TORONTO

REPORT FOR ACTION

2017 Audited Consolidated Financial Statements

Date: June 28, 2018
To: Audit Committee
From: Treasurer and Interim Chief Financial Officer
Wards: All

SUMMARY

This report presents the City of Toronto's Consolidated Financial Statements for the year ended December 31, 2017 to Audit Committee and Council for approval and provides highlights of the City's financial performance during 2017 and financial condition as of December 31, 2017.

RECOMMENDATIONS

The Interim Chief Financial Officer and the Treasurer recommend that:

1. City Council approve the 2017 Consolidated Financial Statements as attached in Appendix A.

FINANCIAL IMPACT

There are no financial implications contained in this report.

This report and the accompanying 2017 Consolidated Financial Statements (attached as Appendix A) provide information about the City's overall financial position as at December 31, 2017 and its financial performance during the year. For 2017, the City had consolidated revenues of $12.6B, consolidated expenses of $11.3B, and a resulting annual accounting surplus of $1.3B. It is important to note that this 'accounting surplus' is presented on an accrual accounting basis which includes reserve and reserve fund transfers, and capital spending and revenues. It therefore does not represent the operating surplus that the City reports on a budget basis.

The City ended 2017 with consolidated assets (financial and non-financial) of $40.9B, offset by consolidated liabilities of $17.1B for a net accumulated surplus as at December 31, 2017 of $23.8B (representing the amount by which both financial and non-financial assets exceed liabilities). It is important to recognize that the accumulated surplus of $23.8B is largely driven by the City's significant investment in Tangible Capital Assets ($30.4B net of accumulated depreciation). These assets are non-financial in nature and represent items such as roads, bridges, parks, facilities, transit, and water infrastructure. These assets do not provide liquidity, and in many cases do not generate income, and are not available for sale. The accumulated surplus ($23.8B) is less than the City's total non-financial assets ($30.9B), resulting in consolidated Net Debt of $7.1B as at December 31, 2017. Net Debt, as shown in the Financial Statements (i.e. financial assets less financial liabilities), is a public sector accounting term, and 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, 2006, 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.

COMMENTS

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, 2006, 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 PricewaterhouseCoopers 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, and surplus for the year and accumulated surplus as at December 31. 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 agencies and corporations, and government business enterprises that the City effectively controls. There are 123 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 18 to the Consolidated Financial Statements.

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

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

Consolidated Statement of Operations and Accumulated Surplus

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

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

The 2017 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified "cash requirements" basis and amounts recorded in these financial statements on a "full accrual" basis. Note 19 outlines the adjustments to the approved budget, particularly exclusion of debt proceeds, principal payments, and tangible capital asset purchases, and inclusion of estimated amortization expense. These adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The accrual based budget typically results in a surplus, as the City must fund reinvestment in assets at amounts greater than their historical cost.

Consolidated Statement of 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 (i.e. depreciation) charged during the year.

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

The City's 2017 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, 2017.

2017 Financial Highlights

The net value of the City's tangible capital assets has increased by $1.9B. The historical cost and accumulated amortization of assets as at December 31, 2017 were $47.3B and $16.9B respectively for a net book value of $30.4B (2016 - $28.6B). Tangible capital asset purchases during 2017 totalled $3B (2016 - $2.6B) while amortization charged was $1.1B (2016 - $974M).

The City's accumulated surplus increased to $23.8B as at December 31, 2017 as a result of the 2017 accounting surplus of $1.3B. 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 6 to 7 of this report.

The City's Net Debt (i.e. net liabilities - the amount by which liabilities exceed financial assets) increased by $0.6B to $7.1B (2016 - $6.5B).

Long-term debt, including both debentures (captured as Net long-term debt on the Financial Statements), and mortgage debt obligations, increased by $830.5M to $6.2B (2016 - $5.4B). Total long term debt issued during the year was approximately $1.3B, while debt repayments including sinking fund earnings totalled $481.5M. Pages 16 to 17 of this report provide a breakdown of debt and debt repayments by entity.

The gross employee benefits liability increased by $215M to $3.8B (2016 - $3.6B), while the net liability increased by $125M to $3.9B (2016 - $3.8B). As in 2016, the net liability is greater than the gross due to unamortized actuarial gains. Additional detail on this change are included on pages 17 to 19 of this report.

The City collected consolidated revenues of $12.6B (2016 - $12.2B) and had consolidated expenses of $11.3B (2016 - $11B) for a net annual surplus on a full accrual accounting basis of $1.3B (2016 - $1.2B).

Deferred revenue (largely revenues received that have been set aside for specific purposes by legislation, bylaws or third party agreements) increased by $381M to $2.8B (2016 - $2.4B).

Cash and investments increased by $247M to $6B (2016 - $5.7B).

The City's investment in its government business enterprises increased by $354M to $2.4B (2016 - $2.1B).

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" reported in the 2017 final operating budget variance report to Budget Committee (for budgeting and rate setting purposes).

	(in $000's)	
	2017	**2016**
Surplus Available for Distribution, as reported in the Final Year-end Operating Variance Report	260,452	187,728
Accounting Adjustments for Financial Statement Presentation Purposes:		
Council Direction/Legislative Requirements: Transfer to Reserve and Reserve Funds	36,262	25,180
Differences between budget and financial reporting: Build Toronto Dividend, transferred to reserve for operating budget purposes	25,000	25,000
City's agencies and corporations amounts reported in Consolidated Statement of Operations and Accumulated Surplus	(113,331)	(128,668)
Government Business Enterprises' earnings, net of distributions	103,899	43,699
Solid Waste (non-levy) City Operations	4,027	100,566
PSAB Adjustments (See Note 1 following)	17,304	20,869
Fund Balances (See Note 2 following)	643,626	712,540
Amounts to be recovered impacts (see Note 3 following)	271,958	261,179
Accounting Surplus for the year	**1,249,197**	**1,248,093**

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

	2017 *$000's*	**2016** *$000's*
Accrued vacation pay and lieu time	(1,999)	(4,636)
Loan related Deferred Revenue adjustment	1,712	6,384
Surplus properties transferred from Tangible Capital Assets to inventory	17,591	19,121
Total	**17,304**	**20,869**

Note 2: Fund balances:

