

THE CORPORATION OF THE CITY OF THUNDER BAY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

GENERAL

The Corporation of the City of Thunder Bay (the "City") is a municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act and related legislation.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the City are prepared by management in accordance with Canadian generally accepted accounting principles for local governments as established by the Public Sector Accounting Board [PSAB] of the Chartered Professional Accountants Canada [CPAC]. Significant accounting policies adopted by the City are as follows:

Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues, expenses and accumulated surplus of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City. These financial statements include:

Thunder Bay Public Library Board
Parking Authority
Simpson Street Business Improvement Area
Victoria Avenue Business Improvement Area
Waterfront District Business Improvement Area
Victoriaville Centre Board of Management
Thunder Bay Community Auditorium Inc.
Tbaytel (A Municipal Service Board established by the Corporation of the City of Thunder Bay)
Thunder Bay Community Economic Development Commission Inc.
Thunder Bay Police Services Board

Interdepartmental and inter-organizational transactions and balances between these organizations are eliminated.

The financial activities of certain entities associated with the City are not consolidated. The City's contributions to these entities are recorded in the Consolidated Statement of Operations and Accumulated Surplus. The entities that are not consolidated are as follows:

Lakehead Region Conservation Authority
Thunder Bay District Health Unit
The District of Thunder Bay Social Services Administration Board

Government Business Enterprise

Thunder Bay Hydro Corporation is accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises [note 6]. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform to those of the City's, and inter-organizational transactions and balances are not eliminated.

Accounting for School Board Transactions

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards, are not reflected in these consolidated financial statements [note 3].

THE CORPORATION OF THE CITY OF THUNDER BAY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trust Funds

Trust funds and their related operations administered by the City are not included in the consolidated financial statements but are reported separately in the Trust Fund Financial Statements [note 4].

Basis of Accounting

The City follows the accrual basis of accounting. Under the accrual method of accounting, revenues are recognized in the period in which the transactions or events that give rise to the revenues occurred. Expenses are recognized in the period in which the goods or services are acquired, whether or not payment has been made or invoices received.

Employment Benefits

The City has adopted the following policies with respect to employment benefit plans:

The costs of vacation entitlements are charged as expenses when earned;

The costs of post-employment benefits, sick leave entitlements and WSIB entitlements are recognized when the event that obligates the City occurs; costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;

The costs of post-employment benefits, sick leave entitlements and WSIB entitlements are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance;

Accrued obligations and related costs of funded benefits are net of plan assets;

Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets are amortized on a straight-line basis over the average remaining service period for active employees.

The contributions to a defined benefit pension plan are expensed when contributions are due.

Government Transfers

Government transfers which include legislative grants, are recognized in the financial statements in the period in which events giving rise to the transfers occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amount can be made.

Investments

The City accounts for its investments at cost plus accrued earnings. The carrying value of an investment is written down to its net recoverable amount if a decline in value is judged to be other than temporary.

THE CORPORATION OF THE CITY OF THUNDER BAY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Income

Investment income earned on surplus funds is reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the deferred revenue or reserve fund balances.

Non-financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

[i] Tangible Capital Assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset.

The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

General capital

Land improvements	5 to 50 years
Buildings	10 to 60 years
Machinery and equipment	2 to 30 years
Vehicles	3 to 20 years
Network assets	6 to 48 years
Library collection	10 years

Infrastructure

Land improvements	5 to 50 years
Buildings	30 to 60 years
Linear assets	10 to 50 years
Machinery and equipment	2 to 30 years

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets are written down when conditions indicate they no longer contribute to the City's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their book value. The net write-downs are accounted for as expenses in the statement of operations.

[ii] Contributions of Tangible Capital Assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and are also recorded as revenue.

THE CORPORATION OF THE CITY OF THUNDER BAY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-financial Assets (continued)

[iii] Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

[iv] Inventories

Inventories held for consumption are recorded at the lower of cost or replacement cost.

Taxation Revenue

Taxes are recorded at estimated amounts when they meet the definition of an asset, have been authorized and the taxable event occurs. For property taxes, the taxable event is the period for which the tax is levied. Taxes receivable are recognized net of an allowance for anticipated uncollectable amounts.

Annually, the City bills and collects property tax revenues for municipal purposes as well as provincial education taxes on behalf of the Province of Ontario (the "Province") for education purposes. The authority to levy and collect property taxes is established under the *Municipal Act*, the *Assessment Act*, the *Education Act*, and other legislation.

