31, 2015 as a result of the 2015 accounting surplus of $1.2B. 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 $6.1B (2014 - $5.3B).

- 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 $466M to $5.2B (2014 - $4.8B). Total long term debt issued during the year was approximately $944M, while debt repayments including sinking fund earnings totalled $478M. Page 16 to 17 of this report provides a breakdown of debt and debt repayments by entity.

- The gross employee benefits liability decreased by $40M to $3.5B (2014 - $3.5B), while the net liability increased by $189M to $3.6B (2014 - $3.4B). Additional detail on this change are included on pages 17 to 19 of this report.

- The City collected consolidated revenues of $12.0B (2014 - $11.3B) and had consolidated expenses of $10.8B (2014 - $10.5B) for a net annual surplus on a full accrual accounting basis of $1.2B (2014 - $0.8B).

- Deferred revenue (largely revenues received that have been set aside for specific purposes by legislation, bylaws or third party agreements) increased by $234M to $2.2B (2014 - $2.0B).

- Cash and investments increased by $323M to $5.3B (2014 - $5.0B), while accounts payable and accrued liabilities increased by $356M to $3.1B (2014 - $2.8B).

- The City’s investment in its government business enterprises increased by $120M to $2.0B (2014 - $1.9B).

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 2015 final operating budget variance report to the Budget Committee for budgeting and rate setting purposes.

	(in $000's)	
	2015	**2014**
Surplus as reported in the Final Year-end Operating Variance Report	130,928	190,592
Accounting Adjustments for Financial Statement Presentation Purposes:		
Council Direction/Legislative Requirements: Transfer to Reserve and Reserve Funds	21,574	28,267
Differences between budget and financial reporting		
Build Toronto Dividend, timing difference	15,000	-
Gain on Sale of York Concourse	2,321	-
Transit Sunk Costs Accrual	-	5,200
City's agencies and corporations amounts reported in Consolidated Statement of Operations and Accumulated Surplus	(69,736)	27,493
Government Business Enterprises's earnings, net of distributions	120,247	(30,494)
Water and Solid Waste (non-levy) City Operations	9,492	16,254
PSAB Adjustments (See Note 1 following)	5,011	36,586
Fund Balances (See Note 2 following)	757,680	445,048
Amounts to be recovered impacts (see Note 3 following)	201,898	70,610
Accounting Surplus for the year	1,194,415	**789,556**

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

	2015 $'000s	**2014 $'000s**
Accrued vacation pay and lieu time	(643)	(3,058)
Loan related Deferred Revenue adjustment	45,455	2,541
Surplus properties transferred from Tangible Capital Assets to inventory	(39,801)	37,103
Total	**5,011**	**36,586**

Note 2: Fund balances:

	2015 $'000s	2014 $'000s
Capital Fund Activity	(865,930)	(742,445)
Net Change to Reserve Fund Balances	(371,228)	(396,167)
Net Change to Tangible Capital Assets	1,994,838	1,583,660
Total	**757,680**	**445,048**

Note 3: Amounts to be recovered impacts:

	2015 $'000s	2014 $'000s
Principal Repayments on Long Term Debt	254,997	249,278
Write off – Provincial Loan	77,000	-
Interest earned on Sinking Funds	71,517	74,625
Changes in solid waste landfill liabilities	(2,254)	(15,543)
Change in Contaminated Sites liabilities	(6,549)	-
Changes in property and liability claims	(4,212)	6,015
Changes in employee benefit liabilities	(188,601)	(243,765)
Total	**201,898**	**70,610**

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, 2015 increased by $0.8B to $6.1B (2014 - $5.3B). This increase is due primarily to the City's financing of tangible capital assets, offset by its considerable accounting surplus during 2015. For more information on the change in Net Debt, please refer to the Consolidated Statement of Change in Net Debt in the Consolidated Financial Statements.

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

Net Debt	4 Year Average Annual Increase	**2015**	**2014**	**2013**	**2012**	**2011**
Liabilities	6.7%	15,151,299	13,828,081	13,117,281	12,505,032	11,672,374
Financial assets	5.6%	9,071,480	8,533,390	8,554,867	8,259,997	7,283,091
Net Debt	**8.5%**	**6,079,819**	**5,294,691**	**4,562,414**	**4,245,035**	**4,389,283**
Percentage Increase (decrease)		**14.8%**	**16.1%**	**7.5%**	**(3.3%)**	

The City's Net Debt has increased by a compound annual rate of 8.5% 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 is developing an updated framework that will include strategies and processes to strengthen the City's multi-year financial and budget processes, including a multi-year expense management plan, a multi-year revenue strategy, and asset optimization plans.

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 will be reviewing its capital budget and related financing strategies including debt policies.

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 2015, the total amount that must be recovered from future property taxes and other revenues grew by $672M to $9.4B (2014 - $8.7B). This increase mainly consists of:

- an increase of $189M in the net employee benefits liabilities as gross employee benefit liabilities decreased by $40M offset by increase in unamortized gain of $228M. Further information is detailed on page 17 to 19 of this report;

- a net increase of $466M in mortgages and net long term debt;

- an increase of $2M in landfill closure and post-closure, due to some marginally higher cost estimates over the 40 year period.