	2017 *$000's*	**2016** *$000's*
Capital Fund Activity	(1,070,326)	(811,809)
Net Change to Reserve Fund Balances	(166,301)	(94,541)
Net Change to Tangible Capital Assets	1,880,253	1,618,890
Total	**643,626**	**712,540**

Note 3: Amounts to be recovered impacts:

	2017 *$000's*	**2016** *$000's*
Principal Repayments on Long Term Debt	323,960	263,720
Write off – Provincial Loan	-	93,171
Interest earned on Sinking Funds	58,136	64,853
Change in solid waste landfill liabilities	4,394	3,469
Change in Contaminated Sites liabilities	(700)	(240)
Change in property and liability claims	11,357	(5,798)
Change in employee benefit liabilities	(125,189)	(157,996)
Total	**271,958**	**261,179**

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, 2017 increased by $0.6B to $7.1B (2016 - $6.5B). This increase is due primarily to the City's financing of tangible capital assets, offset by its considerable accounting surplus during 2017. 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**	**2017**	**2016**	**2015**	**2014**	**2013**
Liabilities	6.83%	17,125,632	15,791,731	15,151,299	13,828,081	13,117,281
Financial assets	4.02%	10,014,816	9,293,459	9,071,480	8,533,390	8,554,867
Net Debt	**11.58%**	**7,110,817**	**6,498,272**	**6,079,819**	**5,294,691**	**4,562,414**
Percentage Increase (decrease)		**9.4%**	**6.9%**	**14.8%**	**16.1%**	

The City's Net Debt has increased by a compound annual rate of 11.58% 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 has developed a Long Term Financial Plan, which provides a decision-making framework to integrate program and revenue decisions that's guided by five principles:

1) provide better information to support strategic decision-making;
2) improve value for money;
3) secure adequate and fair revenue;
4) improve focus on financial balance sheet and health; and
5) better integrate with provincial and federal policies and fiscal direction.

This long term financial decision framework includes a series of key actions available to Council and City staff (under Council direction), intended to address the four main financial challenges to delivering Council's directions:

1) moderate but growing financial risks, and revenue volatility;
2) the need to modernize and transform the public service;
3) the gap between service and revenue commitments; and
4) reliance on intergovernmental transfers.

When implemented, the strategies and processes will strengthen the City's multi-year financial and budget processes, provide a multi-year expense management and revenue strategies, and asset optimization plans.

Debt financing has grown and will continue to grow due to state of good repair funding requirements and the 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 18 of the Consolidated Financial Statements. These liabilities represent differences between the City's cash requirement budgets and full accrual accounting, and consist of debentures, mortgages (predominantly for social housing), employee benefit liabilities, property and liability claim provisions, landfill liabilities, contaminated sites liabilities and environmental liabilities. In 2017, the total amount that must be recovered from future property taxes and other revenues grew by $965M to $10.7B (2016 - $9.7B).

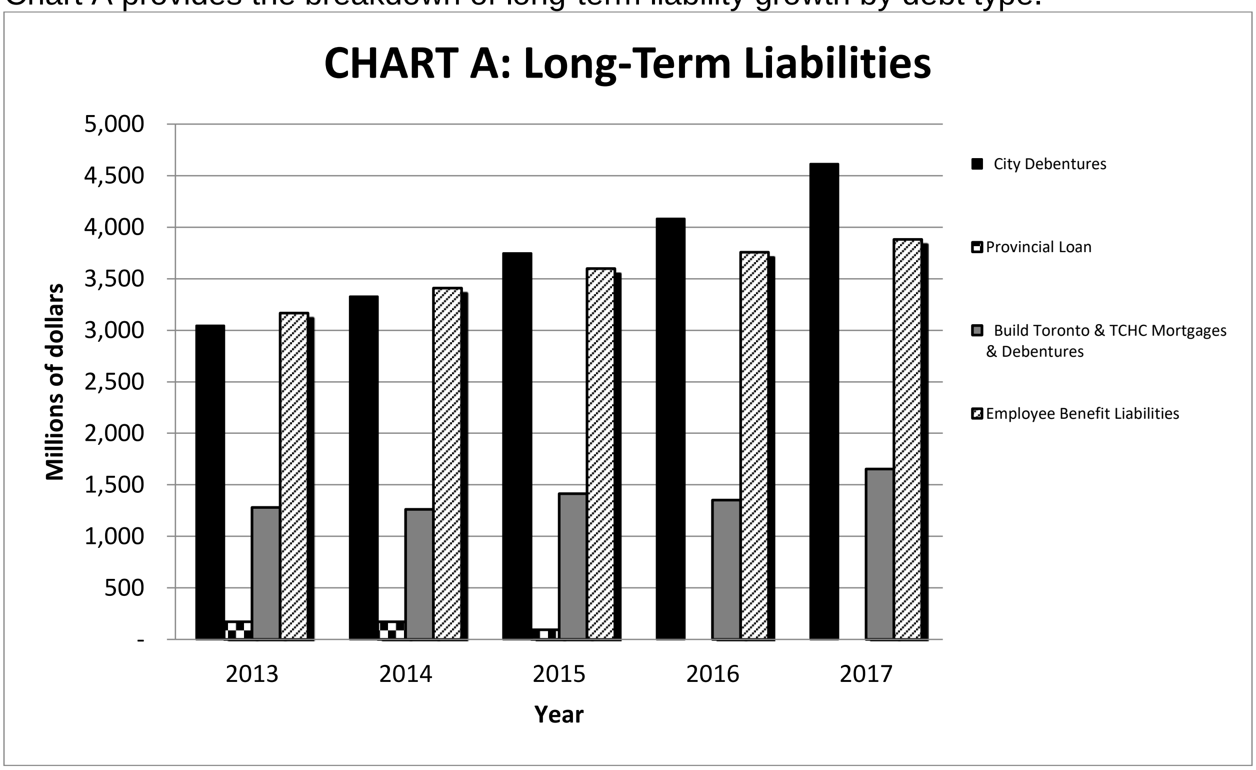
This increase mainly consists of:

- an increase of $125M in the net employee benefit liabilities as gross employee benefit liabilities increased by $215M reduced by $90M of unamortized gains. Further information is detailed on page 17 to 19 of this report; and
- a net increase of $830M in mortgages and net long term debt.

