2017 CITY OF TORONTO FINANCIAL REPORT

For the fiscal year ending December 31, 2017, City of Toronto, Ontario, Canada

TORONTO

2017 CITY OF TORONTO **FINANCIAL REPORT**

For the fiscal year ending December 31, 2017

City of Toronto, Ontario, Canada

This report was prepared by:
City of Toronto Divisions, Accounting Services, Corporate Finance,
Design Services and Strategic Communications

Cover Image: *Ancestral Figure with Spirit Helpers*, Norval Morrisseau, City of Toronto Art Collection

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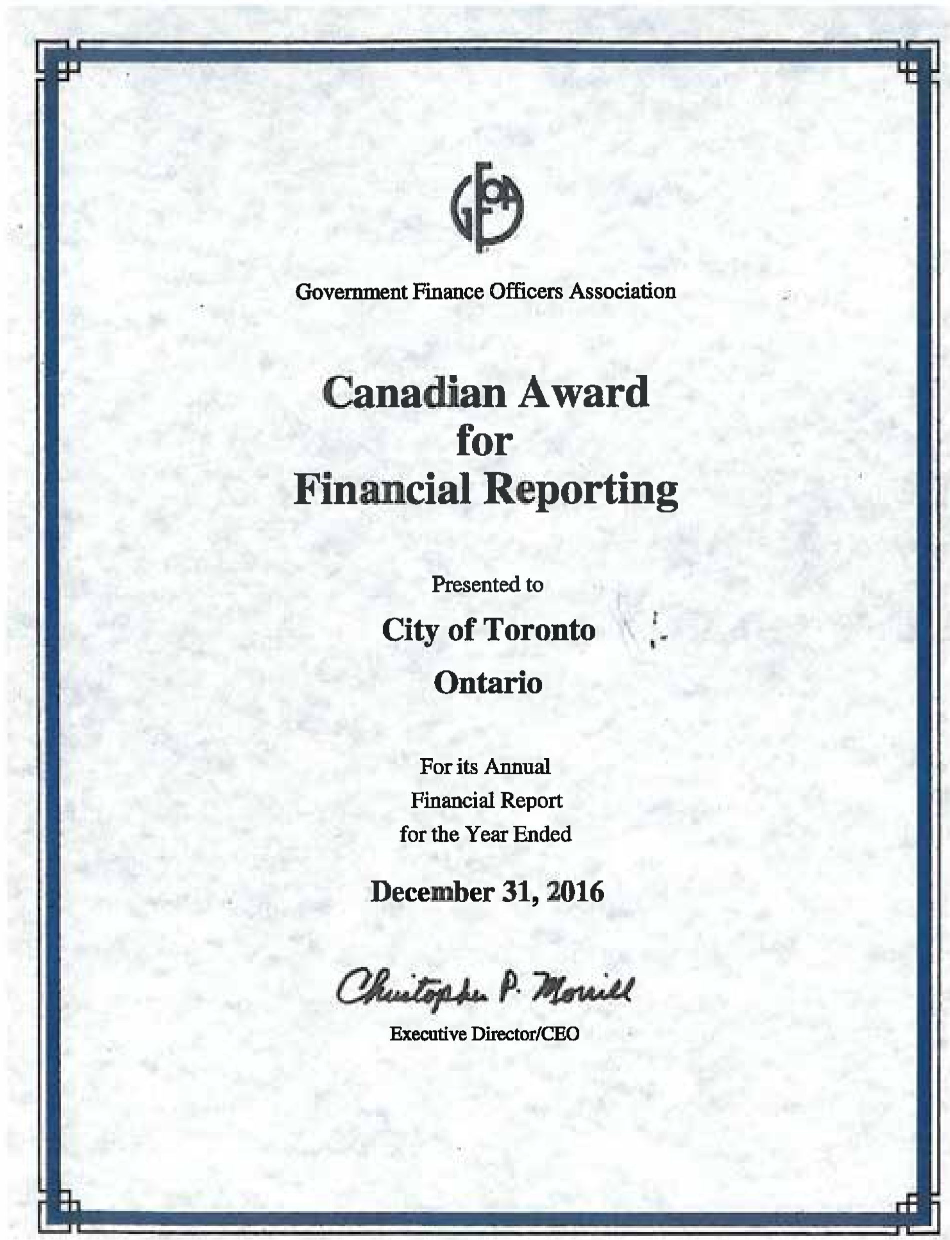


Government Finance Officers Association

Canadian Award
for
Financial Reporting

Presented to

City of Toronto
Ontario

For its Annual
Financial Report
for the Year Ended

December 31, 2016

Christopher P. Morrill

Executive Director/CEO

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Canadian Award for Financial Reporting to the City of Toronto for its annual financial report for the fiscal year ended December 31, 2016. The Canadian Award for Financial Reporting program was established to encourage municipal governments throughout Canada to publish high quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports.

In order to be awarded a Canadian Award for Financial Reporting, a government unit must publish an easily readable and efficiently organized annual financial report, whose contents conform to program standards. Such reports should go beyond the minimum requirements of generally accepted accounting principles and demonstrate an effort to clearly communicate the municipal government's financial picture, enhance an understanding of financial reporting by municipal governments and address user needs.

A Canadian Award for Financial Reporting is valid for a period of one year only. The City of Toronto is continuing this standard of high-quality reporting for the submission and evaluation to the GFOA for the 2017 Award Program.

A message from the Toronto Mayor

John Tory

Toronto is one of the greatest cities in the world. It's also a growing city and so are the needs of the people who live and work here.

I am focused on solidifying Toronto's position as a world-class city by making the necessary improvements to services and infrastructure. That's why City Council approved a budget in 2017 that makes significant investments in key priorities for Toronto's future, including transit expansion, traffic management, social infrastructure and housing.

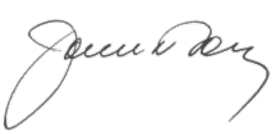
Transit investments in SmartTrack and Regional Express Rail will help the city keep moving safely and efficiently. A focus on child care, affordable housing and the City's Poverty Reduction Strategy will help our caring city continue to provide much-needed support to our most vulnerable residents. We will continue to advocate and collaborate with the provincial and federal governments to further invest in Toronto and its future.

This past year, we also kicked-off 150 years of Canada with the City's TO Canada with Love campaign, a year-long program of celebrations, commemorations and exhibitions honouring Canada's 150th birthday. This campaign gave me an opportunity to reflect on Toronto's role in our great nation and reflect on the city's past, present and future. To progress into the future, the City of Toronto will continue to modernize the way government services are delivered to residents and businesses.

I take great pride in the diversity of Toronto, our wonderful residents and the cosmopolitan nature of our city. It's these qualities that help attract businesses and top talent to our city and make Toronto the economic hub of Canada.

I look forward to continuing to work with my City Council colleagues and the provincial and federal governments to make investments to continue to build Toronto into an even more livable, affordable and vibrant city.

Sincerely,



Mayor John Tory
City of Toronto

A message from the Interim City Manager

Giuliana Carbone

I am pleased to present the City of Toronto's 2017 Annual Financial Report. This report provides details about the City's financial performance, progress and achievements in the past year. I want to highlight a few in this message.

In May, City Council approved a new real estate service delivery model that centralizes all real estate activities. A key component of the new model is the establishment of the Toronto Realty Agency to manage the City's real estate portfolio, develop City buildings and lands for municipal purposes and deliver client-focused real estate solutions to City divisions, agencies and corporations.

Another transformative project is the Tenants First - Phase 1 Implementation Plan, unanimously adopted by Council in July. With an aim to transform Toronto's social housing agency, Toronto Community Housing Corporation (TCHC), the plan proposes the creation of a new Seniors Housing and Services entity that will be more directly accountable to City Council, aligning all major City programs and services for seniors. The Plan also proposes a process to better focus TCHC on serving the needs of families, youth, vulnerable tenants and seniors living in mixed buildings.

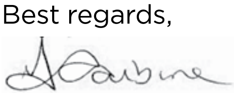
In July, City Council also unanimously approved TransformTO, Toronto's long-term path to reduce city-wide greenhouse gas emissions by 80% by 2050. Ambitious strategies and long-term goals to transform Toronto's urban systems are recommended to help make the city more enjoyable for residents, businesses and visitors for years to come.

In December, Council unanimously voted in favour of the City establishing a permanent Indigenous Affairs Office. The Office will help strengthen the relationship between the City and Indigenous people living in Toronto, develop a reconciliation strategy for the City and work with other City divisions to incorporate Indigenous views into plans and policy-making.

Following approval of the City's Long-Term Financial Direction report in June 2016, City staff continued to consult with residents on topics such as how the City manages spending, identifies revenue options, optimizes assets and improves its decision-making and governance. The input received has informed the development of a Long-Term Financial Plan which will be delivered to the Executive Committee in March 2018.

Once again in 2017, the City of Toronto was named one of Canada's Top 100 Employers, a Greater Toronto's Top Employer and one of Canada's Best Diversity Employers. These are great achievements and highlight the City's efforts to offer progressive and forward-thinking programs, an inclusive culture and diverse initiatives. I am proud to lead such a committed public service and look forward to continuing to provide a high level of service to the city.

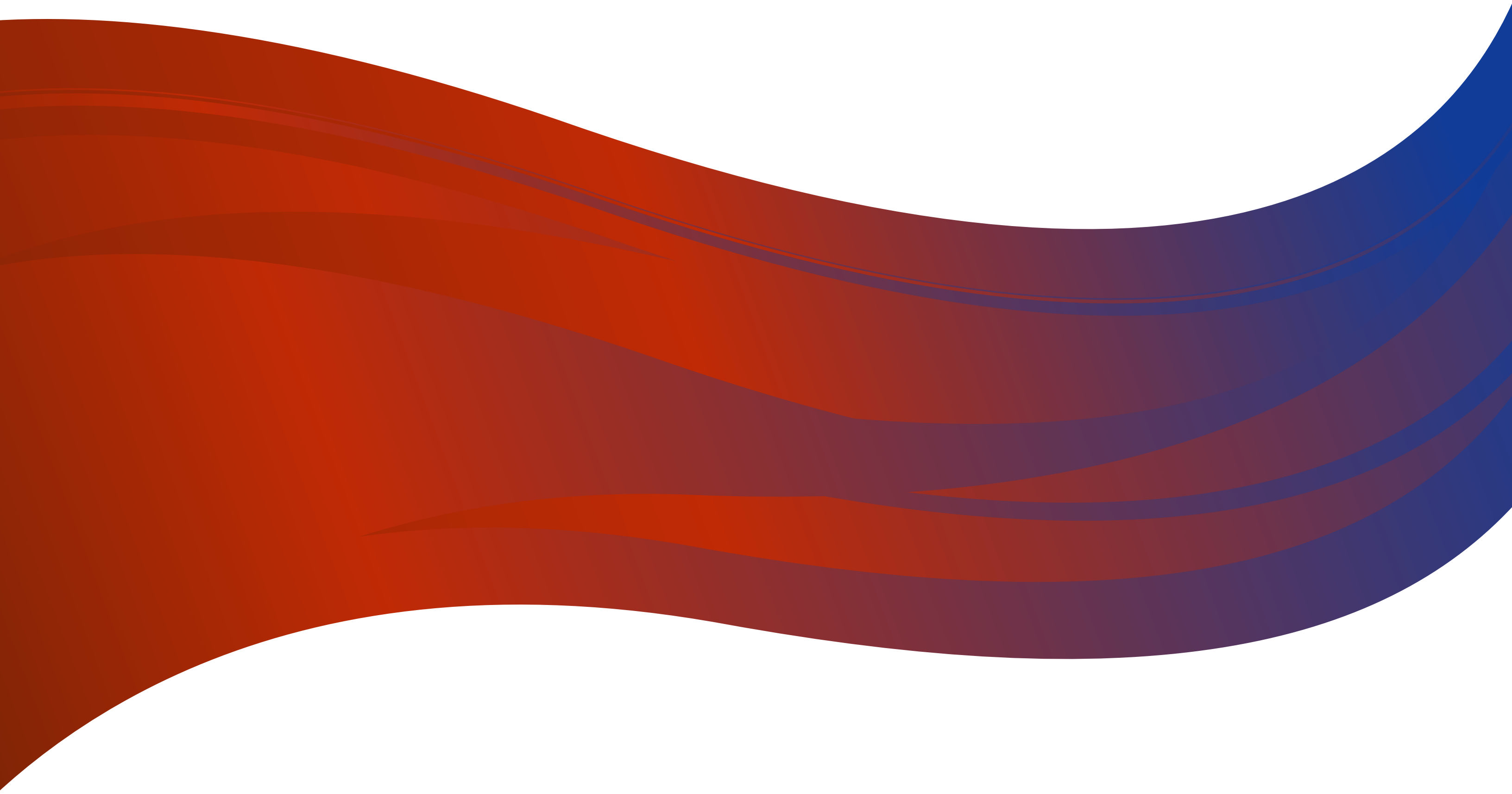
Best regards,



Giuliana Carbone
Interim City Manager

2017 City of Toronto Financial Report

Introduction



Profile on Toronto

Toronto in World Rankings

Toronto is one of the most liveable and competitive cities in the world as demonstrated by various international rankings and reports. In addition to securing its position on the world stage, Toronto's rankings confirm that it continues to offer a high quality of life for about 2.8 million residents who choose to live and work here.

Annual Liveability Index

Economist Intelligence Unit, *The Economist*

According to the Economist, the City of Toronto ranked fourth in 2017 among 140 global cities in an annual study that rates cities across five categories; stability, healthcare, culture and environment, education, and infrastructure.

Leading FinTech (Financial Technologies) Centres of the Future

Z/Yen Group

According to a global survey by Y/Zen Group, the City of Toronto ranked as the fourth leading Fintech Centre of the Future in 2017 among 13 top financial centres of the world. The survey examined a number of specific Fintech areas such as cybersecurity, blockchain and new payment and transaction systems.

Most Tax-Competitive Major Global City

KPMG

According to KPMG, in a report entitled "Competitive Alternatives 2016: Focus on Tax", Toronto ranked first overall among 111 major international cities studied. The study assessed tax competitiveness by comparing various tax rates in each location including: corporate income tax, property taxes, capital taxes, sales taxes, miscellaneous local business taxes and statutory labour costs.

Safe City Index

Economic Intelligence Unit, *The Economist*

The City of Toronto ranked fourth in 2017 among 60 international cities in a study of indicators that covers digital security, health security, infrastructure security and personal security.

Most High-Rise Buildings Under Construction in North America

Skyscraperpage.com

According to Skyscraperpage.com, a global provider of building information, Toronto continues to top their survey of cities with the most high-rise buildings under construction in North America, with a first-place ranking next to second-ranked New York City and third-ranked Mexico City.