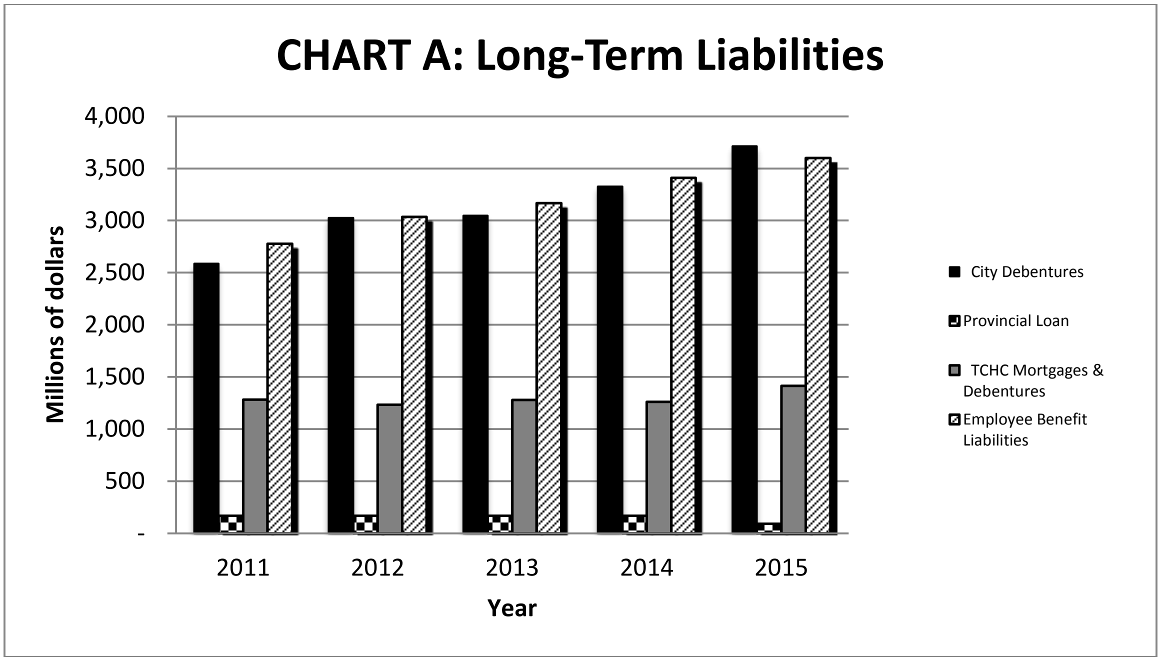
- increase of $4M in Property and liability claims provision; and

- new liability of $7M for Contaminated Sites as per implementation of PS3260 in 2015.

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

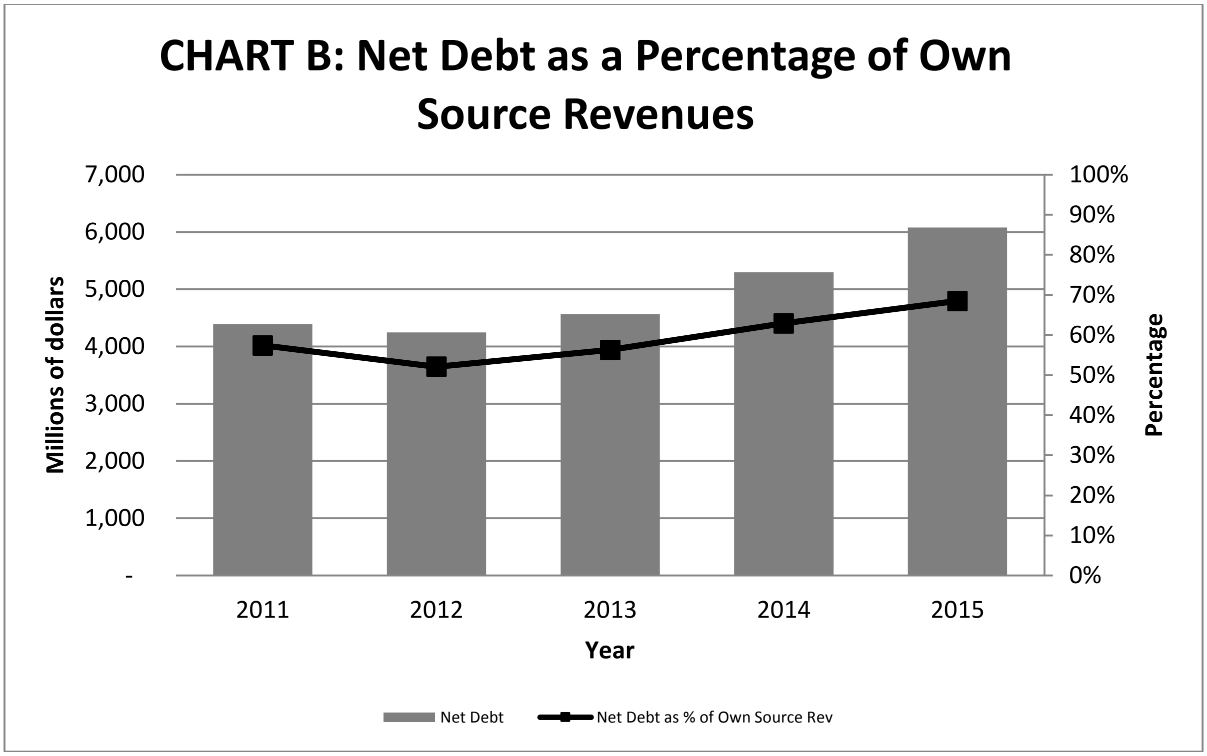
The growth of employee benefit liabilities in 2015 has been driven primarily by change in demographics, change in trend rates, change in mortality tables and change in retirement scale all of which were updated from 2012, as a full valuation was done in 2015. This was slightly offset by lower discount rates in 2015. Council has contained some of the growth of this liability through changes in benefit plans and other cost containment initiatives.