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

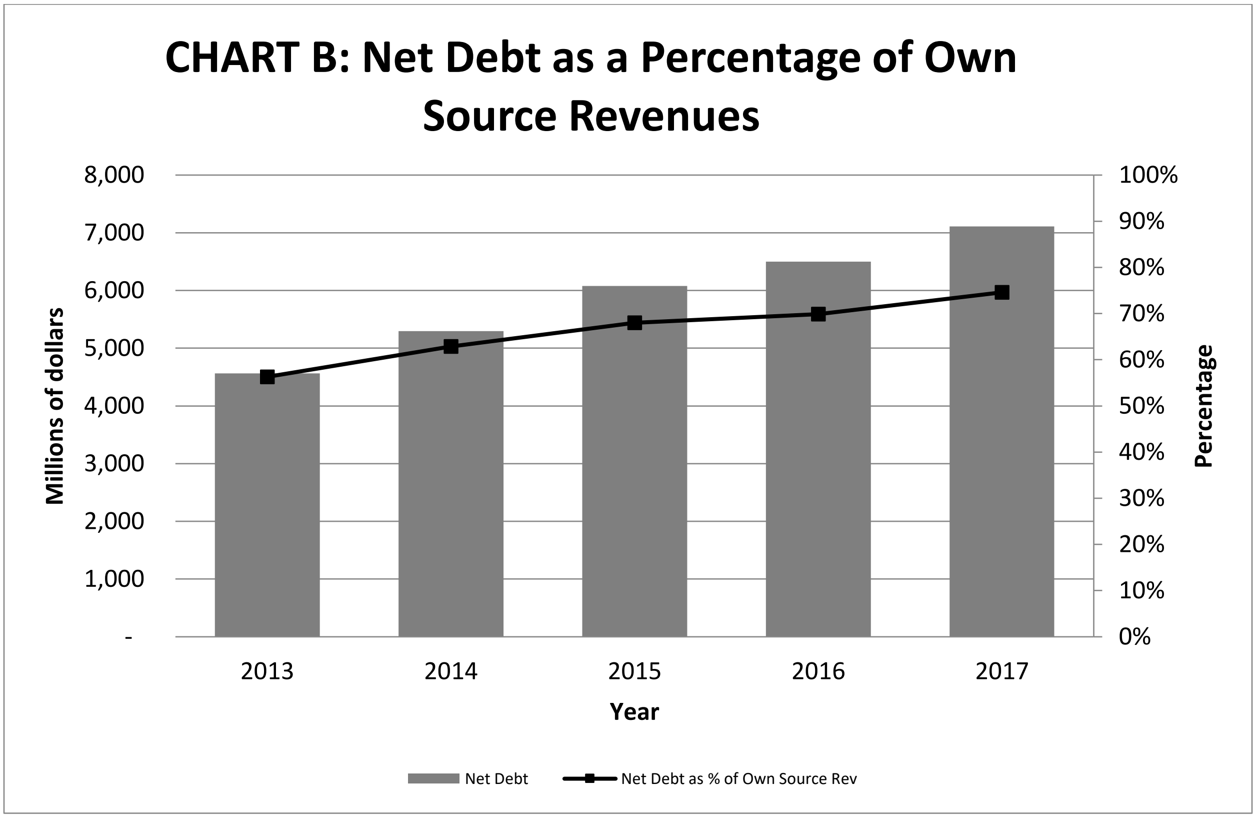
Gross employee benefit liabilities grew 5.6% in 2017 primarily due to a 5.4% increase in WSIB obligations and 6.2% increase in other employment and post-employment benefits. Council has contained some of the growth of employee benefit liabilities through changes in benefit plans and other cost containment initiatives, which is reflected in actuarial gains which are included in the liability over the estimated average remaining service lives of the affected employees.

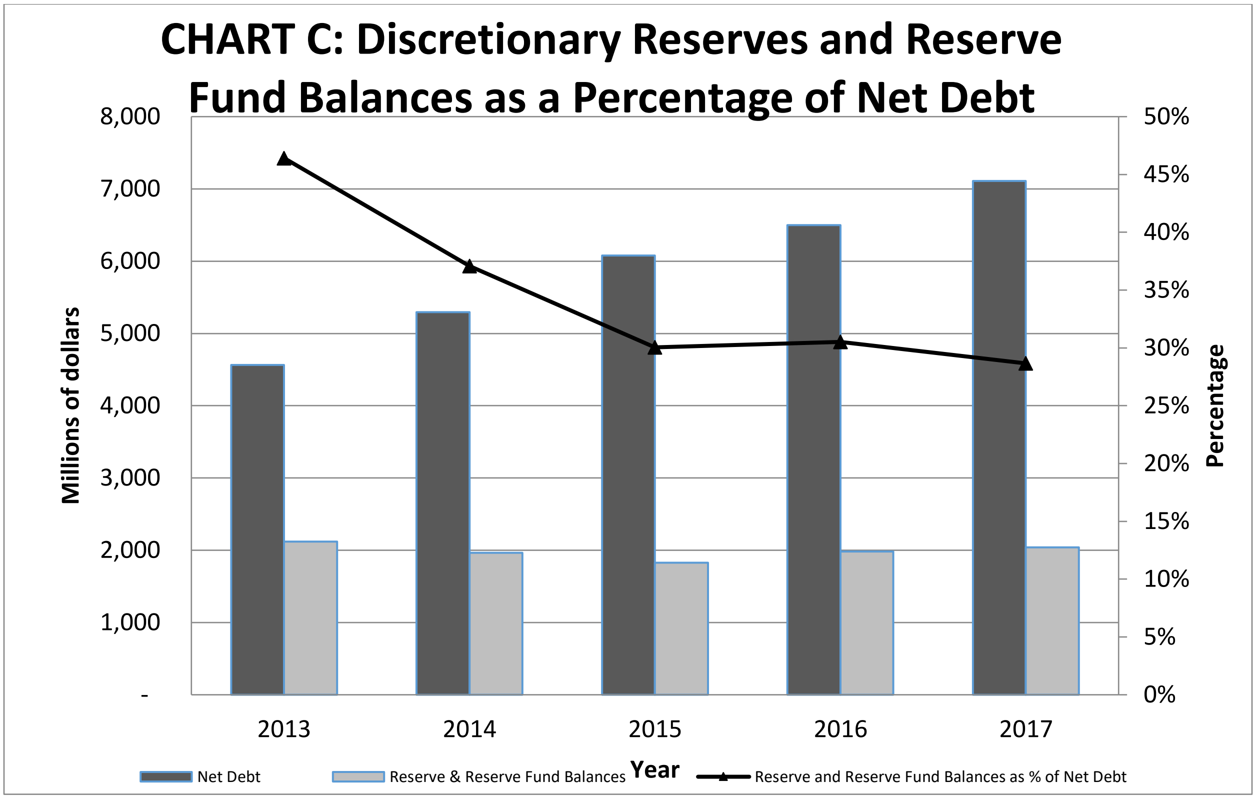
Chart A provides the breakdown of long-term liability growth by debt type.