The amount of the total annual property tax levy is determined each year through Council's approval of the annual operating budget. Municipal tax rates are set annually by Council for each class or type of property, in accordance with legislation and Council-approved policies, in order to raise the revenues required to meet operating budget requirements. Education tax rates are established by the Province each year to fund the cost of education on a Province-wide basis.

Property assessments, on which property taxes are based, are established by the Municipal Property Assessment Corporation ("MPAC"), a not-for-profit corporation funded by all of Ontario's municipalities. The current value assessment ("CVA") of a property represents an estimated market value of a property as of a fixed date. Assessed values for all properties within the municipality are provided to the City in the returned assessment roll in December of each year.

The amount of property tax levied on an individual property is the product of the CVA of the property (assessed by MPAC) and the tax rate for the class (approved by Council), together with any adjustments that reflect Council-approved mitigation or other tax policy measures.

Property taxes are billed by the City twice annually. The interim billing, issued in January, is based on 50% of the total property's taxes in the previous year, and provides for the cash requirements of the City for the initial part of the year prior to Council's approval of the final operating budget and the approved property tax levy for the year. Final bills are issued in June, following Council's approval of the capital and operating budget for the year, the total property tax levy, and the property tax rates needed to fund the City's operations.

Taxation revenues are recorded at the time tax billings are issued. Additional property tax revenue can be added throughout the year, related to new properties that become occupied, or that become subject to property tax, after the return of the annual assessment roll used for billing purposes. The City may receive supplementary assessment rolls over the course of the year from MPAC, identifying new or omitted assessments. Property taxes for these supplementary and/or omitted amounts are then billed according to the approved tax rate for the property class.

THE CORPORATION OF THE CITY OF THUNDER BAY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation Revenue (continued)

Taxation revenues in any year may also be reduced by reduction in assessment values resulting from assessment and/or property tax appeals. Each year, an amount is identified within the annual operating budget to cover the estimated amount of revenue loss attributable to assessment appeals, tax appeals or other deficiencies in tax revenues (e.g. uncollectible amounts, write-offs, etc.).

User Charges

User charges relate to telecommunication, transit fees, utility charges (water, wastewater and solid waste), licensing fees, fees for use of various programs, and fees imposed based on specific activities. Revenue is recognized when the activity is performed or when the services are rendered

Other Revenue

Other revenues are recognized in the year that the events giving rise to the revenues occur and the revenues are earned. Amounts received which relate to revenues that will be earned in a subsequent year, are deferred and reported as liabilities.

Deferred Revenue

Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs, in the completion of specific work or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recorded as deferred revenue and are recognized as revenue in the year the related expenses are incurred or services are performed.

Landfill Closure and Post-Closure Liabilities

The costs to close existing landfill sites and to maintain closed solid waste landfill sites are based on estimated future expenditures in perpetuity in current dollars, adjusted for estimated inflation. These costs are reported as a liability on the Consolidated Statement of Financial Position.

Use of Estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for uncollectible accounts, employee benefit liabilities, property tax assessment appeals, landfill closure and post-closure liabilities, amortization of tangible capital assets and other accrued liabilities. These estimates are based on management's best information and judgment. Actual amounts, which are accounted for as they become known, may differ significantly from these estimates.

**THE CORPORATION OF THE CITY OF THUNDER BAY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Year Ended December 31, 2014

2. PRIOR PERIOD ADJUSTMENT

- a) The City has restated the comparative figures to include revenue and a long term receivable that were incorrectly recorded at December 31, 2013.
- b) During the year, Tbaytel changed its accounting policy with respect to the Hardware Subsidy that had been recorded and carried on the financial statements as a long term financial asset that was amortized over the life of the contract. To more accurately reflect the recoverable amount of the subsidy, Tbaytel will now account for such transactions as an expense at the time of signing the new contract.

The impact of the retroactive adjustments has been reported as follows:

	City of Thunder Bay	Tbaytel	2013 \$
<u>Statement of Financial Position</u>			
Increase (decrease) in financial assets	733,631	(27,978,000)	(27,244,369)
Increase (decrease) in accumulated surplus	733,631	(27,978,000)	(27,244,369)
<u>Statement of Operations and Accumulated Surplus</u>			
Increase in revenues	153,586	-	153,586
(Increase) in expenses:			
Telephone	-	(8,097,000)	(8,097,000)
Increase (decrease) in annual surplus, 2013	153,586	(8,097,000)	(7,943,414)
Increase (decrease) in opening accumulated surplus, 2013	580,045	(19,881,000)	(19,300,955)
Increase (decrease) in ending accumulated surplus, 2013	733,631	(27,978,000)	(27,244,369)

3. OPERATIONS OF SCHOOL BOARDS

Taxation, other revenues and requisitions for the school boards amounting to **\$29,236,612** [2013 - \$28,678,033] are not reflected in these consolidated financial statements.