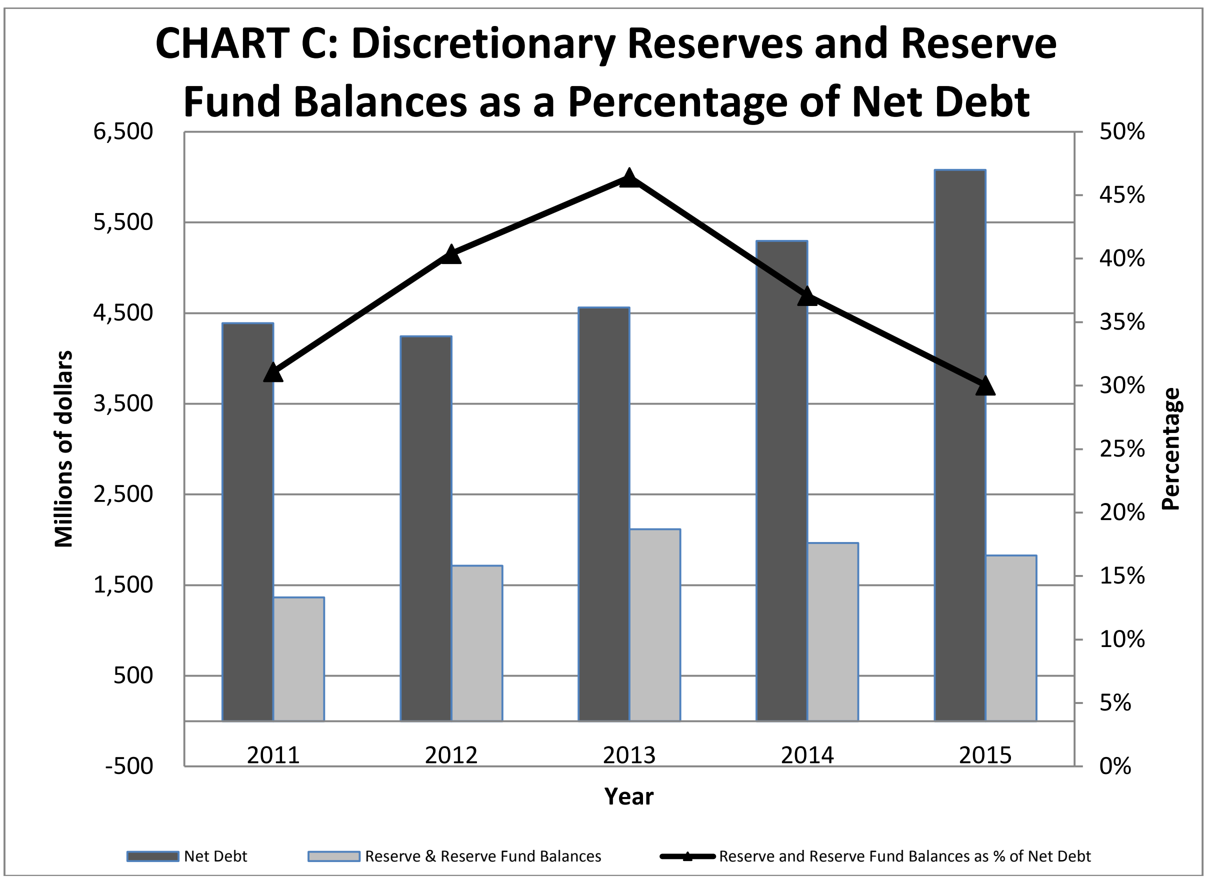
Chart A provides the breakdown of long-term liability growth by debt type.



Information on the mortgage liabilities of TCHC is provided in Note 11, the provincial loan and debenture debt is outlined in Note 12, while further detail about 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 57.4% to 68.5% over the last five years.