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

To put the City's 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 Debt as a percentage of own source revenues has gone from 56.3% to 74.2% 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 Statements.

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 increased in 2017 by $55M mainly due to the transfer of $178M in operating surpluses to the Capital Financing and Water and Wastewater Stabilization Reserve, and the transfer of $119M to the Water and Wastewater Capital Obligatory Reserve Fund from the Water and Wastewater Stabilization 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 required to pay the relevant future obligations.

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 63% of Net Debt (2016 – 61.9%).

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 9(a) of the Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements (Note 18), are lower than those included in staff reports to the Budget Committee.

Comparison to Other Jurisdictions

Table 2 provides a comparison of key financial indicators for a selection of large Canadian cities – 2017 figures.

Table 2
2017
($ millions)

	Toronto	Montreal	Ottawa	Calgary	Edmonton	Vancouver
Financial Investments	4,118	3,074	1,237	3,894	1,985	1,712
Investments in GBE's*	2,423	-	438	2,314	3,561	-
Interest bearing long-term debt	6,266	11,278	2,300	3,066	2,912	1,024
(Net Debt) / Net Financial Assets **	(7,111)	(6,774)	(2,219)	1,580	2,457	252
Tangible capital assets	30,464	14,724	15,340	16,891	10,728	6,936

* 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 6 to the Consolidated Financial Statements.

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

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

Analysis of Key Asset and Liability Accounts

Accounts Receivable (Note 2)

The breakdown of accounts receivable at December 31, 2017 with 2016 comparatives is as follows:

Accounts Receivable	*(in $000's)* 2017	2016
Government of Canada	183,495	161,336
Government of Ontario	177,367	160,722
Other municipal governments	52,145	24,817
School board	5,690	1,323
Utility fees	205,744	200,896
Parking tags and court services fines	110,773	118,588
Solid Waste - user fees and rebates	41,489	51,773
Interest accrual on investments	26,445	24,599
A/R Trade - City's Agencies and Corporations	71,082	61,514
Other fees and charges	201,973	198,707
Total	**1,076,203**	**1,004,275**

Accounts receivable balances increased by $72M in 2017. The increase consists primarily of the following:

- increase in receivable from Government of Canada $22M due primarily to:

	($ millions) Increase (Decrease)
TTC-HST recoverable from CRA for capital expenditures during the year	19.0
Other increases and decreases	3.0
Total	**22.0**

- increase in receivable from Government of Ontario $17M due primarily to:

	($ millions) Increase (Decrease)
Gas Tax – computed based on the population and TTC ridership	8.3
Accrual of lease rent agreed to pay by Metrolinx for tenant space at Union Station for the year's 2013-2016	5.4
Other increases and decreases	3.3
Total	**17.0**

- increase in receivable from other municipal government (York Region) $27M, due primarily to higher billings at year end and claims released from holdbacks as projects are closer to completion stage.

- increase in Utility fees receivable $5M, primarily attributable to a 5% water rate increase in 2017.

- decrease in POA fines ($7M) due primarily to reduction in accruals of fines and penalties for distracted driving due to the limitation of implementing Bill 31 "Making Ontario's Roads Safer Act" retroactively.

- decrease in solid waste user fees and rebates receivable ($10M) primarily attributable to higher solid waste billing accrual in 2016 compared to 2017. In 2016, there was a change in the garbage collection contract to GFL Environment Inc., which delayed the transmission of billings data to the City and led to higher accruals in 2016.

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 $000's)	
Property Taxes Receivable	**2017**	**2016**
Current year	175,172	176,368
Prior year	38,903	49,452
Previous years	36,865	35,481
Interest/penalty	49,858	56,014
Less: allowance for doubtful accounts	(47,487)	(56,244)
	253,311	**261,071**

Loans Receivable (Note 3)
Loans Receivable increased by $40M to $158M (2016 - $118M) due primarily to:

- increase in TCHC's loan receivable in 2017 of $35.6M from the sale of land to developers; and
- increase in loans receivable from community housing organizations of $5.6M.

Other Assets (Note 4)
Other Assets increased by $22M to $117M (2016 - $95M) due primarily to

- increase in value of $9.4M for Real Estate inventory held by Build Toronto;
- increase in Provincial affordability housing grants of $14.9M for five TCHC projects; offset by
- decrease in TCHC's equity in Joint Ventures of $1.7M.

Investments (Note 5)
Investments decreased by $130M to $4.1B (2016 - $4.2B) as more funds were kept in the bank, which offered a higher interest rate than money market products as at December 31.

Investment in Government Business Enterprises (GBEs) (Note 6)
Investment in government business enterprises increased by $354M to $2.4B (2016- $2.1B). This is primarily due to the Toronto Hydro surplus of $88.7M (net of IFRS adjustment and dividends) and additional investment in Toronto Hydro of $250M; an increase in Toronto Parking Authority, net of distributions, of $9.3M; and an increase in Toronto Portlands Company, net of distribution, of $5.9M.