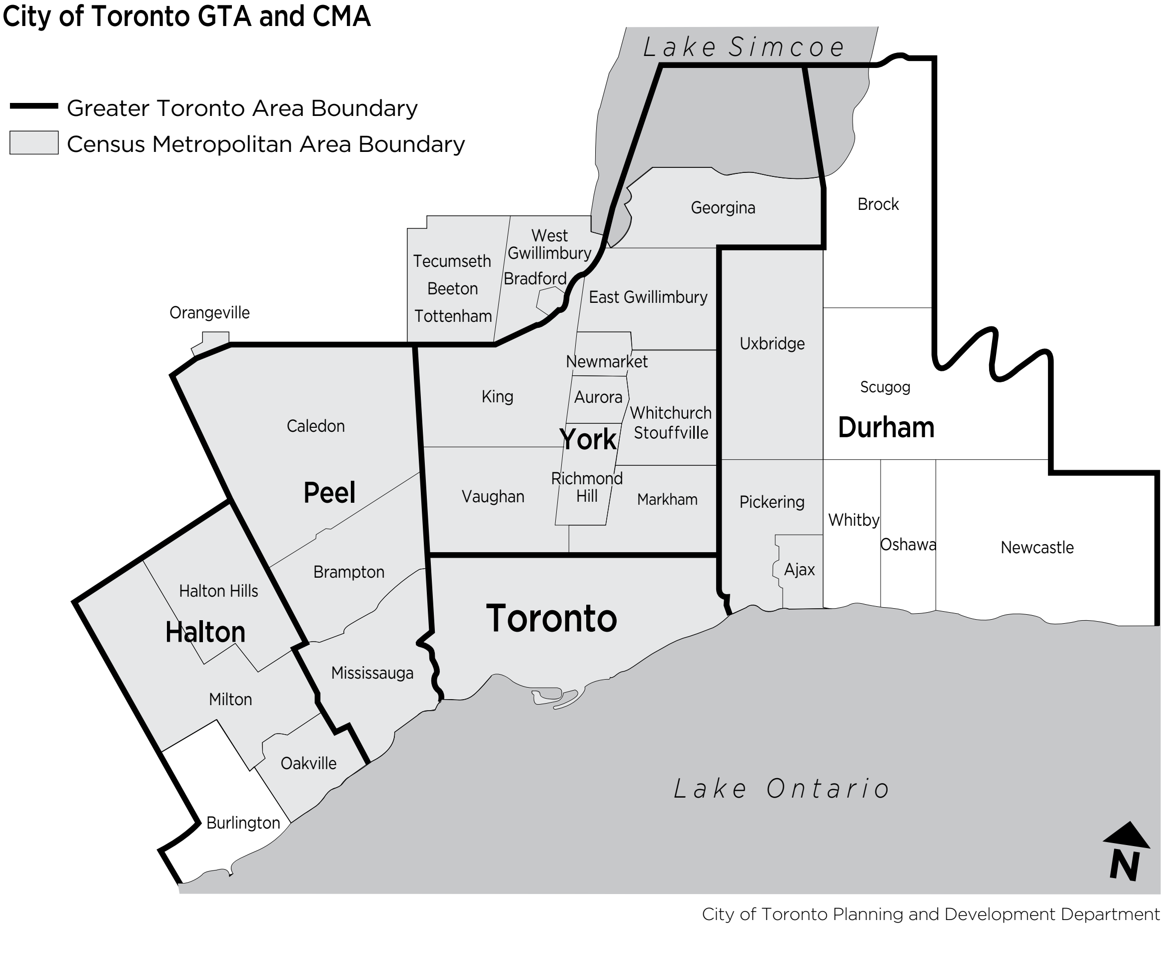
City of Toronto, GTA and CMA

The City of Toronto is Canada's largest city with a population of 2.8 million residents. It is the heart of a large urban agglomeration of 6.4 million people called the Greater Toronto Area (GTA)[1]. The City has one of the most ethnically diverse populations in North America. According to the 2011 National Household Survey, nearly half of the city's population (49%) considers itself as part of a visible minority group.

The City of Toronto is the major economic engine of the country. The City is both the political capital of the province of Ontario and the corporate capital of Canada. As well, it is the major centre for culture, entertainment and finance in the country. The City is home to more national and internationally-ranked companies than any other city in Canada.

The GTA is one of the largest regional economies in North America, characterized by concentrated and fast-growing finance-related industries and highly specialized knowledge-based jobs. An estimated $332 billion of goods and services (2016 - $2007 $s) are produced in the Toronto Census Metropolitan Area (CMA)[2]. The City of Toronto accounts for just over 1/2 of this total, $168 billion (2016 - in 2007 $s). As well, the City accounts for 26% of Ontario's GDP and about 9% of the country's economic output. Toronto CMA is also the location of about 690 Canadian Head Offices, the most in Canada.

City of Toronto GTA and CMA



City of Toronto Planning and Development Department

[1] Greater Toronto Area (GTA) refers to the City of Toronto plus the surrounding regions of Durham, York, Peel and Halton which include four upper tier and 24 lower tier municipalities.

[2] Toronto CMA (Census Metropolitan Area) refers to the municipalities assigned by Statistics Canada on the basis of labour market and commuting criteria. It comprises the City of Toronto and 23 other municipalities.

In addition to the modern network of highways and transcontinental railway lines that traverse the City of Toronto, local businesses are also well served by two airports: Pearson International Airport, the largest in Canada, and Billy Bishop Toronto City Airport, which is located near the downtown core. Union Station, the City's central, multi-modal transportation hub is the busiest passenger transportation hub in Canada, serving a quarter-million people daily. It is connected to numerous methods of travel, including subway, commuter rail, commuter bus, passenger rail and bicycle. Union Station is undergoing a major revitalization to improve the quality and capacity of pedestrian movement, restore heritage elements and to transform Union Station into a major destination for shopping, dining and visiting. The Revitalization Project is expected to be completed in 2019.

Key Employment Sectors

Toronto has one of the most diverse economies in North America and provides companies with an equally rich mix of partners, suppliers and talented professionals to meet the demands of business today.

The Financial Services sector is emerging as the one of Toronto's highest growth industries with a large and highly concentrated workforce. The Toronto region is home to the functional head offices of the five major banks in Canada and the majority of foreign banks/subsidiaries/branches in Canada. Toronto was ranked 10th of 88 cities in the 2017 Global Financial Centres Index. According to a November 2017 Conference Board of Canada report, Toronto CMA's financial services sector directly employs over 270,000 people and is home to 43% of all financial services headquarter employment in Canada. Also, according to the report, Toronto's financial services industry generated a combined $18.1 billion in fiscal benefits in 2016 to Canada, Ontario and Toronto.

Toronto Region is home to one of the most vibrant biotechnology clusters in the world. The Discovery District is a downtown research park with seven million square feet of facilities — Canada's largest concentration of research institutes, business incubators and business support services. The Medical and Related Sciences (MaRS) project, the Faculty of Pharmacy building at the University of Toronto and the Centre for Cellular and Biomolecular Research (CCBR) help give the Discovery District its name.

Continued investment in the Arts, Entertainment and Recreation sector is vitally important for the attraction of tourists and film production to the city. Toronto has undergone a 'cultural renaissance' with the unprecedented building and architectural transformation of close to a dozen major arts and cultural institutions, including the Michael Lee-Chin Crystal (an expansion of the Royal Ontario Museum), the Art Gallery of Ontario, the Toronto International Film Festival, the Four Seasons Centre for the Performing Arts, home of the National Ballet of Canada and the Canadian Opera Company, and the Gardiner Museum of Ceramic Art. In fall 2013, Ripley's Aquarium of Canada opened its doors as a major new tourist attraction in the city featuring 450 species of more than 15,000 fish. The production of domestic and foreign film and television is a major local industry. Toronto contains the headquarters of the major English language Canadian television networks such as CBC, CTV, City and Global. Toronto is home to two national daily newspapers (Globe and Mail and National Post), two local daily newspapers (Toronto Star and Toronto Sun), approximately 79 ethnic newspapers/magazines and many other community papers.

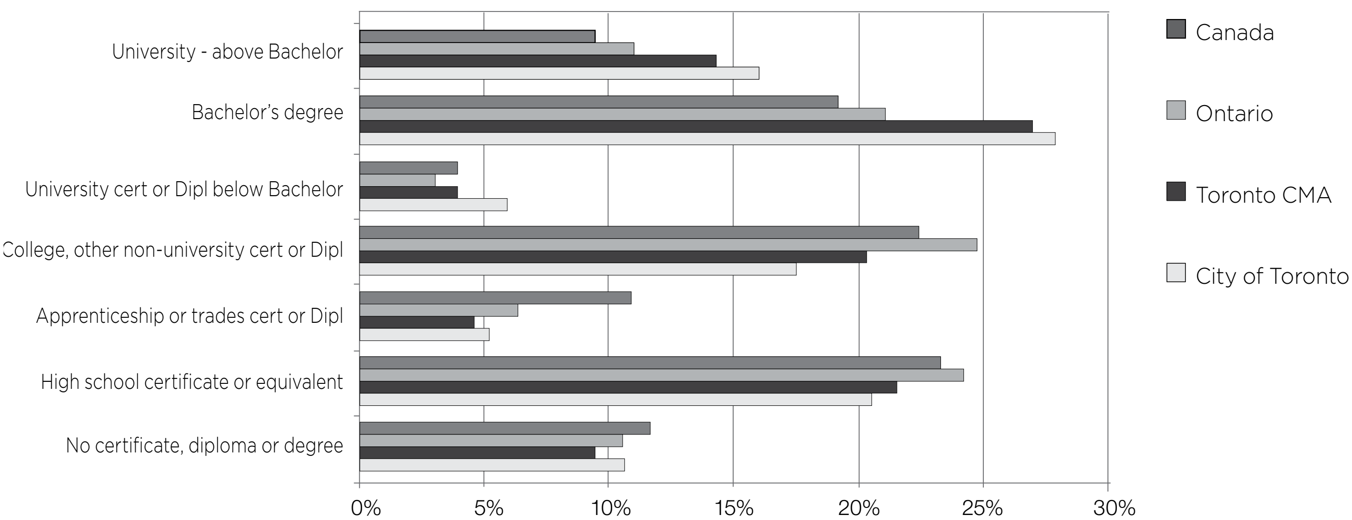
The technology cluster in the Toronto CMA is the largest in Canada and third largest in North America, behind San Francisco and New York, employing over 200,000 people at more than 14,600 technology companies. Of the top 250 technology companies, 40% are based in the Toronto Region. Toronto has a vibrant web start-up scene and growing mobile application development community. Google Canada recently opened offices on Richmond Street, in the heart of the downtown core, showing a commitment to Toronto's technology sector. Likewise, three of the world's largest social networking sites - LinkedIn, Facebook Canada and Twitter Canada also established their head offices in Toronto.

The backbone of the technology sector in the Toronto CMA is its telecommunication infrastructure. Home to two of the three largest telecommunications companies in Canada, as well as to smaller service providers, Toronto is connected by sophisticated high-speed networks. A critical mass of talent and growing number of experienced developers has also helped Toronto become a successful mobile application development hub. Mobile development camps, incubators for mobile start-ups and investments in Toronto mobile firms mean that mobile companies continue to thrive here.

Workforce

Toronto has a large educated, skilled and multilingual workforce. Toronto is home to four universities (University of Toronto, York University, Ryerson University and Ontario College of Art and Design), and four community colleges (Centennial, Seneca, Humber and George Brown). Approximately 69% of Toronto residents aged 25-64 have post-secondary degrees, diplomas or certificates.

Population Aged 25-64 by Education



Source information: Statistics Canada - Census (2016)

With an estimated 1.5 million labour force in Toronto, it continues to be a net importer of labour from the surrounding regions. The net inflow of people to the city is estimated to be over 200,000 people every day. However, the surrounding regions are changing rapidly in that they are experiencing growth in manufacturing and other types of employment and thus transforming themselves from residential suburbs to employment destinations. The rest of the GTA has now also become a net importer of labour from the surrounding regions beyond the GTA.

Economic Growth

The Canadian economy enjoyed strong growth in 2017, but is expected to slow to a more normal growth in 2018 as job growth and consumer spending slow and housing markets undergo a healthy correction period.

Canada's real GDP is forecasted to grow by a moderate 2% in 2018 and 1.7% in 2019 after growing by 3.1% in 2017.

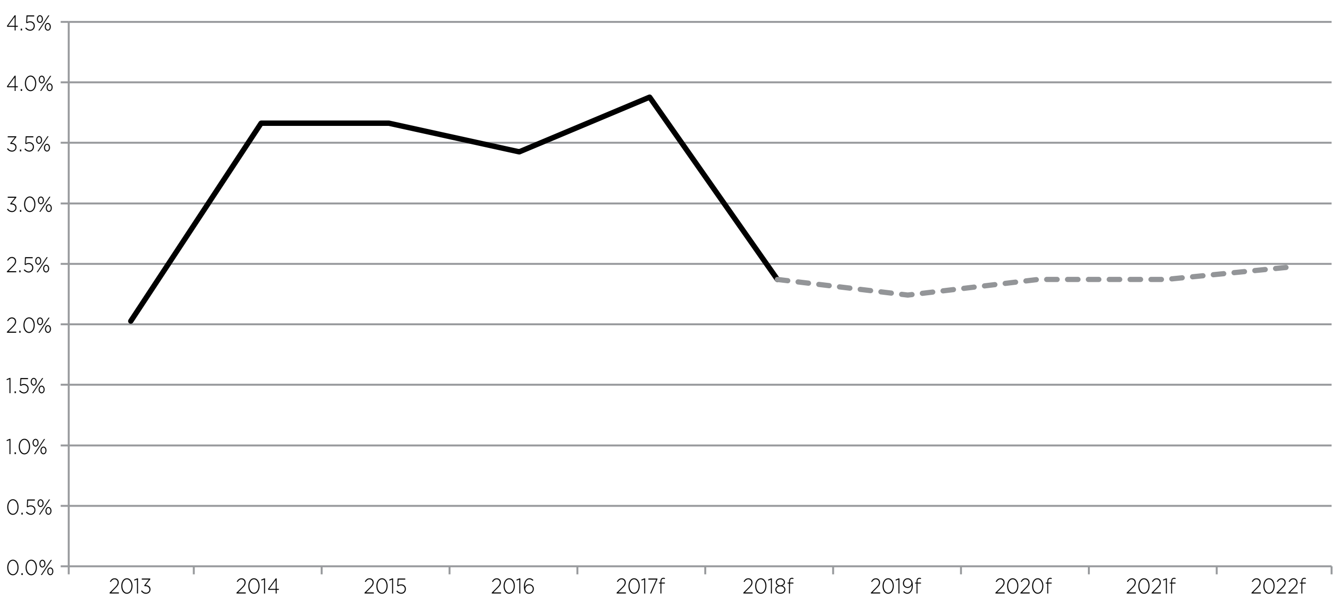
Ontario is expected to experience a similar slowdown in economic activity in 2018 as uncertainty surrounding NAFTA results in a weaker business investment climate and new measures to cool housing demand are expected to reduce housing starts in the province.

The Conference Board is forecasting that Ontario's real GDP will grow by 2% in 2018, after growing by a more robust 3.2% in 2017. After a decline in growth to 1.8% in 2019, it is expected that growth will normalize at 2% from 2020 to 2022.

In Toronto, the local economy expanded at its fastest rate in 17 years in 2017 (3.7% real GDP growth), led by strong service sector growth. The outlook for the non-residential construction sector remains bright as office building construction and transit expansion projects will continue to keep the construction industry busy. In particular, CIBC Square on Bay Street and the Eglinton Crosstown LRT line are two large multi-year construction projects underway in Toronto.

As the following chart illustrates, the Conference Board is forecasting that Toronto CMA is expected to encounter real GDP growth of 2.4% in 2018, 2.3% growth in 2019 and 2.4% growth in 2020 and 2021. The moderate economic growth in the forecast period is supported by an expectation for steady growth in the large finance, insurance and real estate sector, and healthy overall job growth.