Note: Reserve and Reserve Funds exclude Obligatory Reserve Funds because they are required to be shown as Deferred Revenues in the Financial Statement.

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 2015 by $137M 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 60.9% of Net Debt (2014 – 66.9%).

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 – 2015 figures.

Table 2

2015 *($ millions)*						
	Toronto	**Montreal**	**Ottawa**	**Calgary**	**Edmonton**	**Vancouver**
Financial Investments	5,153	3,151	1,388	4,118	1,749	1,644
Investments in GBE's*	2,026	-	413	2,299	2,515	-
Interest bearing long-term debt	5,223	10,562	1,837	3,361	3,033	944
(Net Debt) / Net Financial Assets **	(6,080)	(5,637)	(1,564)	1,249	1,081	118
Tangible capital assets	26,965	12,168	13,741	14,910	12,449	6,454

* 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 (Note 2)

The breakdown of accounts receivable at December 31, 2015, with 2014 comparatives, is as follows:

	(in $'000s)	
Accounts Receivable	**2015**	**2014**
Government of Canada	149,368	146,919
Government of Ontario	318,427	285,868
Other municipal governments	32,625	22,918
School board	1,361	519
Utility fees	159,951	146,942
Other fees and charges	534,893	450,432
Total	**1,196,625**	**1,053,598**

Accounts receivable balances increased by $143M in 2015. The increase consists primarily of the following:

- increase in receivable from Government of Ontario ($33M) due primarily to increase in receivable at TPS due to billings for Pan Am Games.
- increase in receivable from Other Municipal Government (York Region) ($9.7M), due primarily to higher receivable at year end from York Region for their contribution to the TYSSE;
- increase in Utility fees receivable ($13M) primarily attributable to higher water billing accrual in 2015 due to extra day of accrual as compared on 2014.
- increase in other fees and charges ($84.5M) due primarily to:

	($ millions) **Increase (Decrease)**
Increase in receivable from TPA due to 2015 accrual for City's share of air rights and increase in accrued revenues	69.9
Interest accrual on investments	7.4
Solid Waste Rebate Program accrual	6.0
Other increases and decreases	1.2
Total	**84.5**

Property Taxes Receivable
Property 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)	
Property Taxes Receivable	**2015**	**2014**
Current year	164,662	157,732
Prior year	32,498	27,255
Previous years	48,956	52,899
Interest/penalty	50,399	48,602
Less: allowance for doubtful accounts	(55,815)	(34,121)
Net receivables	**240,700**	**252,367**

Other Assets (Note 3)
Other Assets decreased by $30M to $239M (2014 - $269M) due primarily to

- decrease in TCHC's other assets by $45M ; offset by
- increase in Build Toronto Inc. equity in joint ventures of $11M; and
- increase in market value of $3M for Real Estate inventory at Build Toronto.

Investments (Note 4)
Investments increased by $561M to $5.2B (2014 - $4.6B) due primarily to more cash available for investing activities as a result of increases in revenue from: municipal land transfer tax ($161M); higher distribution and dividends from government business enterprises (GBE's) ($120M); and net increase in investments in TCHC due to TCHC finalizing a financing transaction with Infrastructure Ontario (IO) ($153M).

Investment in government business enterprises (GBEs) (Note 5)
Investment in government business enterprises increased by $120M to $2.0B (2014 - $1.9B). This is primarily due to the Toronto Hydro surplus of $72M and an increase in Toronto Parking Authority, net of distributions, of $47M.

Additional information regarding the City's GBEs as at December 31, 2015, including 2015 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 and Accrued Liabilities (Note7)
The breakdown of accounts payable and accrued liabilities at December 31, 2015, with 2014 comparatives, is as follows:

	(in thousands of dollars)	
Accounts Payable	**2015**	**2014**
Agencies & corporations trade payables	983,745	771,245
City trade payables and accruals	1,243,329	1,151,408
Payable to school boards	454,349	347,506
Provision for tax appeals & rebates	253,893	278,386
Credit balances on property tax accounts	94,129	135,337
Wages accruals	113,214	103,231
Total	**3,142,659**	**2,787,113**

- Agencies & corporations trade payables are higher ($213M) in 2015 primarily due to increases in Toronto Transit Commission (TTC) trade payables and accruals.

- City trade payables and accruals are higher ($92M) primarily due to:

	($ millions) **Increase (Decrease)**
Timing of payment to OMERS	43.7
Year end activity related to TTC Capital Projects	74.0
Year end accruals for construction	43.0
Trade Accounts Payable	(71.9)
Other increases and decreases	3.1
Total	**91.9**

- Payable to school boards was higher ($107M) in 2015 due to increase in school board taxes and lower reduction for tax appeals.

- The provision for tax assessment appeals decreased by approximately $24M as there were fewer appeals pending as at December 31, 2015.

- The $41M decrease in credit balances on property tax accounts is primarily due to processing refunds for re-assessments.