Additional information regarding the City’s GBEs as at December 31, 2017, including 2017 transactions for all GBEs with the City and condensed financial results, are provided in Note 6 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable and Accrued Liabilities (Note 8)

The breakdown of accounts payable and accrued liabilities at December 31, 2017, with 2016 comparatives, is as follows:

Accounts Payable	*(in $000's)* **2017**	**2016**
Agencies and corporations trade payables	1,100,840	976,638
City trade payables and accruals	1,306,117	1,400,670
Payable to school boards	466,399	452,427
Provision for tax appeals & rebates	290,795	265,796
Credit balances on property tax accounts	120,071	125,594
Wages accruals	135,915	128,346
Total	**3,420,137**	**3,349,471**

Agencies and corporations trade payables are higher by $124M, primarily due to:

	($ millions) **Increase (Decrease)**
Increase in TTC to Leslie Barns for streetcar maintenance and storage facility	63.0
Increase in TTC engineering/construction and capital invoices	25.0
Increase in TCHC accruals of construction costs	29.0
Other increases and decreases	7.0
Total	**124.0**

City trade payables and accruals are lower ($95M) primarily due to:

	($ millions) **Increase (Decrease)**
Decrease in COLA provision related to Fire and Paramedic services	(31.0)
Decrease in trade payables due to higher volume of invoice processing	(75.0)
Increase in Holdbacks release due to completion of Union Station projects	(25.0)
Increase in accrual to Metrolinx George town project	39.0
Other increases and decreases	(3.0)
Total	**(95.0)**

Payable to School Board was higher $14M primarily due to increase in levy payable to TDSB.

The provision for tax assessment appeals increased by $25M, as there were a higher number of pending appeals, and decisions awaiting phased in assessment from MPAC, as at December 31, 2017.

The $6M decrease in credit balances on property tax accounts is primarily due to the timing of processing refunds for re-assessments.
Wages accruals increased by $8M primarily due to an extra day of accrual in 2017, and an increase in vacation accruals.

Deferred Revenue (Note 9)
Deferred Revenue increased by $382M to $2.8B (2016 - $2.4B) primarily as a result of:

- operating contributions to the Water & Wastewater Capital were $227M greater than withdrawals for capital purchases;
- $119M was transferred from the Water & Wastewater Stabilization Reserve to the Water & Wastewater Capital Reserve Fund;
- $15M was transferred to the Building Code Act Service Improvement Reserve Fund from the 2016 surplus; and
- Provincial Gas Tax revenues credited to the Provincial Gas Tax Reserve Fund were $12M greater than withdrawals for TTC capital and operating funding.

Other Liabilities (Note 10)
Other Liabilities decreased by $53M to $563M (2016 - $616M), mainly as a result of:

- a decrease in Toronto Transit Commission (TTC) unsettled accident claims of $35.6M;
- a net decrease in environment liabilities for TTC and Build Toronto of $6.6M; and
- a decrease in property and liability claims provision of $11.4M.

Net Long-Term Debt, including Mortgages (Notes 12 and 13)
Net long-term debt, including mortgages, increased by $830.5M to $6.2B (2016 - $5.4B) as follows:

		($ millions) **Increase (Decrease)**
Issuance of Debt	– City	900.0
	– TCHC	370.8
	– Lakeshore Arena Corporation	26.7
	– TAF	2.2
Issuance of Mortgage – Build Toronto		12.3
Debt Repayment – City		(320.8)
Debt Repayment – TCHC		(2.5)
Debt Repayment – Lakeshore Arena Corporation		(19.6)
Debt Repayment – Other ABCs		(2.3)
Interest earned on sinking funds		(58.1)
Mortgage repayments - TCHC		(78.2)
Total		**830.5**

Table 3 below lists all consolidated debt issued in 2017.

Table 3: Debt Issued - 2017 ($000's)

Summary by Service	Total	City & TAF ≤10 years	City & TCHC 20 years	Lakeshore 25 years	City &TCHC 30 years
311 Toronto	2,733	2,733	-	-	-
Economic Development & Culture	10,397	10,397	-	-	-
Emergency Medical Services	8,310	8,310	-	-	-
Facilities & Real Estate (Union Station)	42,599	-	42,599	-	-
FCM-Toronto Atmospheric Fund	1,878	1,878	-	-	-
Financial Services	12,451	12,451	-	-	-
Fire	14,817	14,817	-	-	-
Lakeshore Arena	26,700	-	-	26,700	-
Library	32,247	32,247	-	-	-
Long Term Care	29,298	-	-	-	29,298
Parks, Forestry & Recreation	21,774	21,774	-	-	-
Planning (including Build Toronto)	12,307	12,307	-	-	-
Police	57,310	18,281	-	-	39,029
Social Housing	370,833	-	-	-	370,833
Solid Waste Management	44,701	-	44,701	-	-
Toronto Atmospheric Fund (TAF)	324	324	-	-	-
Transportation	141,851	141,851	-	-	-
Transit	481,512	137,139	112,700	-	231,673
	1,312,042	**414,509**	**200,000**	**26,700**	**670,833**

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)

	2017	2016	2015	2014	2013
Property taxes and user charges	4,291,098	3,792,248	3,490,977	3,201,340	2,880,269
Solid Waste	290,978	264,365	266,478	237,969	252,098
FCM Energy Retrofit	570	1,300	2,029	2,758	3,488
TCHC	1,609,227	1,319,075	1,431,940	1,277,914	1,298,895
Build Toronto Inc.	43,440	33,407	33,407	-	-
Lakeshore Arena Corporation	26,700	19,259	19,602	19,932	38,937
TAF	2,881	-	-	-	-
Leaside Arena	851	915	956	991	1,052
Sony Centre	255	340	425	-	-
TDSB	-	4,600	10,974	17,013	22,410
Net long-term debt	**6,266,000**	**5,435,508**	**5,256,788**	**4,757,917**	**4,497,149**

Employee Benefit Liabilities (Note 14)
Employee benefit liabilities represent the amounts 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 in accordance with PSAB standards.

The gross employee benefits liability for the City and its consolidated entities (identified as "Total employee accrued benefit obligation" in Note 14 of the Consolidated Financial Statements) increased by $215M to $3.8B (2016 - $3.6B), mainly due to the following:

- increase in sick leave benefits ($18M), primarily due to the change in discount rate which contributed to a higher liability;
- increase in workers' compensation benefits ($34M), primarily due to coverage of additional cancers presumed to be work related for Toronto Firefighters, and changes in administration fees; and
- increase in post-employment benefits ($163M), primarily due to the change in discount rate, which created an actuarial gain resulting in a higher liability.