GDP Growth Rate
Toronto CMA

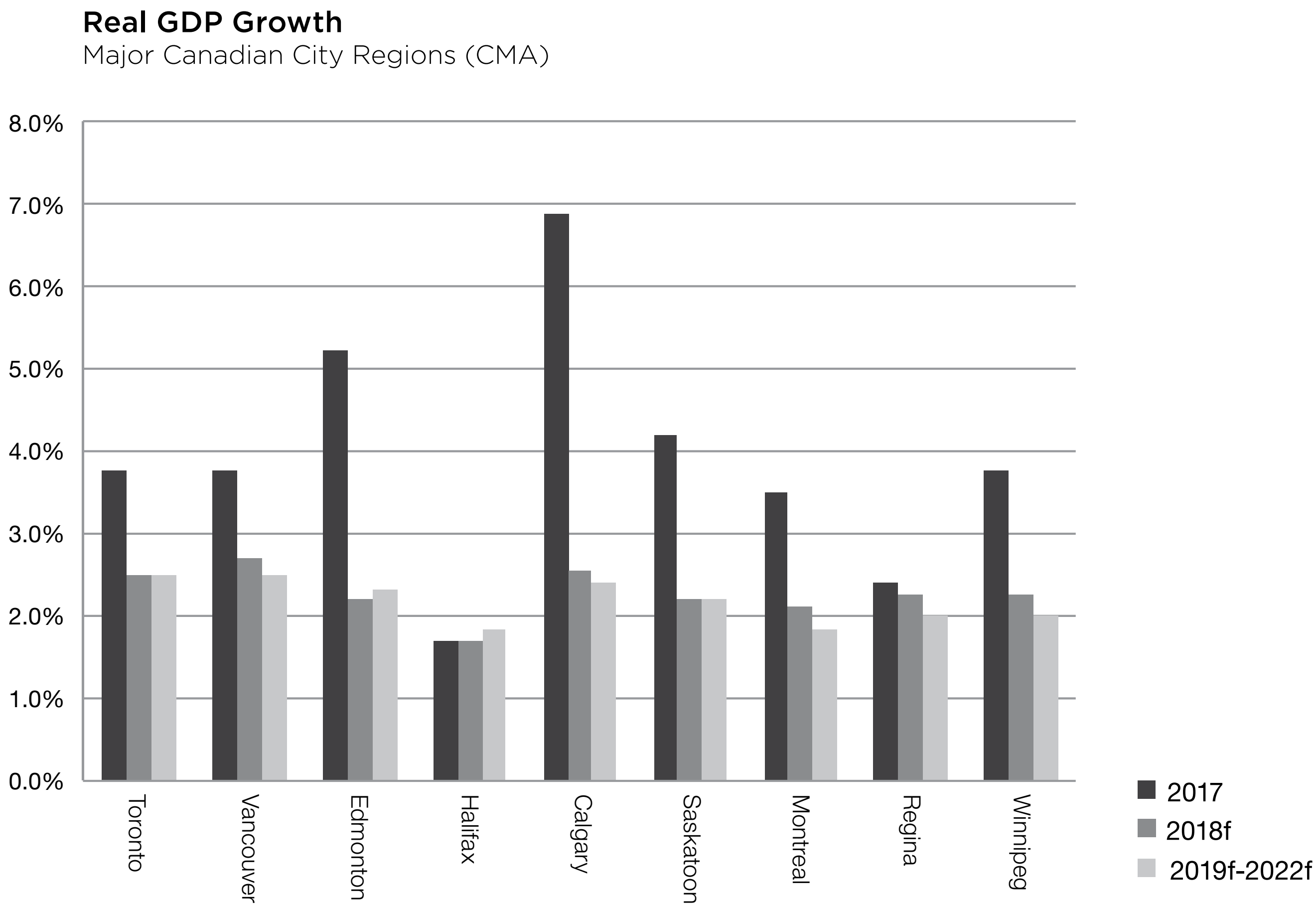


Source: Conference Board of Canada Metropolitan Outlook: Winter 2018

Real GDP Growth

Major Canadian Cities (CMAs)

The following chart compares the economic growth of major Canadian city-regions (CMAs). Toronto is expected to have healthy growth through the forecast period.



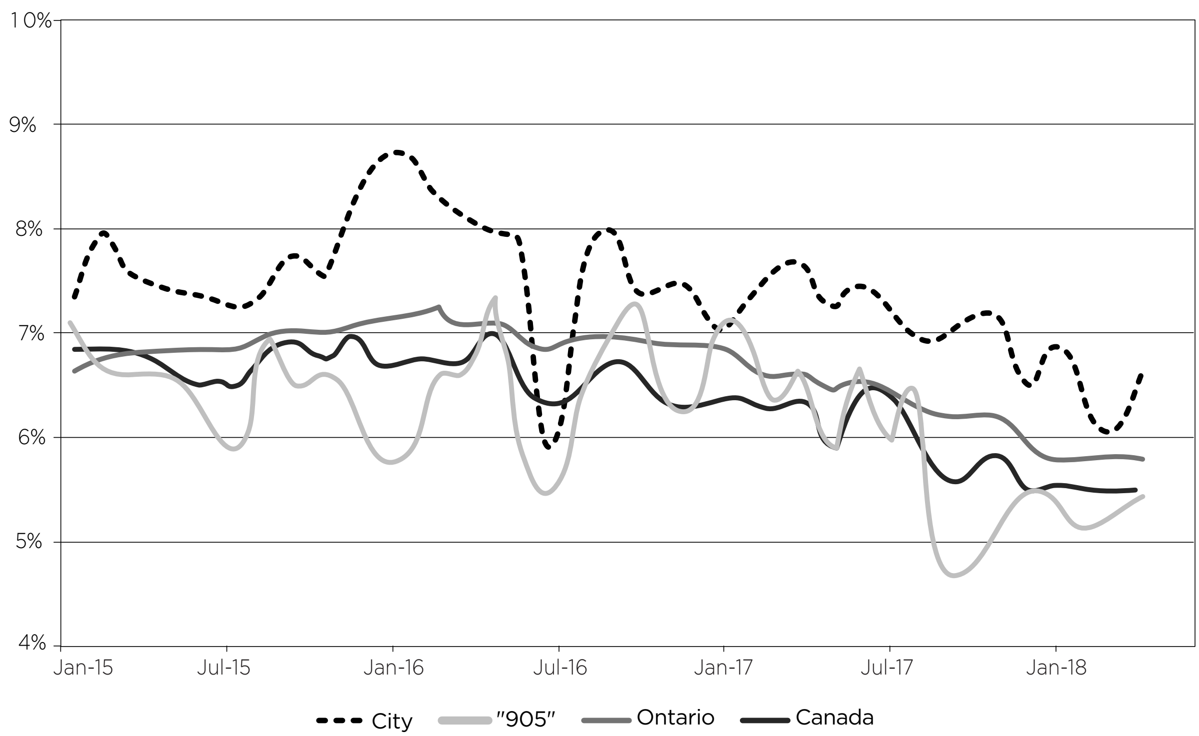
Source: Conference Board of Canada Metropolitan Outlook Winter 2018

Economic Indicators

Unemployment Rate

The city's unemployment rate has been trending lower since reaching a cyclical high of 8.7% (seasonally adjusted) in January 2016. By January 2018, the City's seasonally adjusted unemployment rate was 6%. Increased job growth and an aging workforce holding back the supply of workers were reasons cited by the Conference Board of Canada for the downward trend in unemployment. This downward trend is consistent with the trend observed in 905 municipalities, Ontario and Canada.

Unemployment Rate Trend – Jan. 2015 to Jan. 2018
City of Toronto, 905 Municipalities, Ontario and Canada



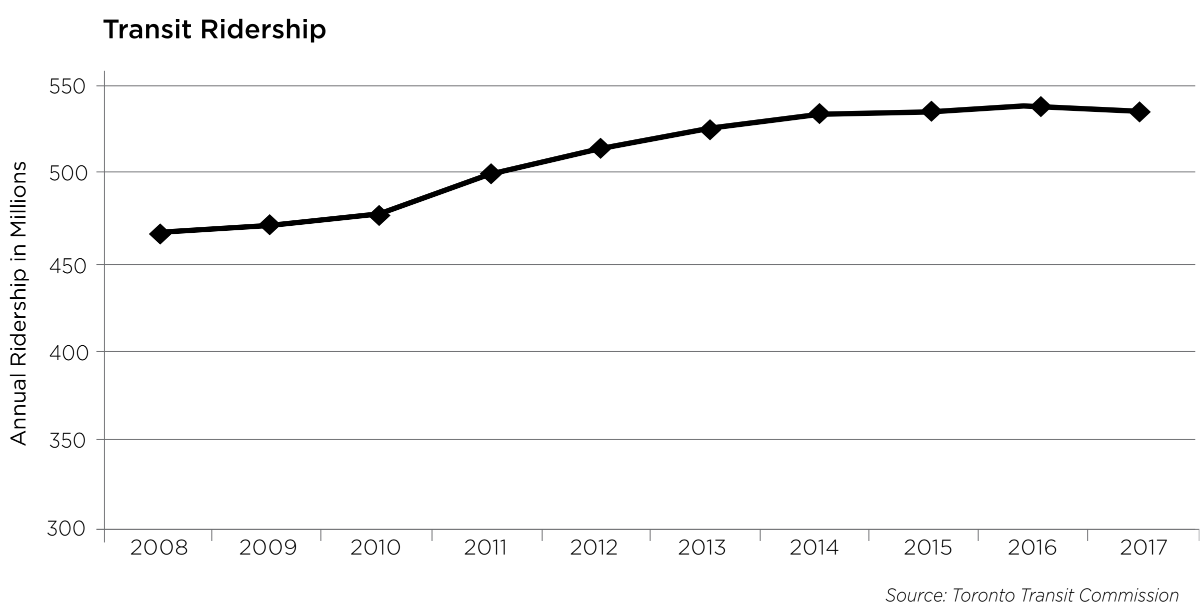
Source: Statistics Canada Labour Force Survey – Seasonally Adjusted – (Jan 2018)
**City of Toronto population rebased and seasonal adjustments by City staff*

Social Assistance Caseload

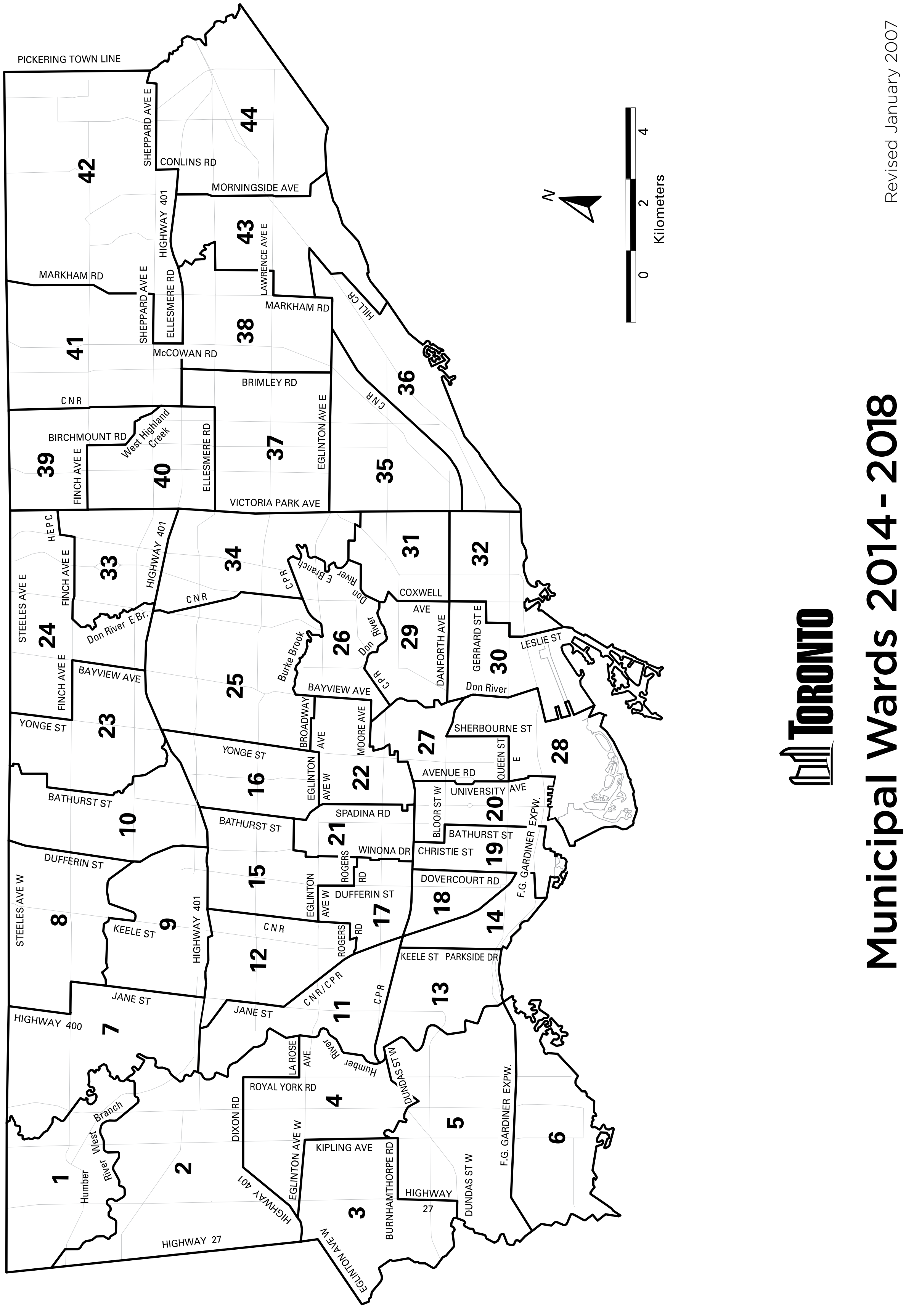
The number of cases and people on social assistance are largely associated with the unemployment rate, and to a certain extent, population and participation rate. The City's Social Assistance (Ontario Works) caseload has followed a similar historical trend as its unemployment rate (although lagging by six to 12 months). Since 2008, the average monthly caseload has risen from approximately 76,000 average monthly cases to a peak of approximately 104,000 average monthly cases in 2012, before dropping back as a result of improved employment conditions to approximately 84,000 average monthly cases from 2016 to 2018.

Transit Ridership

Transit ridership fell from 538 million riders in 2016 to 533 million riders in 2017. The last year with significant ridership growth was 2014. The transit agency brought forward a ridership growth strategy in December 2017 to address the issue of stalled ridership.