Deferred Revenue (Note 8)
Deferred Revenue increased by $234M to $2.2B (2014 - $2.0B) primarily as a result of:

- increase in net funds received for Development Charges, Building Code and Planning Act of $173M;

- increase in Obligatory Reserve Funds for Water and Wastewater of $162M due to higher contributions as compared to withdrawals for capital purchases; offset by
- decrease in Obligatory Reserve Funds for Public Transit of $35M due to withdrawals for transit capital purchases;
- decrease in funds for Building Code Act of $7M;
- decrease in funds received for park levy payments of $11M; and
- decrease of $34M re: Union Station due to recognition of revenue for $50M for sale of York Concourse offset by contribution from Metrolinx ($16M) for the Union Station revitalization project.

Other Liabilities (Note 9)

Other Liabilities increased by $55M to $704M (2014 - $650M), mainly as a result of:

- an increase in Toronto Transit Commission (TTC) unsettled accident claims of $28M;
- an increase in tree guarantee deposits and tree planting donations of $2M;
- an increase in property and liability claims provision of $4M;
- liability for contaminated sites of $7M due to implementation of new Public Sector Accounting Standard PS 3260;
- Fuel Hedging liability for TTC outstanding at December 31, 2015 of $3M due to the timing of settlement;
- Traffic Signal maintenance fees of $3M;
- Alternate Park Levy Clearing account – cleared in 2016 $3M; and
- 2015 Debt issued with a discount resulting in net change of $5M.

Net Long-Term Debt, including TCHC Mortgages (Notes 11 and 12)

Net long-term debt increased by $466M to $5.2B (2014 - $4.8B) as follows:

	($ millions)
Issuance of Debt – City	700.0
– TCHC	243.2
– Sony Centre	0.4
Debt Repayment – City	(318.3)
Debt Repayment – TCHC	(19.7)
Interest earned on sinking funds	(71.5)
Mortgage repayments	(68.6)
Total	**465.5**

Table 3 below lists all consolidated debt issued in 2015.

Table 3: Debt Issued - 2015 ($000's)

	Total	Sony Centre ≤ 5 years	TCHC ≤ 5 years	City 10 years	City 20 years	TCHC 30 years
Summary by Service						
Exhibition Place	11,090	-	-	-	11,090	-
Social Housing	243,163	-	15,491	-	-	227,672
Solid Waste Management	43,133	-	-	43,133	-	-
Sony Centre	425	425	-	-	-	-
Toronto Public Library	7,783	-	-	-	7,783	-
Transportation	55,000	-	-	30,000	25,000	-
Transit	582,994	-	-	226,867	356,127	-
	943,588	**425**	**15,491**	**300,000**	**400,000**	**227,672**

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)

	2015	2014	2013	2012	2011
Property taxes and user charges	3,490,977	3,201,340	2,880,269	2,841,620	2,552,969
Solid Waste	266,478	237,969	252,098	265,667	108,184
FCM Energy Retrofit	2,029	2,758	3,488	4,217	4,947
TCHC	1,431,940	1,277,914	1,298,895	1,254,372	1,301,973
Lakeshore Arena Corporation	19,602	19,932	38,937	39,234	39,547
Leaside Arena	956	991	1,052	-	-
Sony Centre	425	-	-	-	-
TDSB	10,974	17,013	22,410	26,371	30,190
Net long-term debt	**5,223,381**	**4,757,917**	**4,497,149**	**4,431,481**	**4,037,810**

Employee Benefit Liabilities (Note 13)
Employee benefit liabilities represent the amount payable to employees or third parties in future years for services that were provided by 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 benefits 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, 2015 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) decreased by $40M to $3.5B (2014 - $3.5B), primarily due to the following:

- decrease in sick leave benefits ($30M) primarily due to the salary scale assumption, reduced from 4.5% to 3.5%, as sick leave benefits are directly linked to future salary levels;
- decrease in post-employment benefits ($15M), primarily due to the change in mortality tables, change in retirement scale updated to reflect the most recent OMERS Primary Pension Plan Report and change in claim costs; offset by
- increase in workers' compensation benefits ($5M), primarily due to changes in administration fees.

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

	2015	2014	2013	2012	2011
Sick Leave	522,834	552,420	489,170	471,472	479,559
WSIB	553,983	548,985	432,533	428,767	459,565
Post Retirement and LTD	2,421,622	2,436,744	2,102,038	2,076,852	2,115,655
Pension	-	-	7,969	26,694	123,980
Gross Liabilities	**3,498,439**	**3,538,149**	**3,031,710**	**3,003,785**	**3,178,759**
Unamortized Gain/(Loss)	100,409	(127,902)	134,772	32,208	(402,592)
Net Liabilities	**3,598,848**	**3,410,247**	**3,166,482**	**3,035,993**	**2,776,167**

While the gross employee benefit liabilities decreased slightly 1.1% ($40M), the unamortized actuarial gain changed by $228M in 2015 (from a loss of $128M in 2014 to gain of $100M in 2015), resulting in an overall increase in net employee benefit liabilities of $189M (from $3.4B in 2014 to $3.6B in 2015).