4. TRUST FUNDS

Trust funds administered by the City amounting to **\$15,974,139** [2013 - \$15,719,956] have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Operations and Accumulated Surplus.

Trust fund balances at December 31 are as follows:

	2014 \$	2013 \$
Older Adults Centre	12,865	13,689
Cemetery	1,040,725	1,017,281
Cemetery Marker Maintenance	354,912	334,934
Dawson Court Home for Aged	53,650	53,994
Grandview Lodge Home for Aged	34,411	46,927
Pioneer Ridge Home for Aged	21,794	21,303
Lake Superior Regiment Memorial Hillcrest Park	28,528	27,431

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For the Year Ended December 31, 2014

4. TRUST FUNDS (continued)

	2014 \$	2013 \$
Employee Disability	14,323,824	14,107,316
Civic Employees Pension Trust Committee	1,998	1,998
Community Auditorium Repairs	696	669
Art in Public Places	7,948	7,643
Provincial Land Tax	92,788	86,771
	15,974,139	15,719,956

5. INVESTMENTS

Investments are recorded at cost. The total market value of the City's investments at December 31, 2014 was approximately \$49,459,353 [2013 - \$84,455,943]. The City's investments are comprised of federal, provincial, corporate and municipal bonds, the ONE Equity Fund, money market funds, and treasury bills. The bonds have varying maturities and interest rates.

	2014 \$		2013 \$	
	Cost	Market Value	Cost	Market Value
Federal Government	11,520,152	11,770,802	22,313,897	21,654,199
Provincial Government	5,620,004	5,885,281	11,067,241	10,862,297
Corporate	9,755,686	9,984,692	24,493,044	24,730,059
Equity	6,886,973	11,039,961	7,198,578	10,217,461
Other	10,856,634	10,778,617	17,116,931	16,991,927
	44,639,449	49,459,353	82,189,691	84,455,943

The weighted average yield on the cost of the investment portfolio during the year was 4.20% (2013 3.50%). Maturity dates on investments in the portfolio range from August 2015 to June 2044.

6. INVESTMENT IN THUNDER BAY HYDRO CORPORATION

Thunder Bay Hydro Corporation

The Thunder Bay Hydro Corporation is wholly owned by the City and provides regulated and unregulated electric utility services and complementary commercial services. The following table provides condensed supplementary financial information for the Thunder Bay Hydro Corporation, and its wholly-owned subsidiaries; Thunder Bay Hydro Electricity Distribution Inc.; Thunder Bay Hydro Utility Services; and Thunder Bay Hydro Renewable Power Incorporated, prepared in accordance with Canadian generally accepted accounting principles as per Part V of the Chartered Professional Accountants Canada Handbook.

	2014 \$	2013 \$
Financial position		
Current assets	38,859,894	37,843,492
Capital assets	98,924,195	94,875,681
Long-term assets	7,913,928	7,374,835
Total assets	145,698,017	140,094,008
Current liabilities	26,832,644	20,690,268

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For the Year Ended December 31, 2014

6. INVESTMENT IN THUNDER BAY HYDRO CORPORATION (continued)

Thunder Bay Hydro Corporation (continued)

	2014 \$	2013 \$
Long-term liabilities	24,494,528	27,696,577
Total liabilities	51,327,172	48,386,845
Net assets	94,370,845	91,707,163
Results of operations		
Revenues	129,980,279	125,066,242
Operating expenses	(127,316,597)	(122,418,488)
Earnings for the year	2,663,682	2,647,754

The City's investment in Thunder Bay Hydro Corporation is comprised of the following:

	2014 \$	2013 \$
1,000 common shares	34,931,625	34,931,625
7,000,000 class A common shares	7,000,000	7,000,000
Promissory note	27,931,625	27,931,625
Accumulated earnings from date of transfer	24,507,595	21,843,913
	94,370,845	91,707,163

The promissory note is receivable from Thunder Bay Hydro Corporation and is non-interest bearing, unsecured and due on demand.

Related Party Transaction

Thunder Bay Hydro Corporation provides certain services to the City in the normal course of business at commercial rates.