Map of Electoral Wards



Toronto City Council

(January 1 - December 31, 2017)

Mayor John Tory

Ward 1
Vincent Crisanti

Ward 2
Michael Ford

Ward 3
Stephen Holyday

Ward 4
John Campbell

Ward 5
Justin Di Ciano

Ward 6
Mark Grimes

Ward 7
Giorgio Mammoliti

Ward 8
Anthony Perruzza

Ward 9
Maria Augimeri

Ward 10
James Pasternak

Ward 11
Frances Nunziata

Ward 12
Frank Di Giorgio

Ward 13
Sarah Doucette

Ward 14
Gord Perks

Ward 15
Josh Colle

Ward 16
Christin Carmichael Greb

Ward 17
Cesar Palacio

Ward 18
Ana Bailão

Ward 19
Mike Layton

Ward 20
Joe Cressy


Ward 21
Joe Mihevc


Ward 22
Josh Matlow


Ward 23
John Filion


Ward 24
David Shiner


Ward 25
Jaye Robinson


Ward 26
Jon Burnside


Ward 27
Kristyn Wong-Tam


Ward 28
Lucy Troisi
Elected to office November 2, 2017, succeeding Pam McConnell (deceased July 7, 2017)


Ward 29
Mary Fragedakis


Ward 30
Paula Fletcher


Ward 31
Janet Davis


Ward 32
Mary-Margaret McMahon


Ward 33
Shelley Carroll


Ward 34
Denzil Minnan-Wong

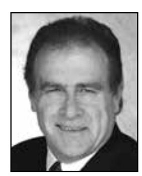

Ward 35
Michelle Holland


Ward 36
Gary Crawford


Ward 37
Michael Thompson


Ward 38
Glenn De Baeremaeker


Ward 39
Jim Karygiannis


Ward 40
Norm Kelly

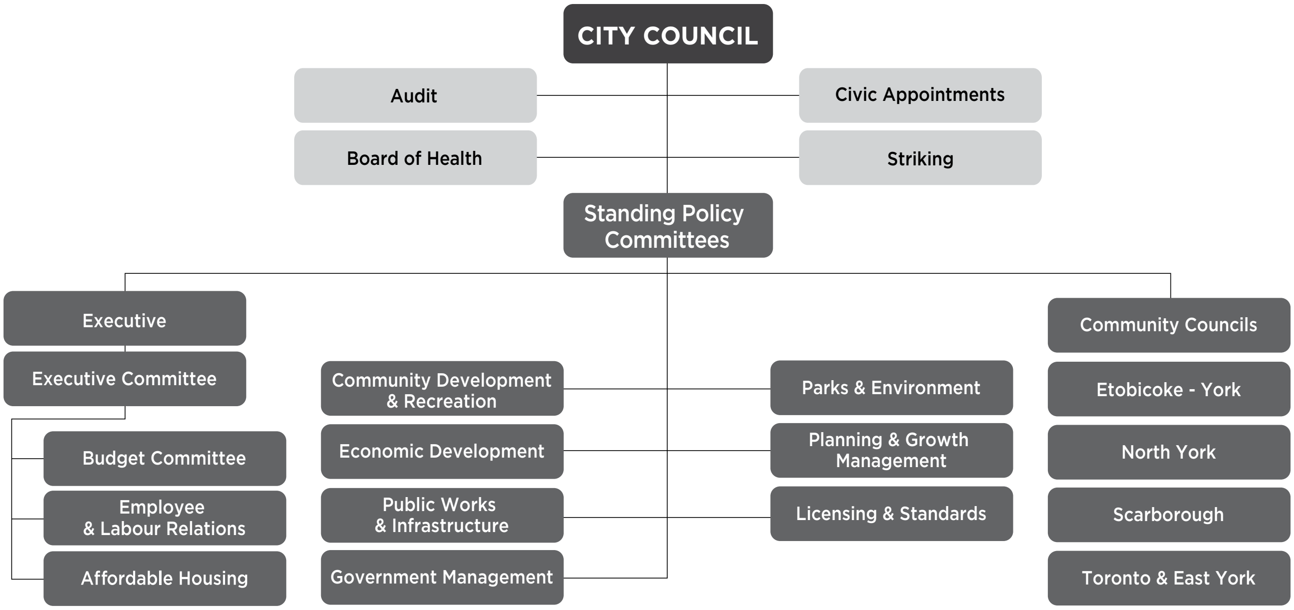

Ward 41
Chin Lee


Ward 42
Neethan Shan
Elected to office February 14, 2017


Ward 43
Paul Ainslie


Ward 44
Jim Hart
Elected to office June 28, 2017, succeeding Ron Moeser (deceased April 18, 2017)

2014-2018 Executive Committee and Standing Committee Mandates



EXECUTIVE COMMITTEE:

The Executive Committee's mandate is to monitor and make recommendations on the priorities, plans, international and intergovernmental relations, and the financial integrity of the City.

The responsibilities of the Executive Committee include:
1. Council's strategic policy and priorities in setting the agenda;
2. Governance policy and structure;
3. Financial planning and budgeting;
4. Fiscal policy including revenue and tax policies;
5. Intergovernmental and international relations;
6. Council and its operations; and
7. Human resources and labour relations.

The Executive Committee makes recommendations or refers to another committee any matter not within the Standing Committee's mandate or that relates to more than one Standing Committee.

AUDIT COMMITTEE

The responsibilities of the Audit Committee include:
1. Recommending the appointment of the City's external auditor;
2. Recommending the appointment of an external auditor to conduct the annual audit of the Auditor General's office;
3. Considering the annual external audit of the financial statements of the City and its agencies and corporations;
4. Considering the external audit of the Auditor General's office;
5. Considering the Auditor General's reports and audit plan;
6. Conducting an annual review of the Auditor General's accomplishments;
7. Making recommendations to Council on reports the Audit Committee considers.

STANDING COMMITTEES

The standing committees are organized along seven broad policy areas:

Community Development and Recreation Committee – will focus on social inclusion and undertake work to strengthen services to communities and neighbourhoods.

Economic Development Committee – will focus on the economy and undertake work to strengthen Toronto's economy and investment climate.

Public Works and Infrastructure Committee – will focus on infrastructure and undertake work to deliver and maintain Toronto's infrastructure needs and services.

Government Management Committee – will focus on government assets and resources and undertake work related to the administrative operations of the City.

Parks and Environment Committee – will focus on the natural environment and undertake work to ensure the sustainable use of Toronto's natural environment.

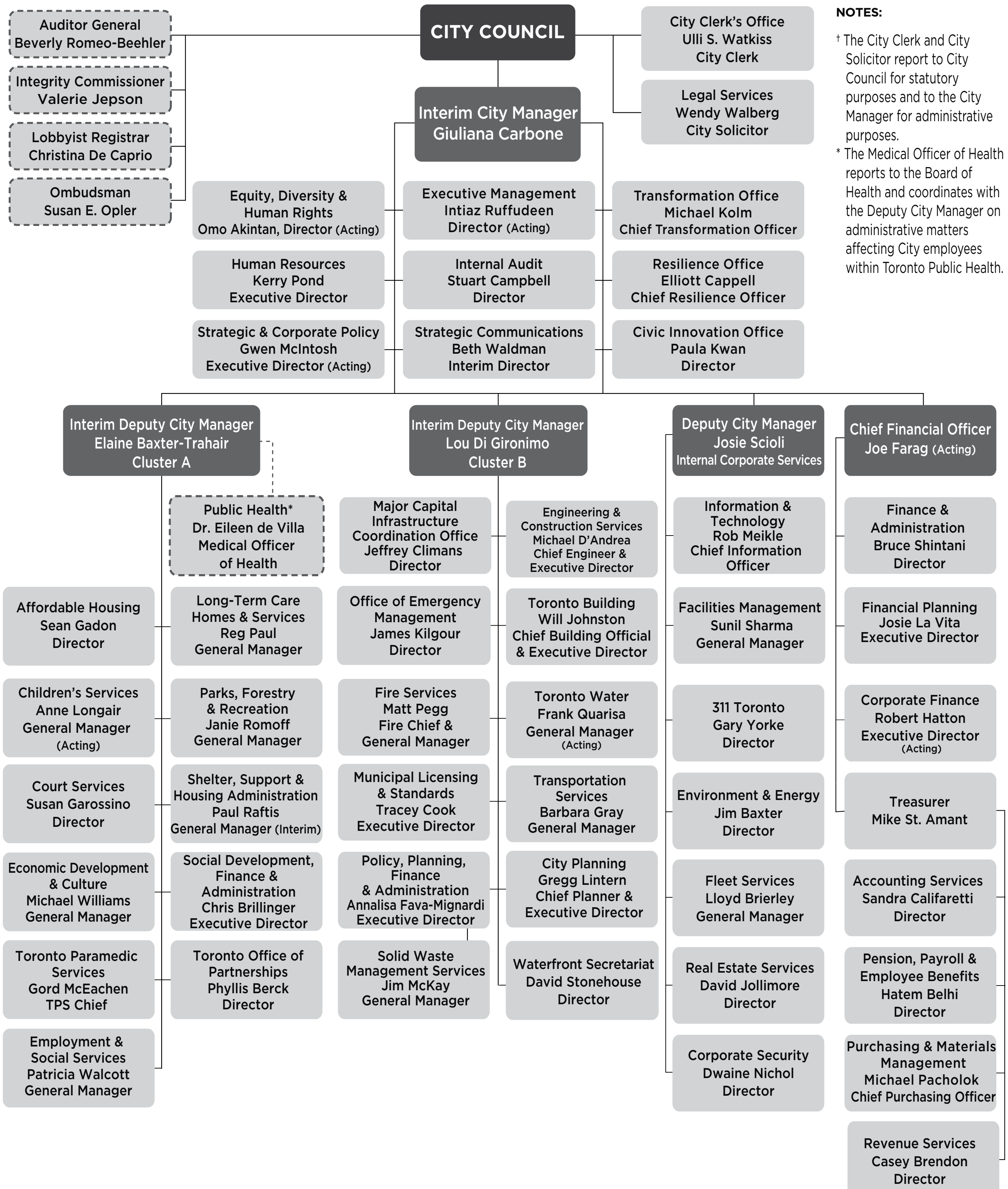
Planning and Growth Management Committee – will focus on the urban form and undertake work related to good city planning and sustainable growth and development.

Licensing and Standards Committee – will focus on consumer safety and protection and undertake work related to licensing of businesses and enforcement of property standards.

Note: Reference should be made to the Municipal Code – Chapter 27, Council Procedures, for the specific responsibilities of each committee.

City Administrative Structure

Updated August 2018



NOTES:

† The City Clerk and City Solicitor report to City Council for statutory purposes and to the City Manager for administrative purposes.

* The Medical Officer of Health reports to the Board of Health and coordinates with the Deputy City Manager on administrative matters affecting City employees within Toronto Public Health.

City of Toronto Special Purpose Bodies

AGENCIES [1]

Service Agencies

- CreateTO
- Exhibition Place
- Heritage Toronto
- Sony Centre for the Performing Arts (operating name for Hummingbird Centre)
- St. Lawrence Centre for the Arts
- Toronto Atmospheric Fund
- Toronto Centre for the Arts
- Toronto Library
- Toronto Parking Authority
- Toronto Police Service
- Toronto Public Health
- Toronto Transit Commission
- Toronto Zoo
- Yonge-Dundas Square

Community-Based:

- 8 Arena Boards
- 10 Association of Community Centre Boards (AOCCs)
- 83 Business Improvement Areas (BIAs)

Quasi-Judicial & Adjudicative Boards

- Committee of Adjustment
- Committee of Revision
- Compliance Audit Committee
- Property Standards Committee/Fence Viewers
- Rooming House Licensing Commissioner and Deputy [3]
- Sign Variance Committee
- Toronto Licensing Tribunal

Partnered Agency

- Toronto and Region Conservation Authority

CORPORATIONS [2]

City Corporations

- Build Toronto Inc.
- Casa Loma Corporation
- Invest Toronto Inc.
- MasterCard Centre (operating name for Lakeshore Arena Corporation)
- Toronto Community Housing
- Toronto Hydro Corporation
- Toronto Port Lands Company (operating name for Toronto Economic Development Corporation)

Partnered Corporations

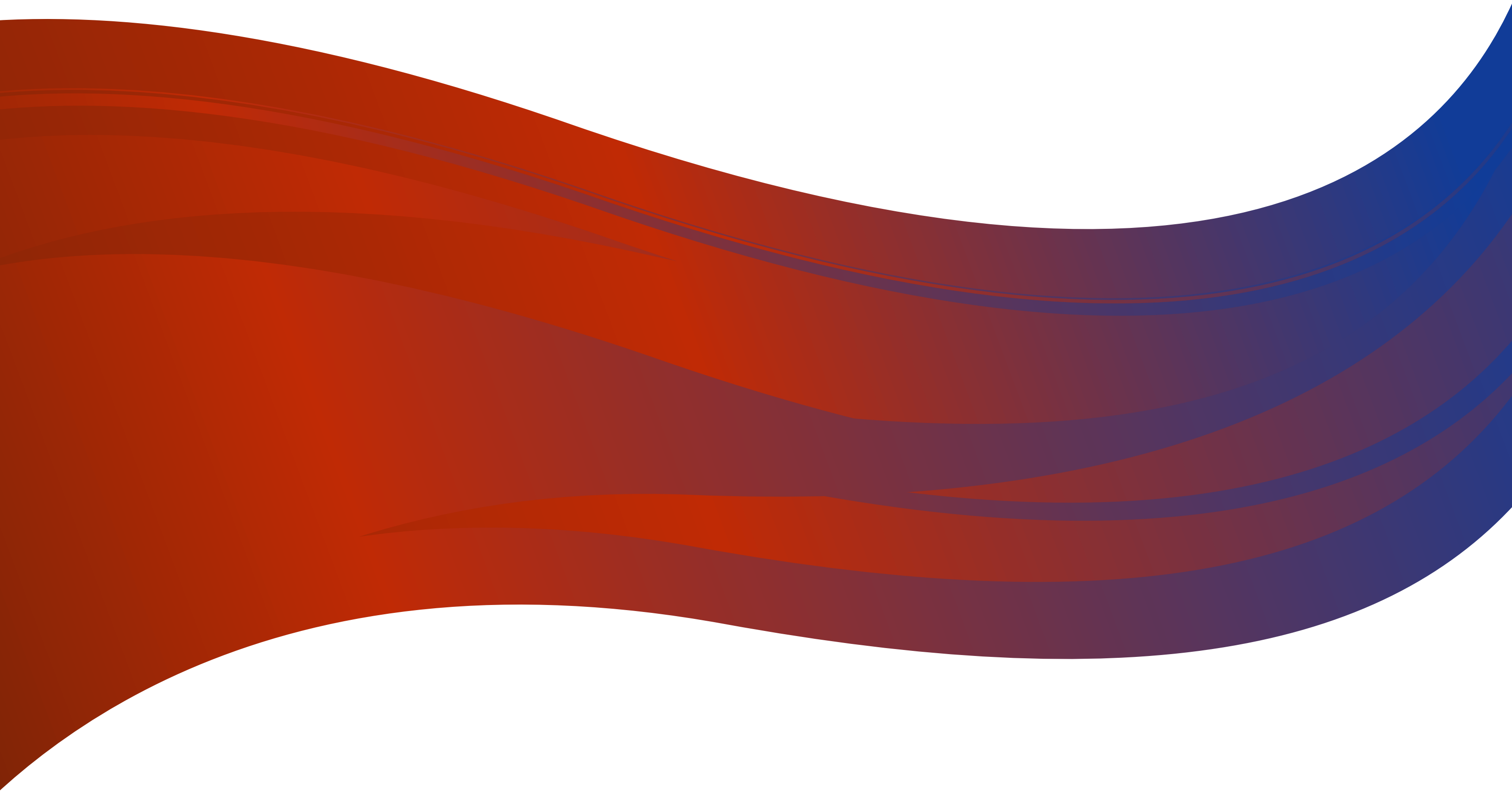
- Waterfront Toronto
- Toronto Pan Am Sports Centre Inc. (TPASC)

Notes:

1. Previously referred to as agencies, boards and commissions.
2. Ontario Business Corporations Act (OBCA) corporations.
3. Rooming House Licensing Commissioner and Deputy are Officers, rather than an agency of the City, but in all other respects function as a quasi-judicial and adjudicative board.

2017 City of Toronto Financial Report

Financial Condition & Performance



A message from the Interim Chief Financial Officer

Joe Farag

The City of Toronto's 2017 Annual Financial Report provides an in-depth look at the City's financial performance over the past year and highlights our progress toward fulfilling objectives for residents and businesses. Once again, Toronto had another strong financial performance in 2017 highlighted by a $297 million budget surplus before council and legislated allocations.

As Canada's largest city and the fourth largest city in North America, Toronto is home to over 2.8 million residents and nearly 90,000 businesses. Toronto, like other large cities, aims to balance the need to provide high-quality public services, while keeping the city affordable for businesses and residents. In 2017, the development of the Long-Term Financial Plan continued to emphasize the need to secure adequate revenues while maintaining an emphasis on expenditure control across the City. The Long-Term Financial Plan will present a roadmap to enhance long-term sustainability and is expected to be considered by the incoming City Council in early 2019.

A residential property tax increase of 3.29% in the 2017 budget for residential properties (2.42% for all properties) was approved by City Council to maintain current service levels while making new investments in key strategic priorities, including transit and transportation, public safety and poverty reduction. In preparation for the 2018 Budget approval process in December 2017, City programs and agencies were once again directed to look at cost containment, while maintaining, or in some cases enhancing, service levels. Strong Municipal Land Transfer Tax revenue and assessment growth helped to mitigate the opening budget pressure and maintain a budgetary property tax increase in line with inflation.

In 2017, the City made significant progress advancing key City projects, including allocating an additional $5.8 billion in new investments in the City's 10-year capital plan. These investments address previously unfunded capital projects, including Federal Public Transit Infrastructure Funding projects, the F.G. Gardiner Expressway rehabilitation, SmartTrack and GO Regional Express Rail stations and flood protection for the Port Lands.

Toronto also continues to maintain excellent credit ratings. Credit ratings affect the City's ability to borrow, as well as the cost of borrowing. Credit rating agencies have noted that Toronto has a strong and diversified economy, low debt burden, high liquidity and prudent fiscal management.