Unamortized gains and losses are the amount of actuarial gains or losses, relating to gains or losses upon valuation of employee future liabilities, which must be recognized in income over the expected average remaining service life of the employee group.

The $228M change in unamortized gains and losses, is primarily related to:

- a decrease in the discount rate of approximately 0.1 to 0.3% for the various benefits; offset by
- large unamortized gains from differences in actual and expected 2015 benefit payments, change in demographics, change in trend rates, change in mortality tables and change in retirement scale.

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 12.4 to 16.3 years.

Table 6 shows employee benefits liabilities by entity.

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

	2015	2014	2013	2012	2011
City	2,069,029	2,033,942	1,703,964	1,720,870	1,809,615
City Legacy Pensions	-	-	7,969	26,694	123,980
Police	573,943	695,038	599,325	568,949	581,651
Other Entities	855,467	809,169	720,452	687,272	663,513
Gross Liabilities	**3,498,439**	**3,538,149**	**3,031,710**	**3,003,785**	**3,178,759**
Unamortized Gain/(Loss)	100,409	(127,902)	134,772	32,208	(402,592)
Net Liabilities	**3,598,848**	**3,410,247**	**3,166,482**	**3,035,993**	**2,776,167**

Due to measures undertaken by the City to contain the growth in employee benefit liabilities (such as actions to reduce drug costs, 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 had been decreasing since 2011. However with the decrease in discount rates in 2013, 2014 and 2015 the gross liability has been increasing with substantial increase in 2014 primarily due to changes in discount rates and 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, 2015 with 2014 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 $2.9B, consisting mainly of:

- Building and Building Improvements of $720M, consisting of $413M at the TTC, $210M at the TCHC, $16M at the Library, and $60M at the City;
- Transit Infrastructure of $608M; and,
- Vehicles additions of $154M, primarily $114M for TTC, $35M for City and $5M for Toronto Police Services.
- Machinery and Equipment purchases of $203M, primarily:
    - Infrastructure equipment of $15M for Water and Wastewater treatment plant equipment, pumping stations and Road Traffic Signals; and
    - General equipment of $188M, primarily: Green Lane Landfill gas and leachate collection systems, computer hardware, water meters, security systems, police and transit equipment.
- Linear assets of $546M: $333M for Water & Wastewater and $213M for Roads.

- Land Improvements of $228M, including $133M for the Queens Quay revitalization project developed by Waterfront Toronto and transferred to the City.

During the year, amortization of tangible capital assets decreased by $20M to $851M (2014 - $871M), mainly as a result of decrease in TTC amortization of $33M offset by increase in amortization of $13M for the City.

Consolidated Annual Accounting Surplus
Table 7

Consolidated Accounting Surplus					
(in thousands of dollars)					
	2015 Budget	**2015 Actual**	**Difference: Positive / (Negative) Variance**	**Change**	**2014 Actual**
Revenues					
Property Taxation	3,832,852	3,879,877	47,025	1.2%	3,768,009
Municipal Land Transfer Tax	431,524	524,000	92,476	21.4%	449,604
Taxation from other governments	97,525	86,302	(11,223)	(11.5%)	111,598
User Charges	3,030,908	2,780,791	(250,117)	(8.3%)	2,753,273
Funding transfers from other governments	2,960,889	2,862,220	(98,669)	(3.3%)	2,752,112
Government Business Enterprise Earnings	-	294,189	294,189	-	174,326
Investment Income	219,804	259,679	39,875	18.1%	270,603
Development Charges	315,769	221,192	(94,577)	(30.0%)	132,523
Rent and Concessions	434,322	451,776	17,454	4.0%	426,929
Other	668,569	660,497	(8,072)	(1.2%)	511,685
Total	**11,992,162**	**12,020,523**	**28,361**	**0.2%**	**11,350,662**
Expenses					
General Government	860,332	747,196	113,136	13.2%	798,088
Protection to persons and property	1,783,447	1,807,909	(24,462)	(1.4%)	1,820,074
Transportation	2,924,080	2,943,786	(19,706)	(0.7%)	2,819,666
Environmental services	1,112,862	940,017	172,845	15.5%	919,204
Health services	444,602	452,389	(7,787)	(1.8%)	429,491
Social and family services	2,086,093	2,023,910	62,183	3.0%	1,915,780
Social Housing	801,808	775,450	26,358	3.3%	727,715
Recreational and cultural services	1,080,017	989,349	90,668	8.4%	911,428
Planning and development	156,551	146,102	10,449	6.7%	120,188
Total	**11,249,792**	**10,826,108**	**423,684**	**3.8%**	**10,461,634**
CONSOLIDATED ANNUAL ACCOUNTING SURPLUS	**742,370**	**1,194,415**	**452,045**	**60.9%**	**889,028**

Table 7 provides a comparison of 2015 Consolidated Revenues and Expenses versus budget, and also shows 2014 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 2015 property taxes made up 32.2% (2014 – 33.5%) of the City's consolidated operating revenue.