Thunder Bay Hydro Corporation billed the City for electricity in the amount of \$8,021,275 [2013-\$8,330,042]. At December 31, 2014, included in accounts payable and accrued liabilities is \$949,964 [2013 - \$705,755] payable to Thunder Bay Hydro Corporation related to this expense. Pole rental from Thunder Bay Hydro Corporation in the amount of \$316,230 [2013 - \$312,900] and other sundry expenses in the amount of \$66,300 [2013 - \$60,964] were also recorded. The City also contributed towards capital construction by Thunder Bay Hydro Corporation during the year in the amount of \$461,404 [2013 - \$117,639]. Included in accounts payable is \$4,509 [2013 - \$85,747] due to Thunder Bay Hydro Corporation related to these other activities. Included in accounts receivable is \$237,174 [2013-\$49,941].

The City provides certain services to Thunder Bay Hydro Corporation in the normal course of business at commercial rates.

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For the Year Ended December 31, 2014

6. INVESTMENT IN THUNDER BAY HYDRO CORPORATION (continued)

Related Party Transaction (continued)

The following revenues were recorded:

Rent of **\$325,257** [2013-\$318,051]
 Telecommunication costs of **\$254,062** [2013-\$309,228]
 Water billings of **\$11,166** [2013-\$7,919]
 Property taxes of **\$136,124** [2013-\$135,498]
 Solar lease fees of **\$16,558** [2013-\$8,144]
 Ontario Power Authority incentives of **\$36,393** [2013-\$21,289]
 Various sundry amounts of **\$40,281** [2013-\$36,766]
 Lease costs of **\$1,936** [2013-\$1,869]
 Royalties of **\$88,156** [2013-\$105,815]
 Landfill gas charges of **\$123,564** [2013-\$149,732].

7. BANK INDEBTEDNESS

The City has an unsecured demand revolving credit facility in the amount of **\$15,000,000** [2013 - \$15,000,000], of which **\$nil** [2013 - \$nil] was used at year-end, bearing interest at the bank's prime rate less 0.88%.

Tbaytel's available revolving credit facilities amount to:

- 1) **\$1,500,000** US [2013-\$1,500,000 US] at a floating rate of US bank prime or 3.25%, of which **\$285,000** US [2013 - \$1,500,000 US] was used at year-end.
- 2) **\$5,500,000** CDN [2013-\$5,500,000] at a floating rate of bank prime less 0.50%, or 2.50%, of which **\$nil** CDN [2013 - \$505,000] was used at year-end.

8. TBAYTEL LONG TERM PAYABLE

In 2010, Tbaytel entered into a Strategic Business Relationship. As part of the agreement, Tbaytel entered into a long-term payable arrangement with a term of ten years for a total principal amount of \$46,903,000. The amount relates to a commercial acquisition of subscribers and subsequent payments are to be funded through the future operating results of Tbaytel. The balance outstanding as at December 31, 2014 is **\$28,960,000** [2013 - \$33,566,000]. Interest is accrued with an effective rate of 4.00%.

Principal repayments of the long term payable are due as follows:

	\$
2015	4,741,000
2016	4,872,000
2017	4,949,000
2018	4,978,000
2019	5,012,000
2020 and thereafter	4,408,000
Total	28,960,000

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8. TBAYTEL LONG TERM PAYABLE (continued)

Total payments for the year for the long term payable are as follows:

	2014 \$	2013 \$
Principal payments	4,606,000	4,425,000
Interest payments	1,259,000	1,439,000
Total	5,865,000	5,864,000

9. DEFERRED REVENUE

The continuity of deferred revenue is as follows:

	2014 \$	2013 \$
Balance, beginning of year	11,016,376	11,648,031
Net contributions from developers and property owners	137,803	55,208
Investment income	19,885	13,777
Net contributions to capital operations	(2,512)	(11,050)
Net contributions from (to) current operations	1,657,787	(689,590)
Balance, end of year	12,829,339	11,016,376

10. PENSION AGREEMENTS

The City makes contributions to the Ontario Municipal Employees Retirement System Fund (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employee contributions are matched by the City.

During the year ended December 31, 2014, the City contributed approximately \$17,087,798 [2013 - \$16,720,171] for current service, which is included as an expense on the Consolidated Statement of Operations and Accumulated Surplus.

Because OMERS is a multi-employer plan, the City does not recognize any share of pension plan deficit of \$7.1 billion [2013-\$8.6 billion] based on fair market value of the plan's assets, as this is a joint responsibility of all Ontario municipalities and their employees.