For the 11th consecutive year, the City of Toronto won the Government Finance Officers Association of the United States and Canada Award for Excellence in Financial Reporting. The City of Toronto also won the Government Finance Officers Association's Distinguished Budget Presentation Award. These awards would not have been possible without the dedication of the professional team that I am privileged to work with every day.

Sincerely,

Joe Farag
Interim Chief Financial Officer

Physical Infrastructure

The City owns a significant amount of physical assets - comprising roads, expressways, bridges, traffic signal controls, water and wastewater treatment facilities, distribution and collection pipes, reservoirs, pumping stations, subways, streetcars, buses, civic centres, recreation facilities, public housing buildings, parkland and other lands. This infrastructure is currently estimated to be worth in excess of $75 billion, based on replacement cost estimates. The City's capital program is driven largely by the costs of maintaining these physical assets in a state of good repair.

City's Physical Infrastructure

Infrastructure	***Estimated Asset Value**
Transportation • 5,600 km of roads & 130 km of expressways • 900 bridges/culverts	$ 13 Billion
Public Transit • 2,191 buses & 260 streetcars/LRVs • 800 subway cars • subway lines, buildings, trackwork, equipment, etc.	$ 15 Billion
Water & Wastewater • 4 water filtration & 4 wastewater treatment plants • 10 reservoirs, 4 water storage tanks & 5 wastewater detention tanks • 6,100 km of watermains, 10,500 km for wastewater distribution system	$ 29 Billion
Buildings, Facilities and Fleet • 5,800 properties and 26.5 million square feet of building space • 5,500 vehicles, ferries & vessels	$ 15 Billion
Parkland & Other Land (8,106 hectares of parkland)	$ 3 Billion
Total (Replacement Cost Estimates)	**$ 75 Billion**

* Asset value does not include Toronto Community Housing Corporation units

The City's road network, the majority of which was constructed in the 1950s and 1960s, is in need of major repair and rehabilitation. In recognition of the need to reduce the State-of-Good Repair backlog related to the City's transportation infrastructure, 87% of the 2018-2027 Capital Plan for Transportation Services is dedicated to State-of-Good-Repair projects (including the F.G. Gardiner Expressway Rehabilitation Project) compared to approximately 51% across all other Tax-Supported Programs.

The City's water and wastewater network is similarly aged — Recognizing the need to largely eliminate the State-of-Good-Repair Backlog, Toronto Water budgeted $6.2 billion in State of Good Repair spending in the 2018-2027 Capital Budget and Plan, largely funded through the approval of water rate increases of 5% for 2018 and 3% thereafter.

Total City SOGR Backlog

Managing the accumulated SOGR backlog is a key capital strategic priority for the City and critical to ensuring that limited resources are allocated in a manner that maximizes the utility of the City's capital assets.

The 2018 to 2027 Tax and Rate Supported Capital Budget & Plan allocates $19.6 billion or 49% of funding to capital works. As a result of this investment, the estimated accumulated SOGR backlog as a percent of asset value is projected to decrease from $5.881 billion or 8.4% in 2017 to $3.855 billion or 5.0% of total asset value by 2027 as shown below.

Capital Financing and Debt

The City borrows money to finance capital expenditures. It cannot borrow to finance operating expenditures under the City of Toronto Act. The goal for capital financing is to maximize all funding from external sources, including federal and provincial governments, development charges, donations and reserve funding, before using the City's own revenue sources, namely operating contributions to capital and the issuance of debt. Toronto has enjoyed relatively low debt levels in the past; however, in light of the growing capital infrastructure needs, there is a sizeable and growing gap between future capital expenditure needs and ongoing sustainable revenue sources. As well, the City does not have the fiscal capacity for all necessary growth related expenditures (i.e., TTC and Transportation Services needs).

The City has implemented a framework for developing multi-year capital and operating budgets that ensures that limited resources are aligned to priorities to maximize the benefits for Toronto's residents.

In 2010, the City refinanced parts of its debt by paying down existing debt and borrowing funds for selected projects on 30-year terms as opposed to 10-year terms. The 30-year debt was used to finance long-term assets to more closely match the lifespan of the infrastructure being built or purchased (i.e., subway tunnels and subway cars).

Even with the above-noted actions, estimates showed that the City's tax-supported net long-term outstanding debt would increase from $4.4 billion in 2017 and grow to $5.9 billion by 2027 in order to accommodate the capital investments set out in the 2018-2027 Capital Budget and Plan.

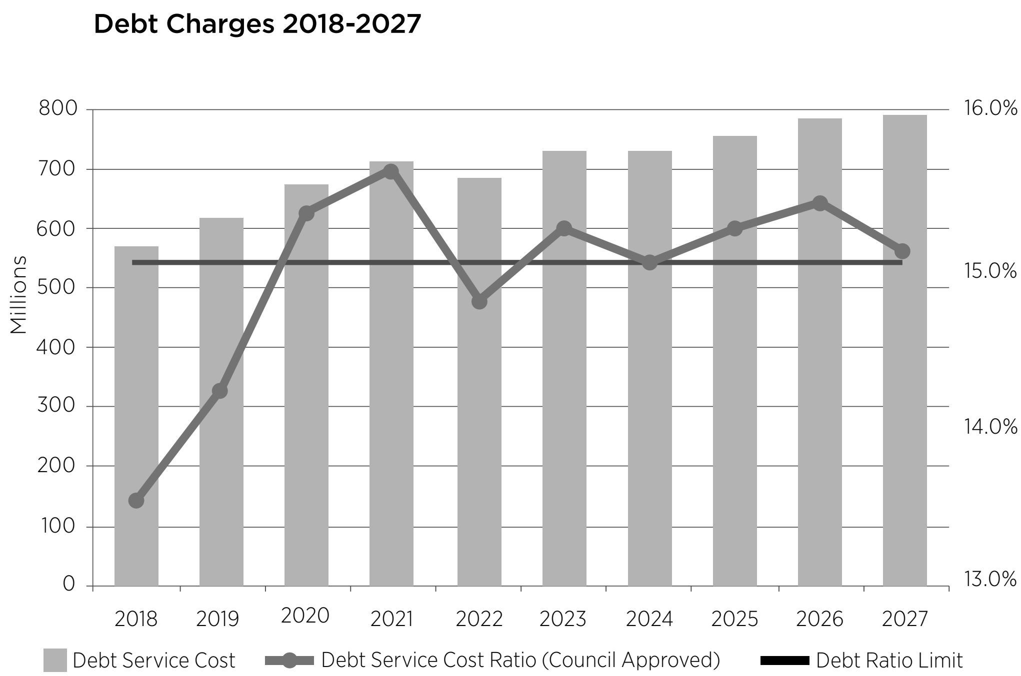
Debt Services Ceiling

City Council has ultimate authority in setting borrowing restrictions as the City of Toronto is exempt under the City of Toronto Act from the Provincial Municipal Act requirement that generally limits long-term borrowing of other municipalities to 25% of most own-source revenues (excluding development charges). Nevertheless, the City of Toronto's debt service limit is well under the Provincial standard.

City Council previously approved a debt service limit such that the debt service cost (annual principal and interest payments) would not exceed 15% of property tax revenues. This limit means that at least 85 cents on each tax dollar raised is available for operating purposes. Given the large unfunded capital backlog, Council approved a Capital Plan that funds an additional $1.1 billion in key unfunded projects. As shown in the chart to follow, the City is expected to have average debt service charges to Property Tax Levy ratio over the next 10 years of 14.94%. While the debt service ratio exceeds 15%, the average over 10 years remains within the City's current debt service ratio policy. The ratio peaks in 2021 at close to 15.6%.

Tax-Supported Debt Services as a % of the Property Tax Levy – 2018 to 2027

This chart shows a line graph of the forecasted ratio of the City's annual debt charges as a percentage of the annual property tax levy from 2018 to 2027.



The additional debt room funds strategic investments in critical state of good repair projects, TCHC Interim Capital Funding, Accessibility to Ontarians with Disability Act (AODA) compliance projects, modernization and innovation projects and other major studies.

To meet its borrowing obligations, the City budgets debt service charges in its Operating Budget to repay both the principal and interest cost associated with its debt issuance for capital projects. In 2018, the debt service charge is budgeted at $569 million, increasing steadily to $788 million by 2027.

Investment Activities and Capital Markets

Investment Activity

The City owns and manages the General Group of Funds and the Sinking Fund, each having specific goals and objectives. The General Group of Funds portfolio is composed of two individual funds (the Bond and Money Market Funds) that are managed interactively. The Bond Fund is positioned to fund the City's future reserve and reserve fund requirements and therefore takes a longer view of the market. The Money Market portfolio is primarily focused on ensuring that adequate liquidity is maintained to meet the immediate cash flow requirements of the City's daily operations. The Sinking Fund is for the use of retiring the City's debt as it becomes due and payable. The City also manages other smaller funds where the assets are not owned by the City (i.e., Trust Funds).

Investment earnings consist of the annual earned interest income and capital gains/losses that are realized on the portfolio. In 2017, investment earnings on the City's managed funds totalled $130 million. The earnings were allocated to the Operating Budget ($113.4 million) and reserve funds ($16.3 million) according to the Council-approved interest allocation policy.

The 2017 distribution of investment earnings is summarized in the table below:

2017 Investment Portfolio Income ($ Millions)

Portfolio ($ million)	Average Fund Balance	Earned Income	Earned Return on Capital
1. Bond Fund	$2,724.6	$92.8	3.4%
2. Money Market	$2,394.5	$37.2	1.6%
Total General Funds	**$5,119.1**	**$130.0**	**2.5%**

* Earned Return on Capital includes earned interest income and realized capital gain.

The Operating Budget component was over budget in the Non-Program account by $14.4 million. This variance was mainly attributable to two factors:

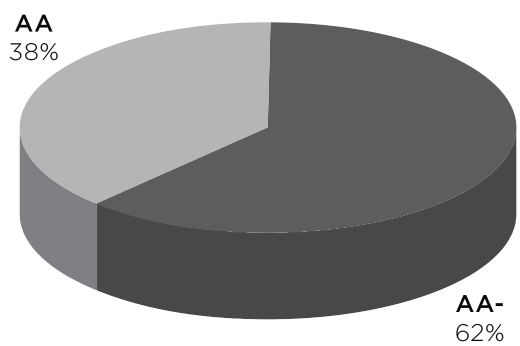
1. Lower than forecasted income allocation to reserve funds due to lower than forecasted interest rates.
2. Introduction of high-yielding new investment products during 2017.

The City's Money Market and Bond Fund continue to exhibit high credit quality, especially during these extended periods of economic turbulence. The pie charts to follow show a breakdown of the City's Money Market and Bond Funds by credit quality (i.e., AAA, AA+, AA).

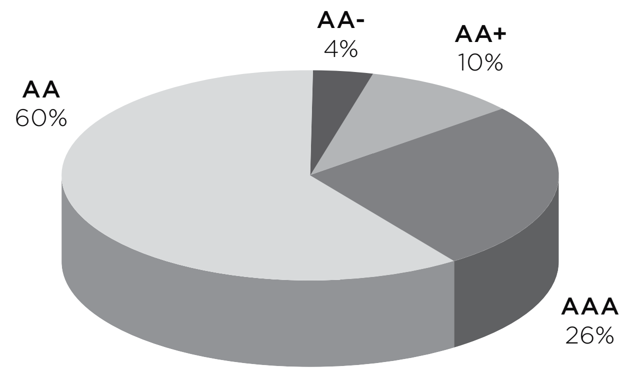
Credit Quality – Money Market and Bond Funds

As at December 31, 2017

Credit Quality – Money Market
as of December 31, 2017



Credit Quality – Bond Fund
as of December 31, 2017



Sinking Funds were established by the City and are required by legislation when a municipality issues sinking fund debt. Sinking Fund contributions are invested and earn income to accumulate sufficient funds to retire the sinking fund debt at maturity. The City made $281 million in sinking fund contributions in 2017.

Sinking Fund assets as at December 31, 2017 were $1.7 billion to fund debt of $6.0 billion maturing between 2018 and 2046. These assets are invested in high quality fixed-income securities as shown in the above pie charts. In 2017, investment income for sinking funds was $60 million, representing a rate of return of 3.84%. Additional contributions from the City will be received annually during the period from 2018 to 2046.

Reserves and Reserve Funds

Reserves and Reserve Funds are monies set aside by Council to finance future expenditures for which it has authority to spend money, to defend the City against an unbudgeted or unforeseen event that may result in a budget deficit such as an economic downturn, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements or contingent liabilities. While the reserve fund balances would appear to be a large sum, it should be noted that the majority of these funds are committed to special purposes.

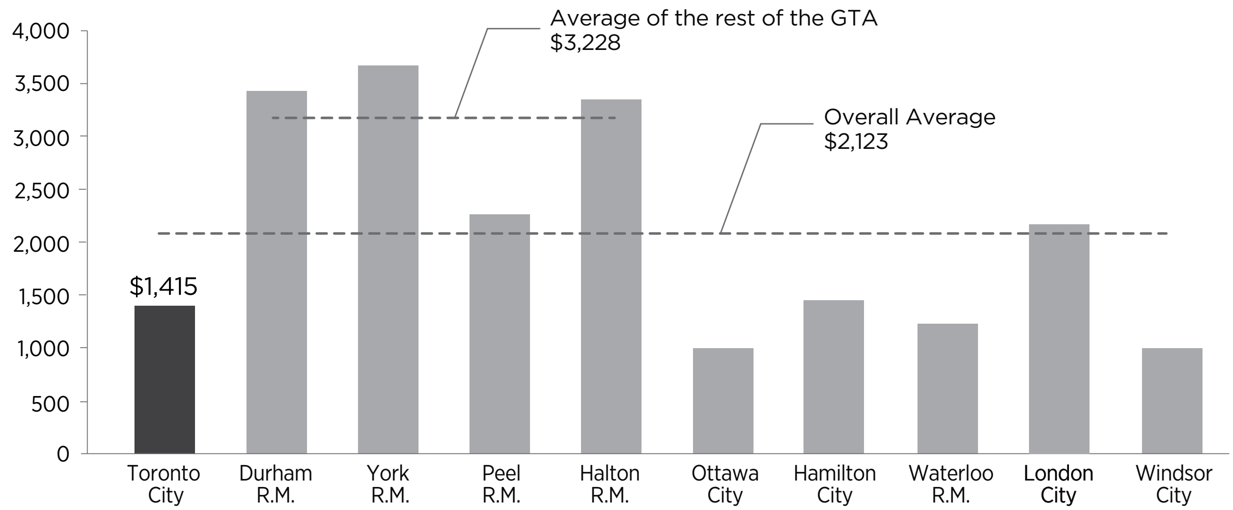
Toronto Municipal Code, Chapter 227 - Reserves and Reserve Funds - provides all pertinent information regarding the City's reserves and reserve funds, including definitions, the authority to establish new reserves and reserve funds, closing out inactive reserves and reserve funds, as well as the use and administration of reserves and reserve fund monies. A link to Chapter 227 of the Toronto Municipal Code is provided below: *toronto.ca/legdocs/municode/1184_227.pdf*

The City maintains approximately 265 active Reserves and Reserve Funds (including Obligatory Reserve Funds) that are classified into three major categories, namely Council-Directed Reserves, Council-Directed Reserve Funds and Obligatory Reserve Funds, or Deferred Revenues.

The main difference between Reserves and Reserve Funds is that earnings from the investment of Reserve Funds must be allocated to and form part of the reserve fund, while earnings from Reserves flow to the Operating Budget as investment revenue. In addition, Reserve Funds are restricted to fund specific purposes set out by bylaws, legislation or agreements.