Property Taxation revenue exceeded budget by $47M primarily due to supplementary/omit rolls being higher than forecast by $15M and tax write offs being lower than budget by $29M.

Municipal Land Transfer Tax (MLTT) exceeded budget by $92M primarily due to stronger than expected average home prices and sales volumes.

Taxation from other governments (Payment in Lieu (PIL) of Taxes) revenue were under budget by $11M primarily due to higher than budgeted appeals and adjustments.

User Charges were under budget by $250M due primarily to:

- delayed capital expenditures resulting in lower than budgeted spending of $134M on Capital projects funded from obligatory reserve funds for Water/Wastewater, resulting in lower revenue being recognized in 2015 than budgeted;
- lower revenues from sale of water of $90M; and
- lower revenues at TTC of $26M primarily due to lower than budgeted ridership.

Funding Transfers from other governments were under budget by $99M primarily due to:

- Lower than budget spending on the Toronto-York Spadina Subway Extension by $38M;
- Lower than budget spending on Union Station by $39M;
- Ontario Works operating subsidies lower by $39M, due primarily to lower subsidies for the Ontario Works Financial Assistance Program; offset by
- Increased subsidies for Shelter, Support and Housing Administration for $17M.

Government Business Enterprise Earnings ($294M) 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 $40M due to more robust cash flow in 2015 including funds received from Toronto Parking Authority for air rights not budgeted for, increases in reserves and reserve funds, and higher cash balances due to the overall annual surplus achieved in 2015. This resulted in increased investment balances and additional income.

Development Charges applied to capital spending were under budget by $95M, due to lower than budget spending on capital projects. As an obligatory reserve, development charge revenues are not recognized until the funds are spent for the intended purposes.

Rent and Concessions were higher than budget by $17M due primarily to rental income recognized in 2015 for rent settlements.

Five Year Summary of Consolidated Revenues

The five year summary of revenues outlined in Table 8, 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 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**	**2015**	**2014**	**2013**	**2012**	**2011**
Property taxes	2.8%	3,966,179	3,879,607	3,808,030	3,807,904	3,555,309
Municipal land transfer tax (MLTT)	12.8%	524,000	449,604	360,884	349,798	324,065
User charges	3.4%	2,780,791	2,753,273	2,638,543	2,482,754	2,436,025
Government transfers	(2.4%)	2,862,220	2,752,112	2,952,158	3,054,218	3,148,351
Gain on Sale of Enwave	N/A	-	-	-	96,611	-
GBE Earnings	11.8%	294,189	174,326	175,544	180,097	188,041
Investment Income	1.1%	259,679	270,603	232,244	246,760	248,397
Development Charges	23.5%	221,192	132,523	164,004	141,133	94,952
Rent and Concessions	4.0%	451,776	426,929	438,698	395,470	386,073
Other	2.2%	660,497	511,685	462,454	720,915	605,283
Total	**2.3%**	**12,020,523**	**11,350,662**	**11,232,559**	**11,475,660**	**10,986,496**
Percentage Increase		5.9%	1.1%	(2.1%)	4.5%	

Consolidated Expenses

Gross consolidated expenses for 2015 totalled $10.8B (2014 - $10.5B).
Expense variance explanations by major program areas, are as follows:

- Costs for General Government were lower than budget by $113M, primarily due to lower spending in Facilities due to various State of Goods Repair (SOGR) maintenance projects and lower spending in Finance and Information Technology due to delaying system upgrades and maintenance of various projects.

- Costs for Protection to persons and property were $24M higher than budget primarily due to:
  - An increase of $11M for Police Services; and
  - a net increase of $11M for Fire Services.

- Costs for Transportation were $20M higher than budget primarily due to:
  - Higher than budgeted net spending of $9M in Transportation Services due to higher than budgeted expenditures for traffic signal operations;
  - Higher PSAB adjustments for increased employee benefits for TTC for $56M and Transportation $5M; offset by

- Lower spending in TTC of $24M primarily due to underspending in supplies and services to support vehicle maintenance activities, leasing expense for bus storage and maintenance facilities, hydro and utilities and reduction in healthcare benefits being utilized; and
- Lower spending at Transportation of $28M due to delay in State of Good Repair projects such as neighbourhood improvements, side walk repairs and other road maintenance work.

- Environmental services spending was lower than budget by $173M due primarily to:
  - Lower spending at Toronto Water of $132M related to $108M from various State of Good Repair maintenance projects, and $24M primarily due to savings in salaries and benefits;
  - Lower spending at Solid Waste of $48M, with $36M attributable to various maintenance projects and $12M due to lower than planned expenditures for salaries and benefits and savings from capital financing due to lower than planned debentures issued.