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

	2017	**2016**	**2015**	**2014**	**2013**
Sick Leave	540,861	522,742	522,834	552,420	489,170
WSIB	635,515	601,062	553,983	548,985	432,533
Post Retirement and Long Term Disability	2,636,654	2,473,792	2,421,622	2,436,744	2,102,038
Pension	-	-	-	-	7,969
Gross Liabilities	**3,813,030**	**3,597,596**	**3,498,439**	**3,538,149**	**3,031,710**
Unamortized Gain/(Loss)	69,003	159,248	100,409	(127,902)	134,772
Net Liabilities	**3,882,033**	**3,756,844**	**3,598,848**	**3,410,247**	**3,166,482**

Unamortized gains and losses are the amount of actuarial gains or losses, relating to gains or losses that occur each time a valuation is performed of employee future liabilities, and which must be recognized in income over the expected average remaining service life of the employee group.

The $90M change in unamortized gains and losses, is primarily related to a change in the discount rate of approximately 0.1% to 0.3% for the various benefits, offset by the difference between actual and expected benefits payments in 2017.

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)

	2017	2016	2015	2014	2013
City	2,215,020	2,117,734	2,069,029	2,033,942	1,703,964
City Legacy Pensions	-	-	-	-	7,969
Police	659,920	596,387	573,943	695,038	599,325
TTC	767,876	713,801	684,842	656,688	545,198
Other Entities	170,214	169,674	170,625	152,481	175,254
Gross Liabilities	**3,813,030**	**3,597,596**	**3,498,439**	**3,538,149**	**3,031,710**
Unamortized Gain/(Loss)	69,003	159,248	100,409	(127,902)	134,772
Net Liabilities	**3,882,033**	**3,756,844**	**3,598,848**	**3,410,247**	**3,166,482**

Over the last few years, the City's consolidated gross liabilities have been increasing, primarily due to the low interest rate used to discount this future liability. Although measures have been 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), these measures have been offset in recent years by increases in WSIB costs due to expansion of Ontario Government regulations to include additional cancers which are presumed to be work related for fire fighters.

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

Tangible Capital Assets (Note 15)

Note 1 to the Consolidated Financial Statements outlines the City's 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, 2017 (with 2016 comparatives), is presented in Note 15 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

During the year, consolidated asset additions totalled $3B, with the most significant portion being:

- Building and Building Improvements of $1.4B (consisting of $905M at the TTC, $260M at the TCHC, $7M at the Library, $11M at the Other City's agencies and corporations and $212M at the City);
- Transit Infrastructure of $231M;
- Vehicles additions of $295M ($243M for TTC, $46M for City and $6M for the Toronto Police Service);
- Machinery and Equipment purchases of $491M, primarily:

- Infrastructure equipment of $201M for Water and Wastewater treatment plant equipment, pumping stations and Road Traffic Signals; and
- General equipment of $290M, primarily: Green Lane Landfill gas and leachate collection systems, computer hardware, water meters, security systems, police and transit equipment.

- Linear assets of $545M ($324M for Water & Wastewater and $221M for Roads); and
- Land Improvements of $73M.

During the year, amortization of tangible capital assets increased by $162M to $1.1B (2016 - $974M), mainly as a result of an increase in TTC amortization of $116M and $36M for the City.

Table 7: Consolidated Annual Accounting Surplus

(in thousands of dollars)

	2017 Budget	2017 Actual	Difference: Positive / (Negative) Variance	Change	2016 Actual
Revenues					
Property Taxation	4,034,899	4,101,754	66,855	1.7%	3,938,802
Municipal Land Transfer Tax	708,000	805,276	97,276	13.7%	644,590
Taxation from other governments	100,523	95,584	(4,939)	(4.9%)	112,211
User Charges	3,287,815	3,028,202	(259,613)	(7.9%)	3,073,741
Funding transfers from other governments	3,365,336	2,799,528	(565,808)	(16.8%)	2,738,317
Government Business Enterprise Earnings	-	236,305	236,305	-	165,810
Investment Income	260,152	235,444	(24,708)	(9.5%)	197,231
Development Charges	364,899	314,423	(50,476)	(13.8%)	184,125
Rent and Concessions	445,482	468,693	23,211	5.2%	460,724
Other	637,514	479,068	(158,446)	(24.9%)	686,412
Total	**13,204,620**	**12,564,277**	**(640,343)**	**(4.9%)**	**12,201,963**
Expenses					
General Government	921,720	775,979	145,741	15.8%	760,339
Protection to persons and property	1,786,917	1,811,282	(24,365)	(1.4%)	1,808,310
Transportation	3,476,333	3,139,822	336,412	9.7%	3,067,408
Environmental services	1,145,616	955,618	189,998	16.6%	933,176
Health services	460,637	460,518	119	0.0%	449,621
Social and family services	2,296,272	2,192,965	103,307	4.5%	2,038,215
Social Housing	906,171	823,781	82,390	9.1%	779,499
Recreational and cultural services	1,051,714	1,007,665	44,049	4.2%	1,001,753
Planning and development	264,695	147,450	117,245	44.3%	115,549
Total	**12,310,075**	**11,315,080**	**994,896**	**8.1%**	**10,953,870**
CONSOLIDATED ANNUAL ACCOUNTING SURPLUS	**894,545**	**1,294,097**	**354,553**	**39.6%**	**1,248,093**

Table 7 provides a comparison of 2017 Consolidated Revenues and Expenses versus budget, and also shows 2016 actuals. The table also provides a comparison of expense by type or category of service.

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements (see Note 19 in the Consolidated Financial Statements). The budget is, however, adjusted to exclude purchases of tangible capital assets from expenses, 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 2017, property taxes made up 32.6% (2016 – 32.5%) of the City's consolidated operating revenue.

Property Taxation revenue exceeded budget by $67M primarily due to supplementary/omitted rolls being higher than forecast by $46M and lower than budgeted tax deficiency write offs of $21M.

Municipal Land Transfer Tax (MLTT) exceeded budget by $97M due to higher than anticipated real estate market activity.

User Charges were under budget by $260M due primarily to delayed capital expenditures resulting in lower than budgeted spending of $258M on Capital projects funded from obligatory reserve funds for Water/Wastewater, which resulted in lower revenue being recognized in 2017 than budgeted.

Funding Transfers from other governments were under budget by $566M primarily due to:

- delay in approval of signed agreements with the Federal Government for various Public Transit Infrastructure Fund (PTIF) Projects ($440M);
- lower than budget spending on Union Station Revitalization Projects ($56M) due to dependency on construction of the vertical access component undertaken by Metrolinx which is behind schedule; and
- lower than budgeted funding ($57M) from Provincial and Federal Governments for the Toronto-York Spadina Subway Extension.