On a comparative basis, the City's overall reserve fund balance on a per capita basis is much lower than those in other Ontario jurisdictions. Toronto's 2016 reserve per capita of $1,415 was considerably less than the rest of the GTA ($3,228) and the average of all of the cities and municipalities shown in the chart below ($2,123). The City has established long-term reserve strategies for major reserves, (i.e., employee benefits reserves, landfill sites and water and wastewater stabilization reserves) and makes sure that adequate funds are in place, by determining needs and establishing contribution policies.

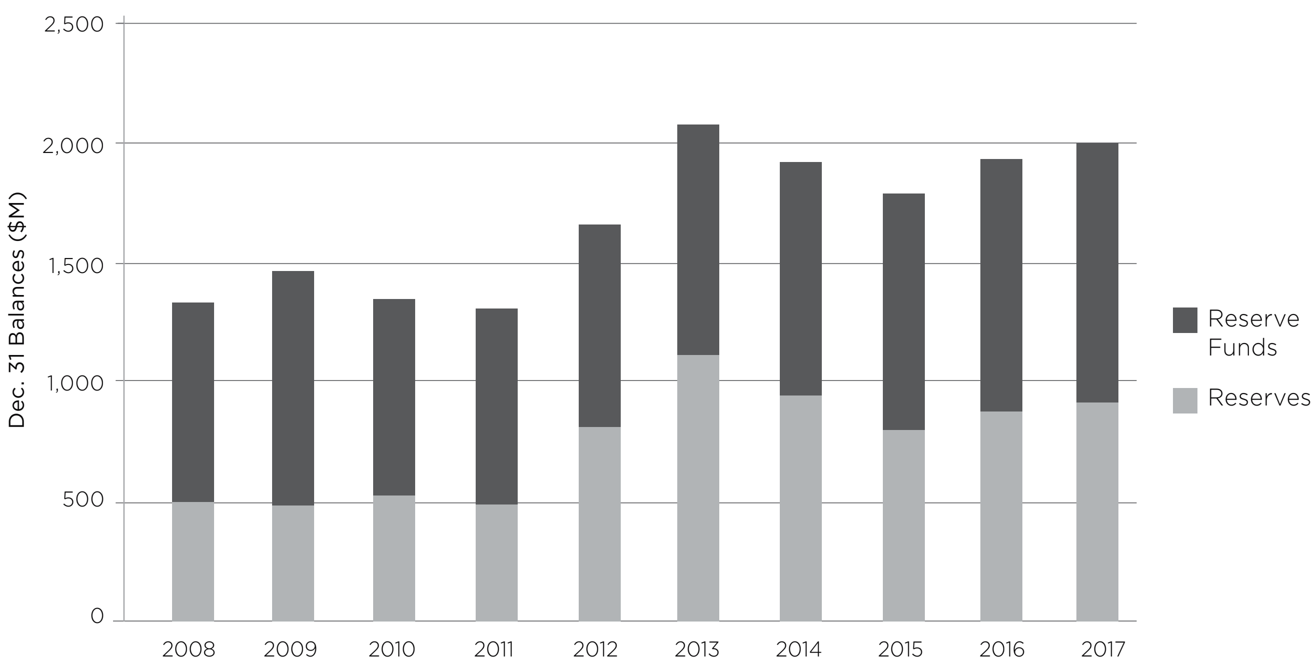
Comparison of Per Capita Reserves and Reserve Fund Balances as at December 31, 2016



Sources: Ontario Ministry of Municipal Affairs & Housing - 2016 FIR. Regional data consolidated for upper and lower tiers. Balances include Obligatory Reserve Funds/Deferred Revenues

The following chart shows the historical trend of reserve and reserve fund balances since 2008. The chart shows the consolidated balance remaining in a range from $1.8-$2.1 billion since 2013 after a sharp two-year spike in 2012 and 2013.

City's Reserves and Reserve Funds
(Excluding Obligatory Reserve Funds/Deferred Revenues)



Deferred Revenues

Funds that are set aside for specific purposes by legislation, regulation or agreement and may only be used in the conduct of certain programs or the completion of specific work are reported as Deferred Revenues (previously Obligatory Reserve Funds). These include funds received from the other orders of government and Development Charges from third parties earmarked for certain purposes (i.e., Transit, Social Housing, Parkland Acquisition, Long-Term Care Homes and Services). These amounts are recognized as liabilities in the year the funds are deposited, and received into revenue in the fiscal year the related expenditures are incurred or services performed. These funds are all committed for use, including funding the City's priority capital needs like transit expansion.

Revenues

Property Tax Levy

Property tax revenue is the City's single largest source of revenue. The City collects $4 billion from residential and business property owners for municipal purposes, which represents 38% of its total tax-supported Operating Budget.

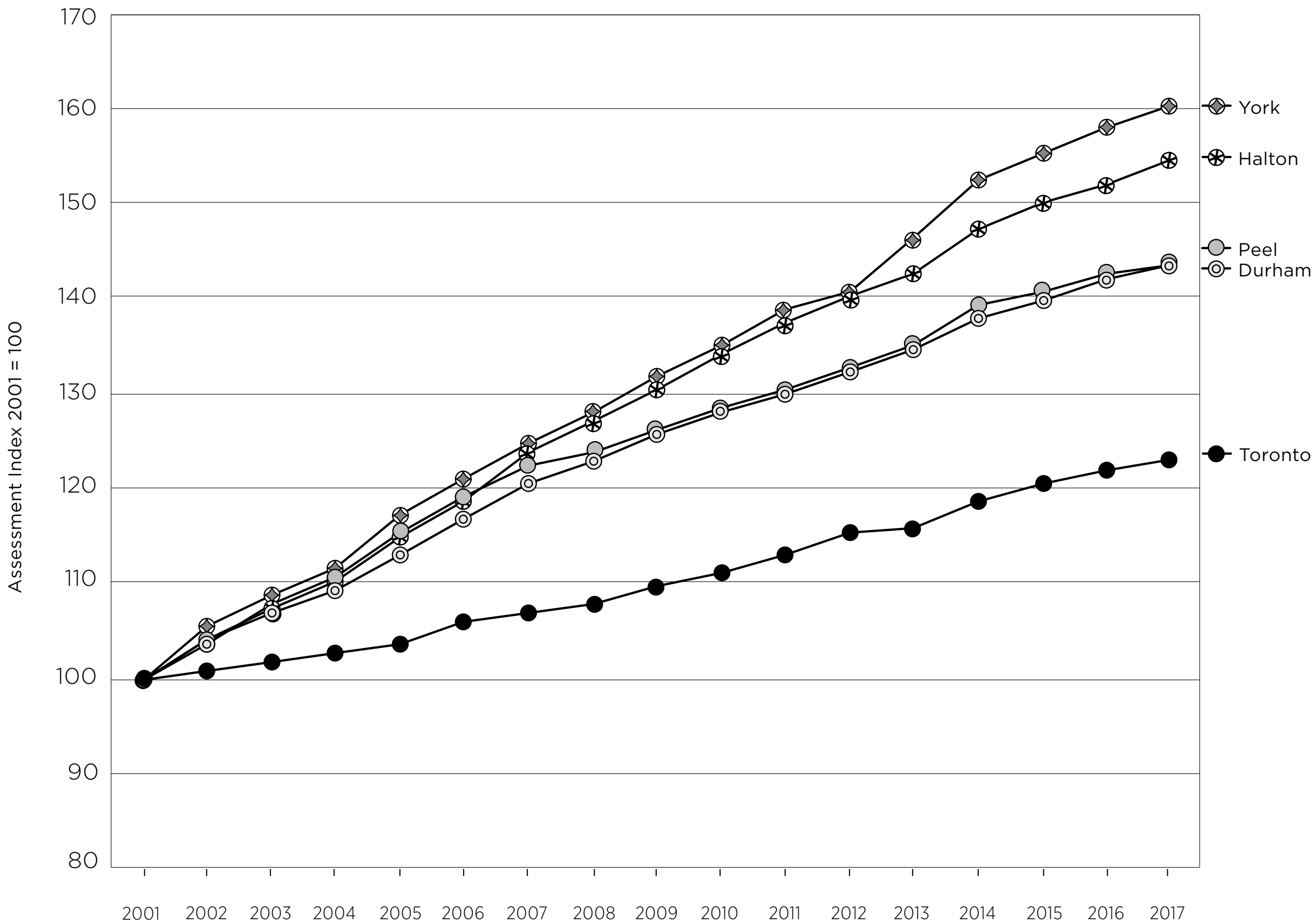
Each year, the City is required by provincial legislation to establish tax rates that raise property tax revenues in the amount of the City's budgetary requirement. In addition, the City is also required to levy and collect property taxes for school purposes at the education tax rates set by the Province.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of the property by the applicable tax rate for that class of property (i.e., residential, commercial, industrial, or multi-residential) subject to any legislative or Council-mandated adjustments. The total tax rate for a class consists of a municipal tax rate necessary to meet the City's budgetary requirement and the education tax rate necessary to raise the amount required by the Province for education funding.

The Municipal Property Assessment Corporation (MPAC), a provincial agency, is responsible for property assessment in Ontario and preparing the assessment rolls for municipalities on a CVA basis. The CVA of a property represents an estimated market value, or the amount that the property would sell for in an open market, in an arm's length sale between a willing seller and a willing buyer at a fixed point in time.

Over the last two decades, the GTA experienced quite remarkable economic and population growth following the recession of the early 1990s. The Toronto region (CMA) contains a number of the fastest-growing municipalities in Canada. The bulk of the new construction and the associated assessment increases are located in the surrounding areas in the GTA. For example, from 2001 to 2017, the rest of the GTA had cumulative assessment increases in excess of 40%: York Region: 61%, Halton Region: 55%, Peel Region: 45%, and Durham Region: 45%. By contrast, Toronto's property assessment in 2017 is just 24% above its 2001 level, partly due to the conversion of certain industrial properties into residential properties. This trend is illustrated in the chart on the following page.

Property Tax Assessment Growth 2001 to 2017

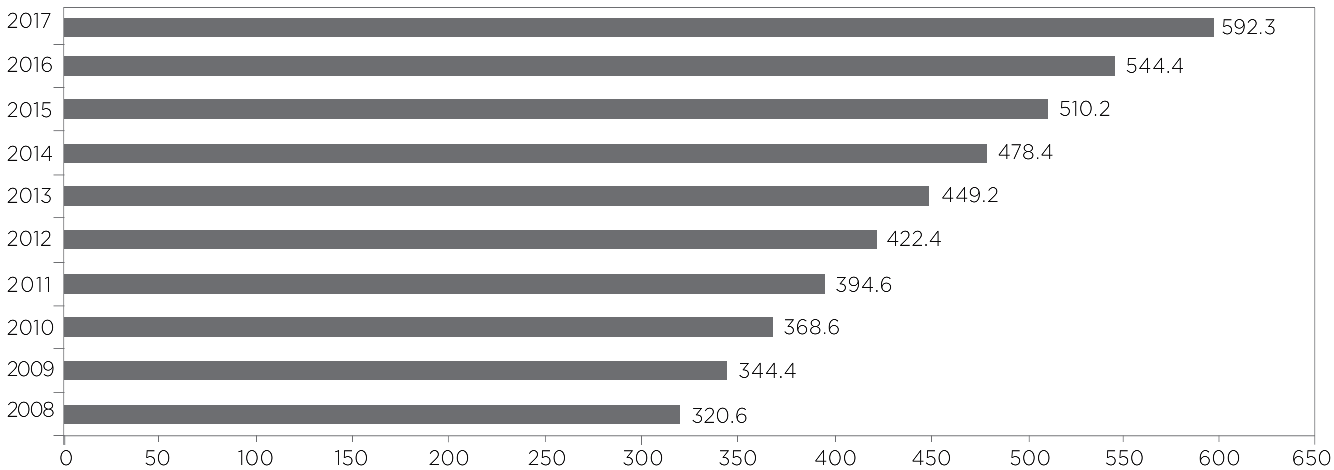


Source: Municipal Property Assessment Corporation

Property Assessment

The following chart depicts the total value of all property classes of the City of Toronto's current value assessment in each of the years from 2008 to 2017.

Total Property Assessment Values ($B)
City of Toronto 2008-2017



In Toronto, tax ratios for the commercial and industrial tax classes exceed the provincial thresholds, as shown in the following chart.

Toronto's Tax Ratios vs. Provincial Threshold Ratios
Taxation Years

	2011	2012	2013	2014	2015	2016	2017	Provincial Threshold Ratios
Multi-residential	3.31	3.26	3.18	3.07	3.00	2.90	2.66	**2.74**
Commercial	3.223	3.17	3.12	3.07	3.00	2.90	2.85	**1.98**
Industrial	3.23	3.17	3.12	3.07	3.00	2.90	2.83	**2.63**

Source: Annual Municipal Property Levy Bylaw

Beginning in 1998, Ontario municipalities whose commercial, industrial or multi-residential tax ratios exceeded threshold ratios established by the Province were restricted from passing on municipal property levy increases to those classes. Since 2004, the Ontario Government made adjustments to the municipal rules under the Ontario Property Tax System, which amongst other things, limited tax rate increases on the non-residential classes to be no more than 50% of the tax rate increase for the residential tax class, when tax ratios were in excess of the Provincial Threshold.

In late 2005, Council approved a comprehensive property tax policy, "Enhancing Toronto's Business Climate - It's Everybody's Business", to improve the business climate in the City. In 2006, Council implemented the policy of limiting municipal tax rate increases within the commercial, industrial, and multi-residential tax classes to one-third of the residential tax rate increase (i.e., a 3% residential tax increase would result in a 1% non-residential tax rate increase). This measure was designed to reduce non-residential tax ratios to 2.5 times the residential rate over 15 years. In addition, the policy provided for an accelerated tax rate reduction for neighbourhood retail and small businesses that would see their tax ratios fall to 2.5 times residential over a 10-year period.

Other City efforts to enhance competitiveness have resulted in a successful agreement with the provincial government to reduce Business Education Tax (BET) rates for Toronto businesses closer to the average of surrounding GTA municipalities, creating a new, fair water rate structure for industrial and manufacturing companies and continuing the relief of development charges for the city's commercial industry.

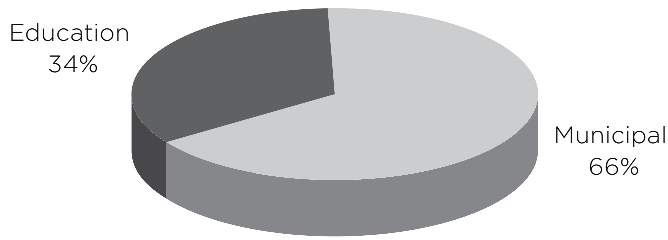
The Municipal Act and the City of Toronto Act mandate limits on re-assessment related tax increases (10% of the assessment value for the 2017 year for the commercial, industrial and multi-residential property classes). The tax revenue adjustments as a result of this cap, however, are fully recovered by tax adjustments that are clawed-back from properties facing tax decreases.

Special provisions to provide tax relief for low-income seniors and disabled persons, as well as charities and similar organizations, are also required. Tax relief policies in effect for 2017 include:

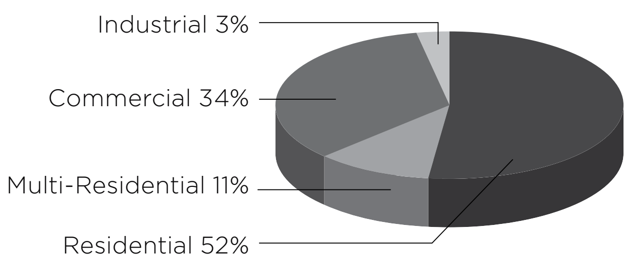
- The cancellation of any tax increase for seniors aged 65 or older, or disabled person living with a household income of $39,380 or less, who have occupied their home for at least one year, and the home's assessed value is equal or less than $850,000.
- The interest-free deferral of any tax increase for seniors aged 65 years or older, or aged 60-64 years and receiving a Guaranteed Income Supplement and/or Spousal Allowance, or aged 50 years or older and receiving either a registered pension or pension annuity, or disabled persons, receiving support from one or more specified disability programs, whose household income is $50,000 or less, and have owned the property for at least one year.
- A 40% rebate of taxes paid for registered charities owning or occupying space in commercial or industrial properties and meeting other conditions of the program.