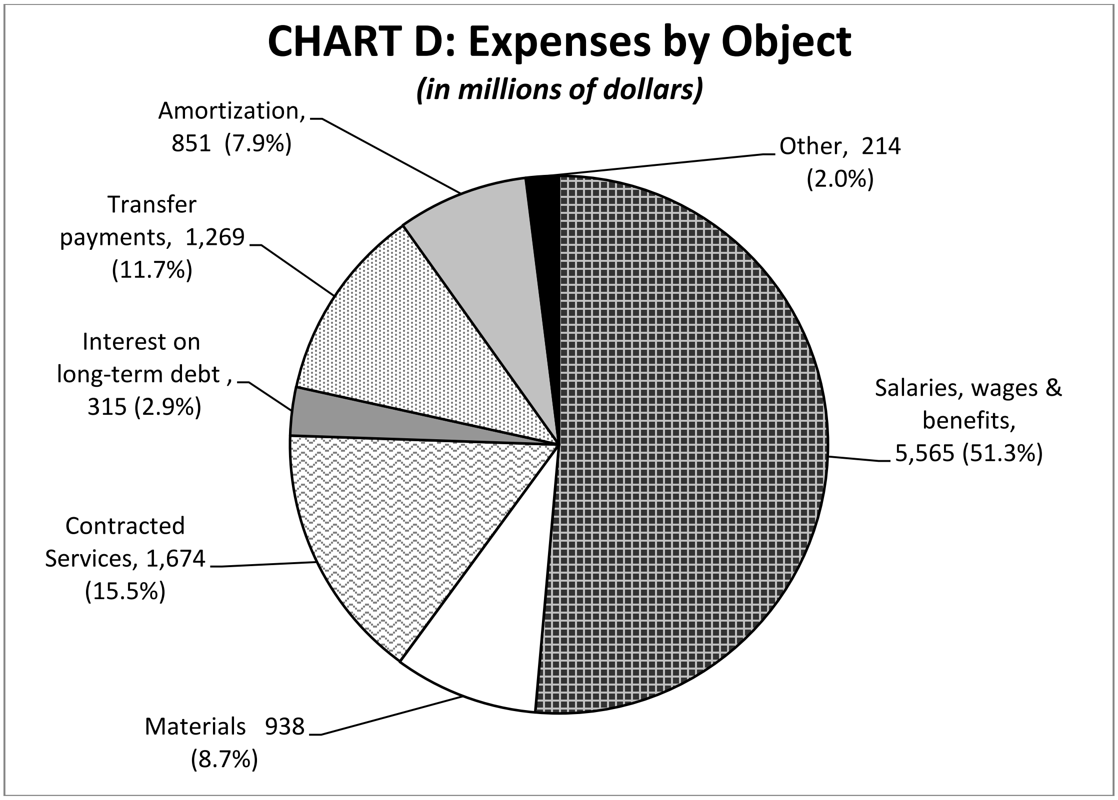
- Social and Family Services spending was lower than budget by $62M, primarily due to:
  - Ontario Works (OW) financial benefits were under spent by $51M due to a lower than budgeted OW caseload; and
  - Children's Services was under budget by $10M primarily due to salary savings.

- Social housing spending was lower than budget by $26M, primarily due to lower spending of $23M at TCHC.

- Recreational and cultural services was lower than budget by $91M due primarily to:
  - Lower spending of $21M on repairs and maintenance for Recreation and State of Good repair projects;
  - Lower spending of $51M on various Parks maintenance projects such as camp sites maintenance, tree maintenance, storm damage maintenance and other preventive maintenance projects; and
  - Lower spending of $13M primarily in the Toronto Zoo maintenance projects due to delays in various building maintenance such as Wildlife Health Centre maintenance, Exhibit refurbishments and other maintenance.

Consolidated Expenses by Object

Chart D breaks down gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 51.3% 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
- inadequate funding of Provincial cost-shared programs and reduced funding for Social Housing has resulted in significant financial pressure to the City.

In 2015, 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 2015 to help address them.

Highlights include:

- The City continued to adopt strict budget guidelines for City divisions, agencies and corporations: resulting in a 1.5% increase in net expenditures for 2015 Approved Operating Budget;
- The 2015 Operating Budget included efficiency and service changes savings of $85 million and other savings of $40 million;
- During 2015, City Council directed the Deputy City Manager & Chief Financial Officer to implement shared services in the following areas: *learning, Insurance, Procurement and Information & Technology* and to report annually to City Council on the status of Shared Services projects and benefits delivered;
- 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 the City's Scarborough RT replacement (subway) project;
- City's Development Charges Bylaw was updated to include the growth related to the Scarborough Subway Extension (SSE) project costs;
- In its 10 year Capital Plan, the City continued to implement a non-debt capital funding plan to fund an additional $3.0B in TTC/Transportation, Facilities, Technology and Water/Wastewater capital project priorities from operating budget surpluses, increases in Development Charge revenues, sales of assets and dividends from City's agencies and corporations; and

- For 2015, 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; and also reduction in tax rates for smaller businesses, with a target of 2.5 times the residential rate by 2015, which was met in 2015.

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SIGNATURE

Roberto Rossini Deputy City Manager & Chief Financial Officer	Mike St. Amant Treasurer

ATTACHMENTS

Appendix A: 2015 Consolidated Financial Statements
Appendix B: Key Issues/Risks Facing the City of Toronto
Appendix C: Glossary