Government Business Enterprise Earnings ($236M) represent the earnings from Toronto Hydro Corporation, Toronto Parking Authority and Toronto Port Lands Company. Details are available in Note 6 and Appendix 1 of the Consolidated Financial Statements.

Investment Income was under budget by $25M due to lower than expected joint venture income reported by TCHC.

Development Charges applied to capital spending were under budget by $50M, due to lower than budget spending on capital projects. Development charge revenues are credited to an Obligatory Reserve Fund and are not recognized as revenue until the funds are spent for the intended purposes.

Rent and Concessions were higher than budget by $23M due primarily to higher rental income at the City's agencies and corporations.

Other Income was under budget by $158M due primarily to:

- lower than budgeted recoveries from third parties of $126M for various projects in Transportation, Transit, Park Development, Business improvement and Facilities projects such as redevelopment of St. Lawrence Market and Union Station; and
- lower than budgeted utility cut repair recoveries of $32M.

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**	**2017**	**2016**	**2015**	**2014**	**2013**
Property taxes	2.5%	4,197,338	4,051,013	3,966,179	3,879,607	3,808,030
Municipal land transfer tax (MLTT)	22.2%	805,276	644,590	524,000	449,604	360,884
User charges	3.5%	3,028,202	3,073,741	2,780,791	2,753,273	2,638,543
Government transfers	(1.3%)	2,799,528	2,738,317	2,862,220	2,752,112	2,952,158
GBE Earnings	7.7%	236,305	165,810	294,189	174,326	175,544
Investment Income	0.3%	235,444	197,231	259,679	270,603	232,244
Development Charges	17.7%	314,423	184,125	221,192	132,523	164,004
Rent and Concessions	1.7%	468,693	460,724	451,776	426,929	438,698
Other	0.9%	479,068	686,412	737,497	511,685	462,454
Total	**2.8%**	**12,564,277**	**12,201,963**	**12,097,523**	**11,350,662**	**11,232,559**
Percentage Increase		3.0%	0.9%	6.6%	1.1%	

Consolidated Expenses

Gross consolidated expenses for 2017 totalled $11.3B (2016 - $11B).
Expense variance explanations by major program areas, are as follows:

- Costs for General Government were lower than budget by $146M, primarily due to:
  - lower spending of $128M in Facilities on various State of Goods Repair (SOGR) maintenance projects;
  - lower than budgeted spending of $13M at I&T primarily due to operating vacancies; and
  - decrease of $11M in the property & liability claims provision.

- Costs for Protection to persons and property were $24M higher than budget primarily due to:
  - higher than budgeted spending in Fire Services of $16M comprised of $10M on provisions for an Interest Arbitration Award, $6M due to WSIB awards arising from work-related cancers and post-traumatic stress disorder; and
  - $2M higher than budgeted spending in mechanical maintenance and uniforms.

- Costs for Transportation were $336M lower than budget primarily due to:
  - lower than budgeted net spending of $56M in Transportation Services due to lower costs in the winter maintenance program as a result of mild winter conditions, and under-spending in road/bridge repair contracts due to lower than expected utility cut repair volumes;
  - lower spending in TTC of $107M primarily due to savings in salaries and employee benefits $57M, diesel, hydro charges, presto fees $32M and wheel-trans services $18M due to fewer customer journeys/ridership; and
  - lower spending in Transportation Services of $15M due to delays in State of Good Repair projects such as pedestrian safety, visibility enhancement projects, in addition to $25M in Engineering studies projects, traffic congestion and Environmental assessment delays due to procurement process and coordination issues;
  - lower than budgeted spending by $22M in neighbourhood improvements, side walk repairs and other road maintenance work; and
  - lower than budgeted spending of $72M caused by delays in other roads projects as a result of delay in approvals, coordination and change in scope.
- Environmental services spending was lower than budget by $190M due primarily to:
  - lower than budgeted spending at Toronto Water of $53M related to various State of Good Repair maintenance projects, and $33M primarily due to savings in salaries and benefits from vacancies and lower than anticipated electricity rates and usage;
  - lower than budgeted spending at Solid Waste by $12M due to lower than planned expenditures for salaries and benefits, and lower spending on

    - contracted services due to lower waste haulage costs from low fuel prices;
    - lower than budgeted spending in Waste Water of $62M due to various sewer and basement flooding maintenance projects; and
    - lower spending in Toronto Water of $27M due to lower than budgeted costs from fewer weather related emergencies, and lower than anticipated demand for chemicals and utility costs.

- Social and Family Services spending was lower than budget by $103M, primarily due to:
    - Shelter, Support & Housing Administration was underspent by net $40M primarily due to slow implementation of capital projects, hiring delays, savings in housing provider subsidies for mortgage payments, operating expenses and rent, partially offset by higher spending for Hostel Services due to occupancy pressures resulting from the influx of asylum seekers and newcomers to the City;
    - Long Term Care Homes and Services was under spent by $11M primarily due to delays in re-opening of Kipling Acres site and under spending in claims based programs;
    - Social Development, Finance & Administration was under spent by $7M primarily attributable to delays in delivering the Tower Renewal, Hi-RIS Retrofit project and the Healthy Kids Community Challenge initiative.
    - lower than budgeted spending in various State of Goods; and Repair maintenance projects in Social Services $20M, Children Services $21M and Homes for the Aged $3M.