City of Toronto Property Tax Levy

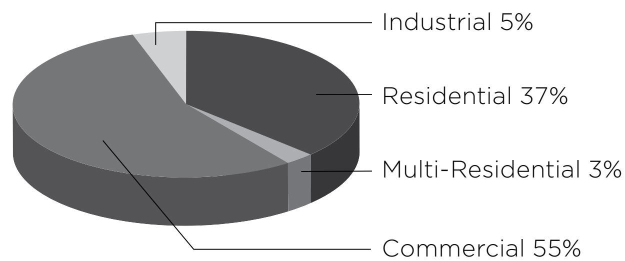
2017 Total Property Tax Levy $6.23 Billion



Municipal Levy 2017 – $4.101 Billion



Education Levy 2017 – $2.132 Billion



The chart below illustrates the 2017 taxes payable for the average household in Toronto with an assessed value of $587,471.

	2017 Tax Rate	2017 Property Tax
Municipal Purposes	0.4826472%	$2,835
Educational Purposes	0.1790000%	$1,052
Total	**0.6616472%**	**$3,887**

Funding Transfers from Other Governments

The City receives grants and subsidies from other orders of government which are mainly for mandated programs such as Social Assistance, Child Care, Public Health, Social Housing, and some Transit capital funding. These transfers represent about 21% of its Tax-Supported Operating Budget.

User Fees

User fees are the City's third largest source of funding for the Operating Budget after Grants and Subsidies from Other Governments. Excluding Rate-Supported Programs, the City collects approximately $2 Billion in user fee revenues annually through approximately 3,000 individual user fees. The largest component is TTC passenger fares of $1.2 Billion, which generates about 63% of the TTC's operating funding.

As a result of a comprehensive User Fee Review in 2011, City Council approved a new corporate policy for establishing the initial and annual price of a user fee and determining the amount that should be recovered.

A volume-based rate structure for Solid Waste Management Services was implemented November 1, 2008 to fund the service objective of 70% waste diversion. This funding plan transformed Solid Waste Management (garbage, recycling, green bin, litter prevention, landfill management and other diversion programs) from being property-tax-based to user-fee-based, and its fees have since been included in the City's Utility Bill, together with water charges. The entire Solid Waste Management program is funded from revenue other than property taxes (representing user fees, funding from Waste Diversion Ontario, and sales proceeds from recyclable materials).

Review the City's User Fee Policy at: *toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-40701.pdf*

Development Charges

Development charges are fees collected from developers at the time a building permit is issued and represent an important source of funding for the Capital Budget. The fees help pay for the cost of growth-related, eligible capital projects (and related operating costs). Most municipalities in Ontario use development charges to ensure that the cost of providing infrastructure to service new development is not imposed on existing residents and businesses in the form of higher property taxes.

City Council adopted a new Development Charges Bylaw on October 11, 2013, in accordance with the requirements of the Development Charges Act, 1997 and related Regulations. The City's Development Charges Bylaw was amended in 2015 to include costs associated with the Scarborough Subway Extension.

The following categories of services are eligible for varying pre-determined portions of development charge revenues:

- Spadina Subway Extension – 7.3%
- Transit (Balance) – 32.0%
- Parks and Recreation – 14.9%
- Library – 4.2%
- Subsidized Housing – 3.4%
- Police – 2.0%
- Fire – 0.9%
- Emergency Medical Services – 0.5%
- Development-related Studies – 0.7%
- Civic Improvements – 0.6%
- Child Care – 1.0%
- Health – 0.2%
- Pedestrian Infrastructure – 0.2%
- Roads & Related – 12.4%
- Water – 10.1%
- Sanitary Sewer – 7.6%
- Stormwater Management – 2.0%

Note: Percentages relate to Development Charges for a Two Bedroom and Larger Apartment on February 1, 2018.

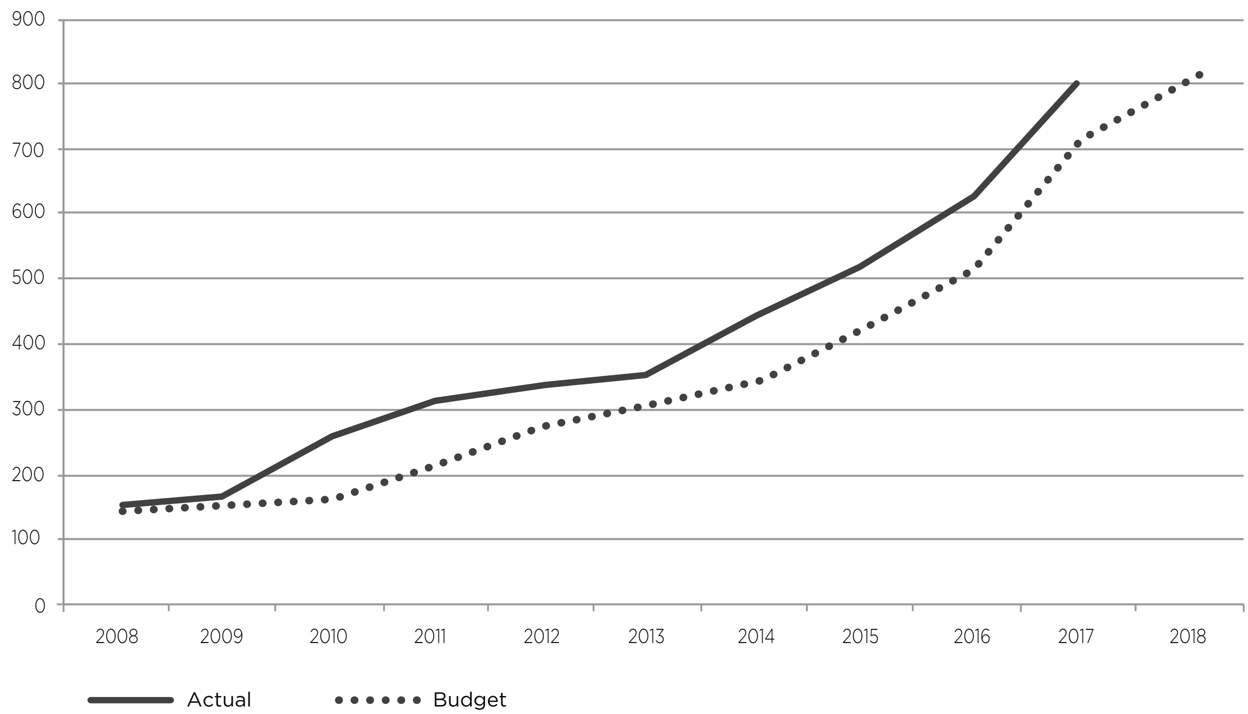
Other Taxation

The City of Toronto is the only Ontario municipality with the legislative authority (*City of Toronto Act, 2006*) to levy taxes other than property taxes. The Municipal Land Transfer Tax (MLTT) was implemented on February 1, 2008, and Personal Vehicle Tax (PVT) on September 1, 2008. On December 16, 2010, however, City Council approved the termination of the City's PVT effective January 1, 2011.

MLTT revenues continue to exceed expectations. In 2018, budgeted gross MLTT revenues were $818 million (including transaction fees). This represents an increase of $110 million or 16% when compared to the 2017 budget.

The chart that follows illustrates how actual revenues from 2008-2017 compare with budget revenues for the same period.

Municipal Land Transfer Tax
Budget vs. Actual Revenue ($ Million)



City Council approved the Third Party Sign Tax in 2009. Implementation of the tax, however, was delayed by a court challenge from the outdoor advertising industry. After a favourable court ruling in 2012, the City retroactively collected sign tax revenues for the period from 2009 to 2012. The Third Party Sign Tax generates approximately $11 million per year for the City.

Credit Rating

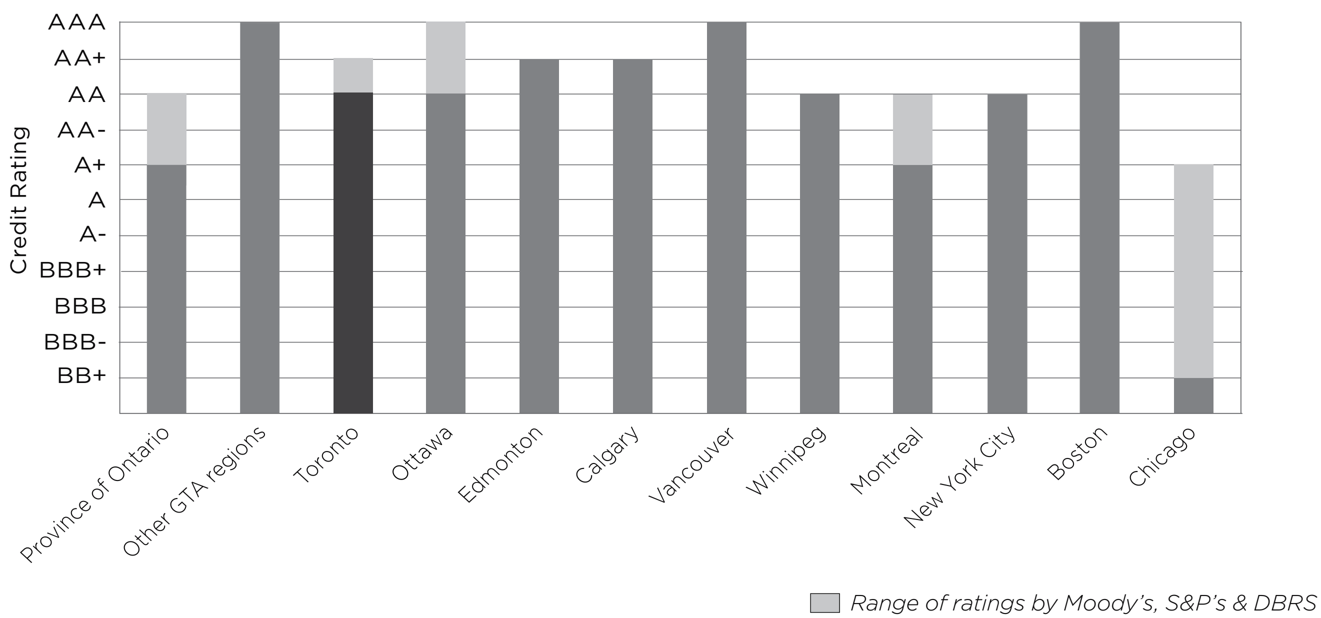
The City of Toronto is recognized as an important participant in global financial markets. The maintenance of a high-quality credit rating is essential to ensure that the City's ability to access the most cost-effective world capital markets will continue as it needs to borrow funds for capital purposes.

Credit rating agencies assess the City's financial position by comparing it with other cities and regions. A number of factors affect the credit rating, such as quality of management; strength of economy; level of reserves, state of repair of assets, debt levels, etc. If a municipality's current debt levels and future trends appear to be high, this will have a negative impact on its credit rating. If debt levels are considered low, this will have a positive impact. The rating essentially indicates the City's ability to make payments on the debt now and in the future.

Credit ratings affect the City's ability to borrow, as well as the cost of borrowing. A higher rating translates into a lower cost of borrowing, as well as a wider market for investors to invest in City debt. Below a certain rating, investors may have policies that don't allow them to purchase the City's debt. Then the City would have to offer a higher interest rate to attract investors.

The City's credit rating remains comparable to other large North American cities such as New York, Boston, Vancouver and Montreal.

Toronto's Credit Rating



Toronto's credit rating: Moody's: Aa1 (=AA+); DBRS: AA (stable), S&P's: AA (stable)

Currently, the City of Toronto's credit ratings are:

- AA with a stable outlook from Standard and Poor's Canada (S&P's) — confirmed October 20, 2017
- AA with a stable trend from the Dominion Bond Rating Service Ltd. (DBRS) — confirmed August 10, 2017
- Aa1 with a stable outlook from Moody's Investor Service — confirmed July 12, 2017

City of Toronto's Credit Rating History	1997 and prior	1998-2001	2002-2017
Dominion Bond Rating Service	AAA	AA (High)	AA (Stable)
Standard and Poor's	AA+/AAA	AA+	AA (Stable)
Moody's Investor Service	Aa2	Aa2	Aa1 (Stable) (Equivalent to AA+)

Credit Rating agencies regularly issue reports respecting the industries and individual issuers. Here are some of the excerpts from those reports that generally explained the high rating held by the City of Toronto:

"The stable outlook reflects our expectation that in the next two years Toronto's broad economy will continue to expand, supporting revenue growth...We believe the city's economic depth and diversity limits volatility, bolstering our assessment of its economy"

Standard & Poor's

"The ratings are supported by Toronto's large and dynamic economic structure as the leading commercial centre in Canada, its relatively low debt burden and considerable base of liquidity and reserves to manage unforeseen events."

Dominion Bond Rating Service

"The City of Toronto's Aa1 rating benefits from a low debt burden, a healthy liquidity profile evidenced by a net cash position, a large and diversified economic base as well as a track record of consolidated surpluses since 2008... The rating also reflects the city's additional unique taxation powers, which allow it to access additional revenue sources besides property taxes and user charges for environmental services."

Moody's Investors Services

Long-Term Financial Plan

The "Long-Term Financial Plan: The City of Toronto's Roadmap to Financial Sustainability" was presented to Executive Committee on March 19, 2018, with a recommendation for the City Manager to report back on individual strategies and key actions contained within the Long-Term Financial Plan, as appropriate, following the start of the 2019 to 2022 term of Council.

The Long-Term Financial Plan provides a framework for longer-term financial decision-making, including strategies and key actions to facilitate multi-year, integrated, strategic decision-making. It does not provide a detailed implementation plan, respecting the role of City Council and the existing political decision-making processes, in determining the way forward for Toronto. It offers a series of practical steps which, if assessed and implemented, will help City Council realize the positive vision it has established.

The key actions and strategies contained in the Long-Term Financial Plan are intended to improve the long-term financial stability of the City. Implementation of the actions and directions will shift how the City approaches financial decision-making through its annual budget, service and financial planning, key expenditure, revenue and asset strategies, and intergovernmental fiscal frameworks.

Key Challenges

There are four key challenges to delivering on Council's directions:

Moderate but growing risk, notably revenue volatility

- Municipal Land Transfer Tax
- Impact on current service levels

Gap between service commitments and revenue

- Growing gap between spending and Council directions for increased service levels

Modernization and transformation

- Needed to achieve efficiencies and savings

Intergovernmental transfers

- City still pays disproportionate share of costs for services that provide regional and province-wide benefit
- Uncertain intergovernmental relationships going forward

Key Principles

This report also outlines five principles to support Council's priorities. Within each principle, there are a number of key actions. How Council uses each principle and key action will be dependent on its desired strategic direction.

1. Better information to support strategic decision-making	2. Improve value for money	3. Secure adequate and fair revenue
Better use of existing Council decision-making processes, structures & tools	Set more strategic labour relations objectives	Adopt property tax policies to link tax increases with multi-year expenditures
Align policy & financial direction	Rebuild back-office functions & front-line operations	Reduce cyclical risk of MLTT by allocating portion of revenue to capital reserves
Implement operating & capital budget changes to support decision-making	Modernize & transform how the City does business	Ensure property development levies pay for cost of growth
Improve risk analysis & reporting	Adopt new models of procurement	Identify all costs & report annually on tax & fee discounts, rebates, exemptions
		Develop a user fees pricing strategy

4. Improve focus on financial balance sheet & financial health	5. Better integration with provincial & federal policies & fiscal direction
Establish goals and report on financial health measures annually	Continue to pursue shared policy outcomes with senior orders of Government
Review debt service ratio and increase limit, as appropriate	Development of a strategic intergovernmental approach based on Council's priorities
Review reserve and reserve fund adequacy	Augment provincial and federal investments in Toronto in a fair and equitable manner
Explore revenue performance of Toronto Hydro & Toronto Parking Authority	
Optimize investment returns through Investment Board	

Performance Measurement and Benchmarking Results

To provide context when examining Toronto's service delivery performance, it is important to consider that municipal property taxes represent approximately 10.5 % of the total taxes, in all forms, paid annually by an average Ontario family to all orders of government. These various forms of taxes include income taxes, consumption taxes such as the Harmonized Sales Tax, and embedded taxes, which are included in the price of items such as gasoline, liquor and tobacco. Property tax is based on a percentage of the assessed value of land and buildings. Property tax is highly visible as it is one of the only forms of tax where taxpayers receive a bill. The discussion that follows on Toronto's performance is focused on how Toronto utilizes its 10.5% share of the total tax dollar.