11. EMPLOYMENT FUTURE BENEFITS

The City provides certain employee benefits which will require funding in future periods.

	2014 \$	2013 \$
Sick leave benefits	5,301,367	5,780,023
Vacation pay	4,557,368	4,460,483
Post-employment benefits	40,218,279	40,116,113
WSIB	45,910,215	45,694,116
	95,987,229	96,050,735

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For the Year Ended December 31, 2014

11. EMPLOYMENT FUTURE BENEFITS (continued)

- [a] Under the sick leave benefit plan, unused sick leave can accumulate and certain employees may become entitled to a cash payment when they retire or leave the City's employment. The City recognizes these costs in the period in which the employees rendered the services. The accrued benefit liability at December 31, 2014 of **\$5,301,367** [2013-\$5,780,023] was determined by an actuarial valuation prepared for the year ended December 31, 2013. An amount of **\$3,067,984** [2013- \$3,219,794] has been set aside in sick pay liability reserve funds to offset this liability.

The main actuarial assumptions employed for the valuation of vested sick leave benefits are as follows:

General Inflation

Future general inflation levels, as measured by changes in the Consumer Price Index (CPI), were assumed at 2% per annum.

Interest (discount) rate

The obligation as at December 31, 2014 of the present value of future liabilities and the expense for the year then ended was determined using an annual discount rate of 4.50%. This rate reflects the assumed long-term yield on high quality bonds as at January 1, 2013.

Salary levels

Future general salary and wage levels were assumed to increase at 3.10% and 4.10% per annum for various employee groups, reflecting the expected Consumer Price Index adjusted for productivity, merit and promotion.

- [b] Vacation entitlements earned by the employees are converted to a cash payment when they retire or leave the City's employment.
- [c] The City pays certain post-retirement benefits on behalf of its retired employees and recognizes these post retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2014 of **\$32,152,831** [2013-\$31,042,484] was determined by an actuarial valuation prepared for the year ended December 31, 2013 and updated for 2014. An amount of **\$6,584,028** [2013- \$7,270,275] has been set aside in a post-retirement benefits reserve fund to offset this liability.

Information about the City's post-retirement non-pension benefit plan is as follows:

	2014 \$	2013 \$
Accrued benefit liability recongnized in the financial statements	40,218,279	40,116,113
Expense for the year	1,887,652	1,877,813
Benefits paid for the year	(1,785,486)	(1,428,700)

The main actuarial assumptions employed for the valuation are as follows:

General Inflation

Future general inflation levels, as measured by changes in the Consumer Price Index (CPI), were assumed at 2% per annum.

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11. EMPLOYMENT FUTURE BENEFITS (continued)

Interest (discount) rate

The obligation as at December 31, 2014 of the present value of future liabilities and the expense for the year then ended was determined using an annual discount rate of 3.50% to 4.50%. This rate reflects the assumed long-term yield on high quality bonds as at January 1, 2013.

Medical and dental costs

Medical costs were assumed to increase by 6.70% in 2014, with further annual increases gradually declining from 6.70% to 4.60% in 2021 and each year thereafter. Dental costs were assumed to increase at 4.60% in 2014 and each year thereafter.

- [d] The City elected to be under Schedule 2 of the Workplace Safety and Insurance Act and hence, effectively self-insures its workers' compensation claims. The estimated future benefit costs (including administration costs) were determined by an actuarial valuation as at December 31, 2013 and updated for 2014.

12. MUNICIPAL DEBENTURE DEBT

- [a] The balance of municipal debenture debt reported on the Consolidated Statement of Financial Position totaling **\$170,095,533** [2013 - \$168,939,737] is comprised of debenture debt outstanding at year-end incurred by the City. The breakdown of the balance owing is as follows:

	2014 \$	2013 \$
Tax supported	57,952,233	73,344,961
Rate-supported	98,233,300	86,924,776
Tbaytel	13,910,000	8,670,000
Total	170,095,533	168,939,737

- [b] Principal repayments of municipal debenture debt are due as follows:

	\$
2015	20,370,332
2016	19,572,292
2017	15,715,752
2018	15,282,996
2019	14,856,334
2020 and thereafter	84,297,827
Total	170,095,533

- [c] The long-term liabilities in [a] issued in the name of the City have received approval of the Ontario Municipal Board for those approved on or before December 31, 1992. Those approved after January 1, 1993 have been approved by by-law. The 2015 annual principal and interest payments required to service these liabilities are within the 2015 annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing of \$85,525,698. The City has available \$58,672,677, based on this annual debt repayment limit.