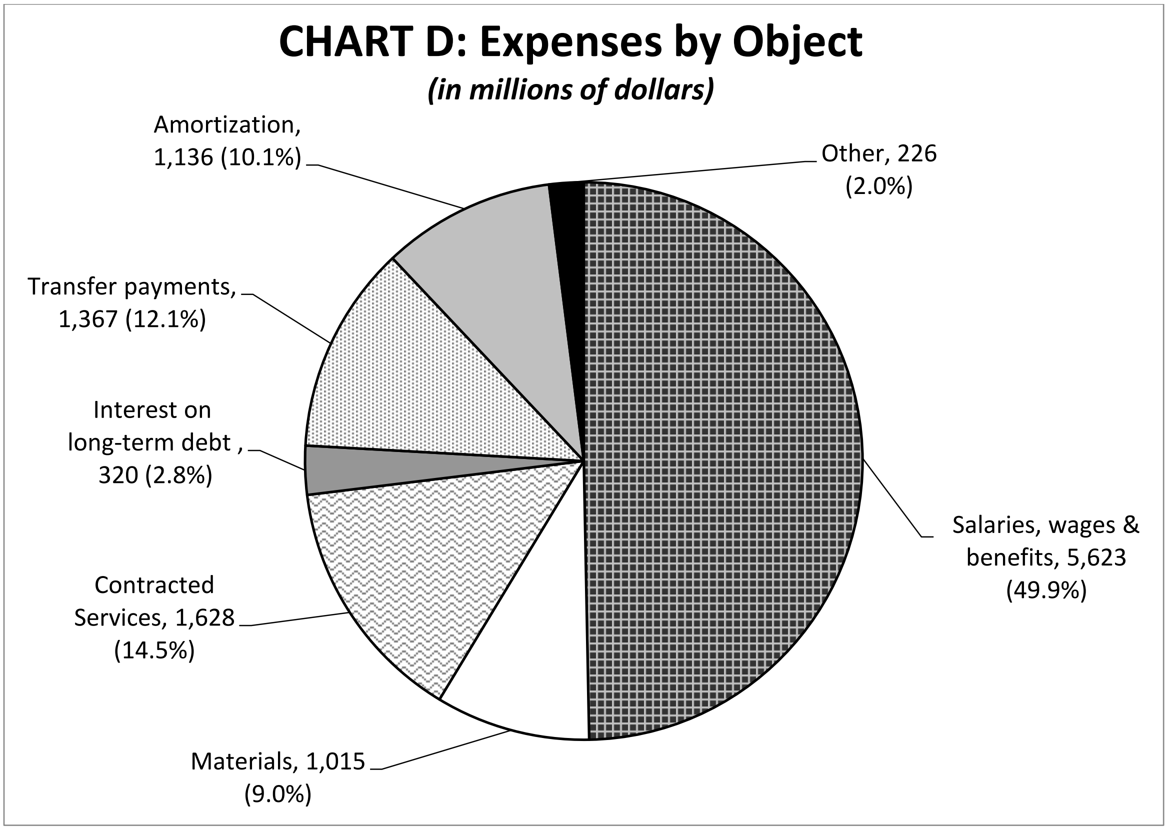
- Social housing spending was lower than budget by $82M, primarily due to lower than budgeted expenditures at TCHC where under spending resulted from savings in salaries and benefits due to vacant positions, and lower utility costs as a result of the Ontario Fair Hydro plan and favorable hydro rates.

- Recreation and cultural services was lower than budget by $44M due primarily to:
    - lower spending of $20M on repairs and maintenance for Recreation and State of Good repair projects at arenas, community centres, special facilities, pools and water play areas; and
    - lower spending of $22M on various Parks maintenance projects such as trail and path maintenance, camp sites maintenance, tree maintenance, and other preventative maintenance projects.

- Planning and development was lower than budget by $117M due primarily to:
    - lower than budgeted expenditures at Build Toronto of $52M due from delays in the sale of properties;
    - lower spending of $8M on various streetscape and façade improvement projects; and
    - lower than budgeted spending of $53M mainly in Waterfront Revitalization Initiatives/maintenance projects.

Consolidated Expenses by Object

Chart D breaks down gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 49.7% 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 21 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenses by object.

Risks and Mitigation

The City, like any organization, faces a number of risks that could have a negative impact on the City's financial position. These risks include:

- growing demand for services;
- insufficient funding to address the City's infrastructure requirements, including expanding the transit system; and
- accessing non-property tax revenue sources that grow with the economy to ensure long term sustainable funding.

In 2017, the City continued to make progress to address these risks by developing a Long Term Financial Plan. Appendix B lists seven (7) specific financial issues/risks and the actions taken in 2018 to help address them.

Highlights include:

- There is a growing gap between Council's vision for Toronto and available funding. During 2017, the City furthered its development of a Long Term Financial Plan. A new Long Term Financial Plan will be presented for consideration by Committee;
- The City engaged the Provincial Government regarding legislative/regulatory reforms necessary to implement new taxes for 2018 and future years; in February 2018, Council approved a number of modest new revenue measures in the 2018 Budget, including a hotel accommodation tax and a short-term rental tax;
- The City increased shelter capacity by almost 30% during 2017, adding 279 beds to the shelter system and 825 motel beds to programs serving families, mostly asylum seekers. For 2018, in response to the unprecedented demand for shelter, the City is targeting to open 1,000 new shelter beds, and three new shelters to be opened by the end of 2018.
- The City continued to plan for capital on a 10 year basis, and continued to set aside surplus operating funds in the Capital Financing Reserve and underfunded reserves and reserve funds in 2018, and as part of the Long Term Financial Plan, the City will continue to monitor the adequacy of reserves and reserve fund balances;
- The Province and Federal Governments have made significant funding commitments for transit infrastructure in the Greater Toronto Area, including funding for the Scarborough Subway, new LRT lines and SmartTrack/Regional Express Rail (RER). The City will continue to work with the Province and Metrolinx to plan and fund new transit infrastructure;
- The City adopted new investment policies allowing it to invest its general and sinking funds, according to the "Prudent Investor" Standard. The new policies will provide the City with the opportunity to improve investment revenues without assuming additional risk; in 2018, through an Investment Board, the City began diversifying City investments so as to earn improved risk-adjusted rates of return; and
- The City continued the implementation of “Enhancing Toronto’s Business Climate” initiative, adopted by City Council in October 2005 – a plan to reduce the ratio for property tax rates for businesses (i.e. commercial and industrial and multi-residential properties) to 2.5 times the residential tax rate by 2023; and further, to provide for an accelerated reduction in tax rates for smaller businesses, with a target of 2.5 times the residential rate, which was met in 2015. Council approved a modest property tax increase for residents and businesses for 2018.

CONTACT

Sandra Califaretti, Director, Accounting Services, Tel: 416-397-4438,
Email: sandra.califaretti@toronto.ca

Shairoz Murji, Manager, Corp Financial Reporting, Tel: 416-397-5829,
Email: shairoz.murji@toronto.ca

SIGNATURE

Joe Farag	Mike St. Amant
Interim Chief Financial Officer	Treasurer

ATTACHMENTS

Appendix A: 2017 Consolidated Financial Statements
Appendix B: Key Issues/Risks Facing the City of Toronto
Appendix C: Glossary