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12. MUNICIPAL DEBENTURE DEBT (continued)

[d] Total payments for the year for municipal debenture debt are as follows:

	2014 \$	2013 \$
Principal payments	18,394,703	19,682,109
Interest payments	6,634,438	6,982,909
Total	25,029,141	26,665,018

13. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

The Ontario Environmental Protection Act (the "Act") sets out the regulatory requirements for the closure and maintenance of landfill sites. Under the Act, the City is required to provide for closure and post-closure care of its solid waste landfill site.

The John Street municipal landfill is operated by the City to accept all municipal solid waste from the City. The landfill includes the closed and capped West Cell, and the active East Cell with a remaining life of approximately 26 years. Closure activities include final cover and vegetation, drainage control features, monitoring of leachate, water quality and recovery of gas. Post-closure activities include acquisition of additional land for buffer zone, treatment and monitoring of leachate, monitoring groundwater, surface water and gas, and recovery and ongoing maintenance of various control systems, drainage systems and final cover.

The estimated liability of **\$3,838,741** [2013 - \$5,098,784] is the present value of future closure and post-closure costs discounted at a rate of 4%.

14. TANGIBLE CAPITAL ASSETS

Schedule 1 provides information on the tangible capital assets of the City of Thunder Bay by major asset class, including cost, accumulated amortization and the net book value of the assets.

During the year no interest was capitalized [2013 - \$nil], there were write-downs of tangible capital assets of \$nil [2013-\$nil] and contributed tangible capital assets of \$nil [2013- \$781,693].

Certain assets have been recorded at a nominal value due to the difficulty in determining an appropriate value. These assets include road allowances relating to the roads network, certain land segments acquired through land swaps and some parkland segments.

Works of art, artifacts, cultural and historic assets are not recorded as assets in the financial statements.

15. GOVERNMENT TRANSFERS

	2014 \$	2013 \$
Revenues		
Government of Canada grants	12,877,442	7,695,740
Province of Ontario grants	76,206,855	73,273,194
Total Revenues	89,084,297	80,968,934
Expenses		
External transfers to others	25,331,400	25,892,336
Total Expenses	25,331,400	25,892,336

**THE CORPORATION OF THE CITY OF THUNDER BAY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Year Ended December 31, 2014

16. CONTINGENCIES

- [a] There were numerous claims and litigation in dispute at December 31, 2014 for which the amount of settlement, if any, is indeterminable at this time. The settlements, if any, will be expensed in the Consolidated Statement of Operations and Accumulated Surplus in the year in which judgments are rendered. No provision has been made in these consolidated financial statements in respect of the above claims and litigation.
- [b] In the normal course of business, appeals are made by taxpayers against property assessments, the resolution of which is not known as at the date of issuance of these financial statements. It is the practice of the Municipality to provide for any claims only when the decisions are rendered by the appropriate authorities.

17. COMMITMENTS

- [a] The City has various operating leases pertaining to certain premises and equipment and service agreements. The future minimum lease payments over the next five years are as follows:

	\$
2015	4,959,084
2016	4,376,303
2017	3,245,303
2018	797,376
2019	489,564

- [b] The City has a letter of credit issued by the Royal Bank of Canada for \$500,000, which expires on December 31, 2015.
- [c] Tbaytel has provided a letter of guarantee from the Royal Bank to WSIB in the amount of **\$1,727,000** [2013-\$nil].

18. PUBLIC LIABILITY INSURANCE

The City is self-insured for public liability claims up to \$1,000,000 for any number of claims arising out of a single occurrence. Outside coverage is in place for claims in excess of these limits.

The City has provided for self-insurance in a reserve fund reported in the Consolidated Statement of Financial Position amounting to **\$20** [2013-\$131,808].

Self-insured claims settled and accrued during the year amounting to **\$4,048,681** [2013 - \$3,487,365] are reported as an expense in the Consolidated Statement of Operations.

19. NON-CONSOLIDATED ENTITIES

Thunder Bay District Health Unit

The Thunder Bay District Health Unit is established under the Health Protection and Promotion Act, and provides programs and services in accordance with the legislative mandate for Boards of Health in Ontario and delivers a wide range of services to citizens of the District of Thunder Bay.

The following table provides condensed supplementary financial information for the Thunder Bay District Health Unit prepared in accordance with Canadian public sector accounting standards.

**THE CORPORATION OF THE CITY OF THUNDER BAY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Year Ended December 31, 2014

19. NON-CONSOLIDATED ENTITIES (continued)

Thunder Bay District Health Unit (continued)

	2014 \$	2013 \$
Financial position		
Financial assets	4,295,583	4,176,108
Liabilities	(2,937,087)	(3,000,299)
Net financial assets	1,358,496	1,175,809
Non-financial assets	1,861,833	1,778,408
Accumulated surplus	3,220,329	2,954,217
	2014 \$	2013 \$
Results of operations		
Revenues other than municipal levies	14,927,017	14,983,916
Municipal levies	2,803,548	2,762,181
Expenses	(17,464,453)	(17,863,738)
Annual surplus (deficit)	266,112	(117,641)

The City's share of the municipal levies was \$2,195,477 [2013 - \$2,163,036].

The District of Thunder Bay Social Services Administration Board

Effective April 1, 1999, pursuant to provincial legislation, The District of Thunder Bay Social Services Administration Board was formed to accommodate the provincial government's requirement to consolidate the delivery of Social Services. The Board delivers provincially mandated services on behalf of the citizens of the District of Thunder Bay.

The following table provides condensed supplementary financial information for The District of Thunder Bay Social Services Administration Board, including its wholly-owned subsidiary, Thunder Bay District Housing Corporation, prepared in accordance with Canadian public sector accounting standards.

	2014 \$	2013 \$
Financial position		
Financial assets	35,295,527	34,877,728
Long-term debt	(31,925,889)	(33,895,124)
Other liabilities	(11,410,878)	(10,522,190)
Net debt	(8,041,240)	(9,539,586)
Non-financial assets	52,524,818	53,049,328
Accumulated surplus	44,483,578	43,509,742

**THE CORPORATION OF THE CITY OF THUNDER BAY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Year Ended December 31, 2014

19. NON-CONSOLIDATED ENTITIES (continued)

The District of Thunder Bay Social Services Administration Board (continued)

	2014 \$	2013 \$
Results of operations		
Revenues other than municipal levies	59,388,355	58,420,760
Municipal levies	23,533,653	24,067,286
Other income	882,642	316,577
Expenses	(82,405,135)	(82,018,709)
Distribution to municipalities	(425,679)	(653,470)
Annual surplus	973,836	132,444

The City's share of the municipal levies was \$17,797,772 [2013 - \$18,143,725].

20. SEGMENTED INFORMATION

The City is a diversified municipal government institution that provides a wide range of services to its citizens. Segmented information has been prepared by major functional classification of activities provided, consistent with the consolidated statement of operations and accumulated surplus and provincially legislated requirements. For each reported segment, revenues and expenses represent both amounts attributable to the segment and amounts that are allocated on a reasonable basis.

The segmented information is provided in Schedule 3 to the consolidated financial statements and includes the following segments:

General Government

General Government comprises various administrative services, including Finance & Corporate Services, Legal Services, City Manager's Department, Facilities & Fleet Services and Mayor and Council.

Protection to Persons and Property

Protection to persons and property is comprised of Police Services, Fire Services, Protective Inspection and Control and Thunder Bay Court Services. The mandate of Police Services is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce the law. The Fire Services department is responsible for fire suppression; fire prevention programs; training and education related to prevention, detection or extinguishment of fires. Protective Inspection and Control ensures an acceptable quality of building construction and maintenance of properties through enforcement of construction codes, building standards and by-laws for the protection of occupants. Thunder Bay Court Services administers prosecutions and the collection of related fines and fees under the authority of the Provincial Offences Act.

Transportation Services

Transportation services include Roadways, Winter Control, Transit, Parking and Street Lighting. Roadways covers the delivery of municipal public works services related to the planning, development and maintenance of roadway systems, bridges, culverts, sidewalks, crossing guards and traffic lights. Winter control includes snowplowing, sanding and salting, snow removal and flood control. The Transit division is responsible for providing local public transportation service including specialized public transportation. The Parking Authority is responsible for the planning, development and maintenance of parking lots, meters and parkades, including enforcement of parking

THE CORPORATION OF THE CITY OF THUNDER BAY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

20. SEGMENTED INFORMATION (continued)

Transportation Services (continued)

regulations. Street lighting plans, develops and maintains the street lighting system.

Environmental Services

Environmental services consist of Waterworks, Sanitary Sewer, Waste Collection and Disposal and Recycling. Waterworks provides drinking water to the citizens of Thunder Bay. Sanitary Sewer collects and treats wastewater. Waste Collection, Disposal and Recycling includes the collection of solid waste, landfill site operations and waste minimization programs.

Health Services

Health Services includes Cemeteries, Health Care Recruitment and Ambulance Services.

Social and Family Services

Social and Family Services include General Assistance, Assistance to Aged Persons and Child Care. Under Assistance to Aged Persons, the City operates three Homes for the Aged, the 55+ Centre, and provides services to seniors, including meals on wheels, friendly visiting program and Jasper Apartments. Child Care includes the operating and maintenance of childcare centers in the City.

Recreation and Cultural Services

Recreation and Cultural Services include Parks, Recreation Programs and Facilities, Thunder Bay Public Library and Contributions to Cultural Organizations. The City provides public services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure services such as fitness and aquatic programs, the development and maintenance of various recreational facilities; and the maintenance of parks and open spaces. The Thunder Bay Public Library is dedicated to providing community access to local and global information resources that support lifelong learning, research and leisure activities. The City contributes to various cultural organizations under specific funding programs. Also included in Recreation and Cultural Services are the activities of the Thunder Bay Community Auditorium Inc.

Planning and Development

The Development Services Department manages urban development for business interest, environmental concerns, heritage matters, local neighbourhoods and the downtown through city planning and community development and approval of all land development plans. Also included in Planning and Development are the activities of the Thunder Bay Community Economic Development Commission Inc., three Business Improvement Areas (BIA's), and Victoriaville Centre.

Tbaytel

Tbaytel was established as a Municipal Service Board to govern, control, maintain, operate and manage the City's provision of telecommunication services.

21. BUDGET INFORMATION

Budgets are established to set tax rates or to finance projects which may be carried out over one or more years. Although they are not directly comparable with current year actual amounts, they have been translated into Public Sector Accounting Board standards on the consolidated statement of operations and accumulated surplus.

THE CORPORATION OF THE CITY OF THUNDER BAY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

22. FLOOD DISASTER

On May 28, 2012, the City of Thunder Bay experienced a severe rainfall event, which resulted in the flooding of the Atlantic Avenue Secondary Sewage Treatment Plant (the "Plant") and basement flooding in certain areas of the City. On June 8, 2012, the Province of Ontario declared the City of Thunder Bay a disaster area for the purposes of the Ontario Disaster Relief Assistance Program ("ODRAP").

Actual flood-related costs incurred by the City from May 28, 2012 to December 31, 2014 amounted to approximately \$45.5 million [2013 - \$33.5 million], of which approximately \$33.3 million [2013 - \$21.4 million] related to the non-emergency response damage to the Plant.

All operating costs incurred and all revenues received or receivable for the year ended December 31, 2014 have been recorded in the functional expense classifications or in other revenue on the consolidated statement of operations and accumulated surplus.

See note 16 regarding the treatment of claims and litigation in dispute as at December 31, 2014 for which the amount of settlement, if any, is indeterminable at this time. For further clarification, any claims or litigation with respect to the flood disaster, will receive the same treatment as outlined in that note.

The City's consultant provided a cost estimate for the damages associated with the flooding of the Plant in the amount of \$55 million, with the work expected to be completed in 2016. The amount unspent as of December 31, 2014 is estimated at \$17.4 million [2013 - \$10.2 million]. The total estimated cost of the Flood Disaster event, including Plant capital costs, emergency response costs, and extraordinary operating costs is projected to be \$67.2 million.

To date there has been no impact on property taxes and any future impact will be minimized as a result of the City's insurance coverage and ODRAP funding.

23. COMPARATIVE AMOUNTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 financial statements.

24. FUTURE ACCOUNTING CHANGES

Section PS 3260, Liability for Contaminated Sites of the Public Sector Accounting Standards establishes standards on how to account for and report a liability associated with the remediation of contaminated sites. This standard is effective for years beginning on or after April 1, 2014. The City does not expect the adoption of this standard to have a significant impact on the financial statements.

Financial Instruments, PS 3450, Foreign Currency Translation, PS 2601, and Financial Statement Presentation, PS 1201 are effective for fiscal years beginning on or after April 1, 2016. While early adoption is permitted, all three of the standards must be adopted in the same year. PS 3450 provides guidance on the recognition, measurement, presentation and disclosure of financial instruments including derivative instruments. PS 2601, Foreign Currency Translation includes guidance of deferral and amortization of unrealized gains and losses, hedge accounting and separation of realized and unrealized foreign exchange gains and losses. PS 1201 Financial Statement Presentation includes the addition of a new statement outlining re-measurement gains and losses. The City has not yet adopted these standards or determined the effect on the consolidated financial statements.