Toronto's annual Performance Measurement and Benchmarking Report (PMBR) is based on data from The Municipal Benchmarking Network of Canada (MBNCanada). The City of Toronto builds on MBNCanada data to compare to 15 other national municipalities and reflect on the City of Toronto's historical trends. The Report includes:

- Approximately 230 service/activity level indicators and performance measurement results for 36 service areas;
- Over 10 years of Toronto's historical data to examine short and long term internal trends, as well as results compared externally to 15 other Canadian municipalities (ranked by quartile);
- Web links where similar neighbourhood-based data for Toronto is available through Wellbeing Toronto to complement the city-wide information in the report;
- Results from various international rankings and reports issued by external organizations comparing Toronto to other international cities.

By examining our own operations and working with other municipalities through the MBNCanada, these processes encourage Toronto's service areas to continuously look for opportunities to improve operations and performance.

Summary of Toronto's Results

Toronto is unique among Canadian municipalities because of its size and role as Ontario's and Canada's economic engine. It is also the centre of Ontario's business, culture, entertainment, sporting and provincial and international governance activities.

Despite the unique characteristics of Toronto, there is value in comparing results to other municipalities. Through the MBNCanada partnership, performance measurement results are shared between municipalities and are included in Toronto's own Benchmarking Report. Toronto's results are ranked and placed in quartiles relative to the other participating municipalities.

By examining our own operations, and by working with other municipalities through the MBNCanada process, these practices encourage Toronto's service areas to continuously improve. The 36 municipal services included in the Report each have a colour coded summary of results, a reference to their respective charts and a detailed narrative for 208 indicators and measures.

Highlights of Toronto's overall results are described below.

- Initiatives to improve customer service
- Initiatives to improve efficiency
- Initiatives to improve effectiveness
- Initiatives to improve the quality of life for Torontonians

Internal Trends – Service/Activity Level Indicators
Examples of areas in which Toronto's service levels or levels of activity have increased or remained stable include:

- More transit vehicle hours per capita were provided
- More investment/expenditure per 1,000 Children (12 & under)
- More licenses issued per 100,000 population

Internal Trends – Performance Measures
Examples of areas in which Toronto's performance indicators improved include:

- Higher regulated child care spaces in municipality per 1,000 children (12 & under)
- Shorter time to resolve a complaint
- Higher number of green vehicles in Toronto's Fleet Services
- Higher number of visits to municipal website per capita
- High rate (94%) of satisfaction among long-term care home residents and families
- Decrease in the level of uncollectable amounts (low rate of bad debt expense)

External Comparison – Service/Activity Level Indicators

Examples from the Report where Toronto has higher service levels in relation to other cities include:

- Highest rate of transit vehicle hours provided
- Higher number of library holdings/collections per capita
- Higher number of formal MFIPPA requests per 100,000 population
- Higher number of total police staff (officers and civilians) per 100,000 population compared to others
- High levels of participant capacity for registered Sport and Recreation programs

External Comparison – Performance Measures

Changes in Toronto's quartile ranking for individual measures are more likely to occur over a five-year period or longer. Areas where Toronto has the top/best result in comparison to the other municipalities include:

- Highest rate of library (electronic and non-electronic) uses per capita
- Lower rate of by-law complaints by Toronto residents
- Highest percentage of residential waste diverted for houses (Curbside) and highest percentage of residential waste diverted for multi-residential
- Lower reported number of property crime incidents per 100,000 population compared to others

For additional information on the City of Toronto's Benchmarking Report, please visit:
toronto.ca/city-government/data-research-maps/toronto-progress-portal

Other Methods of Assessing Toronto's Progress

Toronto's award-winning initiatives

Many City of Toronto programs and initiatives receive awards from external organizations. Some examples of these awards are presented below.

- The **City of Toronto** was named one of Canada's Best Diversity Employers 2018 for its exceptional workplace diversity and inclusiveness programs.
- The **City of Toronto** is a recipient of Excellence Canada's Bronze award in Excellence, Innovation & Wellness. This achievement recognizes the City's commitment to continuous improvement, excellence and innovation.
- **2017 Planning Excellence Award in the Planning Publications and Media Category, Canadian Institute of Planners (City Planning)**. This award was presented to the City Planning division for The TOcore Avatars initiative. The TOcore avatars are fictional characters based on demographic data, created as a key component of the planning process for Toronto's new downtown plan.
- **Excellence in Municipal Systems Awards, MiSA Ontario (Municipal Licensing & Standards and Information & Technology)**. The City's Vehicle for Hire Legislation Solution and Enterprise Geospatial Environment were recognized with the Excellence in Municipal Systems Award. Both these solutions furthered the City's strategic objectives using information technology, an improvement in service delivery to clients, residents and businesses, and a high level of collaboration between City divisions.
- **Digital Transformation Award, CIO Association of Canada (Municipal Licensing & Standards and Information & Technology)**. The City's Vehicle for Hire Legislation Solution won the 2017 Digital Transformation Award in the large public sector category. Selected from over 25 finalists, the inaugural Digital Transformation Award recognizes excellence in digital transformation in Canada.
- **E.A. Danby Award, Association of Municipal Managers, Clerks and Treasurers of Ontario (Municipal Licensing & Standards)**. The City was awarded the 2017 E.A. Danby Award for the implementation of the new Vehicle for Hire legislation from the Association of Municipal Managers, Clerks and Treasurers of Ontario. This award is presented to municipalities that demonstrate an initiative or a willingness to explore innovative techniques, resulting in greater efficiency for the municipality.
- **National Award, Canadian Society of Landscape Architects (Parks, Forestry & Recreation)**. The City of Toronto's Peace Garden in Nathan Phillips Square was recognized with the National Award for Public Landscapes Designed by a Landscape Architect presented by the Canadian Society of Landscape Architects.
- **Canada Blooms 2017 Awards (Parks, Forestry & Recreation)**. The City of Toronto Parks, Forestry & Recreation division won Canada Blooms 2017 awards in the categories of Outstanding Interpretation of Show Theme, Outstanding Use of Interior Plants and Best Overall Use of Colour.
- **2017 North American Garden Tourism Conference Awards (Parks, Forestry & Recreation)**. Various gardens across the City of Toronto gardens were recognized with the Canada 150 Garden Experience designation as part of the North American Garden Tourism Conference awards.
- **President's Award, Women's Business Enterprises (WBE) Canada (Purchasing & Materials Management, Social Development, Finance & Administration, and Equity, Diversity & Human Rights)**. The City of Toronto was recognized as having outstanding leadership of the City's social procurement work in supporting Supplier Diversity in Canada by advancing support and knowledge at the municipal level as well as provincial and federal levels.

- **2017 Program Ambassador of the Year Award, Canadian Gay and Lesbian Chamber of Commerce (Purchasing & Materials Management, Social Development, Finance & Administration, and Equity, Diversity & Human Rights)**. On behalf of the City's Purchasing & Materials Management division, Director Mike Pacholok was awarded the 2017 Program Ambassador of the Year Award from the Canadian Gay and Lesbian Chamber of Commerce. This award recognizes the City's work on social procurement, specifically supplier diversity.
- **Canadian Health Care Campaign of the Year Award of Excellence, Canadian Public Relations Society (Toronto Public Health)**. Toronto Public Health's condomTO Wrapper Design Contest was celebrated for its creative and innovative approach to engaging Toronto's youth in conversations about sexual health and condom use.
- **Communications Management Award of Merit – IABC Toronto OVATION Awards, IABC Canada (Toronto Public Health)**. Toronto Public Health's condomTO Wrapper Design Contest was celebrated with a Communications Management Award of Merit for its creative and innovative approach to engaging Toronto's youth in conversations about sexual health and condom use.
- **Excellence Awards, Solid Waste Association of North America (Solid Waste Management Services)**. The City of Toronto was honoured with two Excellence Awards from the Solid Waste Association of North America. The City received a Gold Excellence Award in the Integrated Solid Waste Management System category for the City's Long Term Waste Management Strategy, and a Bronze Excellence Award in the Landfill Management category for the City's Green Lane Landfill.
- **Gold Promotion & Education Awards, Municipal Waste Association (Solid Waste Management Services)**. The City of Toronto won two Gold Promotion & Education Awards from the Municipal Waste Association for the Recycle Right campaign and 3Rs Ambassador Volunteer Program. The Recycle Right campaign was designed to address contamination in the Blue Bin recycling stream by making residents aware of the most common mistakes and costly consequences of putting things in the Blue Bin that don't belong there. The 3Rs Ambassador Volunteer Program engages resident volunteers living in apartments and condos to teach their neighbours how to increase the amount that they reduce, reuse and recycle.

More detailed information about awards received by City divisions can be found online at:
toronto.ca/city-government/accountability-operations-customer-service/city-administration/city-managers-office/awards/

The City Manager's Awards for Toronto Public Service Excellence

In addition to various external awards, the City Manager's Office also recognizes divisional and cross-corporate initiatives. On September 14, 2017, the 2016 City Manager's Awards were presented to five categories:

- **Leadership: Gender Inclusive Washroom Policy & Campaign** – Awarded to Toronto Public Health for collaborating and implementing policy by training staff on creating a safe space for people to use the washroom that matches their gender identity and/or expression, regardless of their sex assigned at birth.
- **Customer Experience: Making Registration Better** – Awarded to Parks, Forestry and Recreation and Information & Technology for the improvements to the customer service model, the parks programming registration web page and technical support systems.
- **Employee Experience: Service Delivery Model (SDM) Renewal** – Awarded to Toronto Employment & Social Services (TESS). TESS provides employment supports, financial benefits and social supports to Toronto residents on a daily basis. TESS took a user-centered approach to create the new divisional Access Model. They engaged and empowered front-line staff to not only champion change, but also to own and drive it.

- **Innovation: Embracing Disruptive Technology and the Sharing Economy: Implementation of new Vehicle-for-Hire Legislation and Technology** – Awarded to Municipal Licensing & Standards, Information & Technology for representing a landmark policy change for the City's ground transportation industry, establishing a new business model that reflects technological innovations that have disrupted the existing taxi industry and regulates the new private transportation industry.
- **Partners: Specialized Program for Interdivisional Enhanced Response to Vulnerability (SPIDER)** – Awarded to Social Development, Finance & Administration (SDFA); Municipal Licensing & Standards (MLS) and Toronto Public Health (TPH). The purpose of SPIDER is to enhance partnerships that improve the effectiveness in reducing acutely elevated health and safety risks affecting vulnerable Torontonians. Through the partnership model, SPIDER has responded to over 100 complex situations of elevated health and safety risk. SPIDER has been praised for its "bold, imaginative, and courageous ways of cutting across silos and putting the right expertise in the right place."

For more information about current and past City Manager's Awards for Public Service Excellence, please visit: *toronto.ca/city-government/accountability-operations-customer-service/city-administration/city-managers-office/awards/*

The World Council on City Data (WCCD) and ISO-37120 Standards

In addition to the benchmarking and performance initiatives described in the sections above, there is also a need to complement existing benchmarking work within Canada by comparing Toronto's results to other global cities.

Toronto, in partnership with the Global Cities Indicator Facility based at the University of Toronto, is a member of the World Council on City Data (WCCD) and recently released a new International Standard for city indicators, or the ISO-37120. The availability of reliable and comparable indicator data as a result of the ISO-37120 certification process has afforded Toronto the opportunity to work with other global cities, who are also WCCD members, to compare, share and learn from each other on different approaches to urban issues such as gridlock, adequate city revenue tools, aging infrastructure, air quality, aging populations, youth unemployment, public safety and social inequity. The WCCD Foundation cities that are certified with ISO-37120 platinum designation in 2016 include:

Saint-Augustin-de-Desmaures, Canada
San Diego, U.S.A.
Surrey, Canada
Koprivnica, Croatia
Zagreb, Croatia
Cambridge, Canada
Eindhoven, Netherlands
Heerlen, Netherlands
Pune, India
Boston, U.S.A.
Shawinigan, Canada
Brisbane, Australia
Oakville, Canada
Taipei, Taiwan
Doral, U.S.A.
Torreón, Mexico
Guadalajara, Mexico
Vaughan, Canada

The indicators currently identified by ISO-37120 cover a total of 100 indicators across a range of themes relating to quality of life indicators, as well as indicators on service levels and the outcomes or impacts that these services have on residents. WCCD Certification levels are based on the number of indicators reported by the city. WCCD offers a wide range of certification levels: Aspirational, Bronze, Silver, Gold, and Platinum. The responsibility of city governments under these theme areas can vary from one country to another, as well as within a country. Federal and Provincial or State governments can play an important role in the outcomes in many of these theme areas.

Using the ISO standardized city indicators provides cities with a common language and standardized technical definitions in measuring city performance, as well as a global framework for third-party verification of city data. International standardization of city data is important so that the data is reliable and useful for making meaningful comparisons among cities.

Comparable data supports more informed and fact-based decision making on urban issues that are important to residents, and will enable cities to share better practices in becoming sustainable and prosperous.

WCCD data from Toronto, and other participating cities is available at *dataforcities.org* and efforts are underway to allow Toronto to compare its results relative to these other cities. Toronto's 2013 results can be found on the City's website.

Toronto Progress Portal

The Toronto Progress Portal website (*toronto.ca/city-government/data-research-maps/toronto-progress-portal/reports-on-how-toronto-is-doing*) is an initiative intended to consolidate, in one location, multiple sets of performance and indicator data and other information. It allows users to better understand how Toronto is progressing over multiple dimensions. The Progress Portal includes information or links to items such as:

- Metrics related to service delivery
- A dashboard that describes the social and economic conditions for Toronto
- Toronto's position in various world rankings authored by third parties
- Neighbourhood-level indicators
- International Rankings

Balancing the optimal combination of efficiency and customer service/community impact requires ongoing commitment. City staff are responsible for the efficient delivery of services, while considering the highest customer service and/or positive impact on the community as possible. At the same time, the City adheres to the financial resources and associated service levels and/standards approved by Council. An isolated focus on efficiency may have an adverse effect on customer service or community impact, and vice versa.

The Toronto Progress Portal measures its performance to identify where the City is doing well and where more effort or new approaches are needed. This knowledge strengthens the City's accountability and enhances transparency for everyone.

For additional information on the City of Toronto's progress, please visit:
toronto.ca/city-government/data-research-maps/toronto-progress-portal/

Treasurer's Report

Mike St. Amant
Treasurer

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 31.
Consolidated Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, surplus for the year and accumulated surplus 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.

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 is reflected in Note 18 to the Consolidated Financial Statements. The components of the accumulated surplus are:

- Amount invested in capital assets;
- Operating fund, capital fund, reserve and reserve fund balances; and,
- Amounts to be recovered from future revenues.

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 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.

Financial Condition

An important measure of any government's financial condition is its Net Debt (also referred to as net liabilities): calculated as liabilities (i.e., trade and employment payables, mortgages and debentures) less financial assets (i.e., 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 – Five-Year Summary ($'000s)**

Net Debt	**4 Year Average Annual Increase**	**2017**	**2016**	**2015**	**2014**	**2013**
Liabilities	6.83%	17,125,633	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 are 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 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:

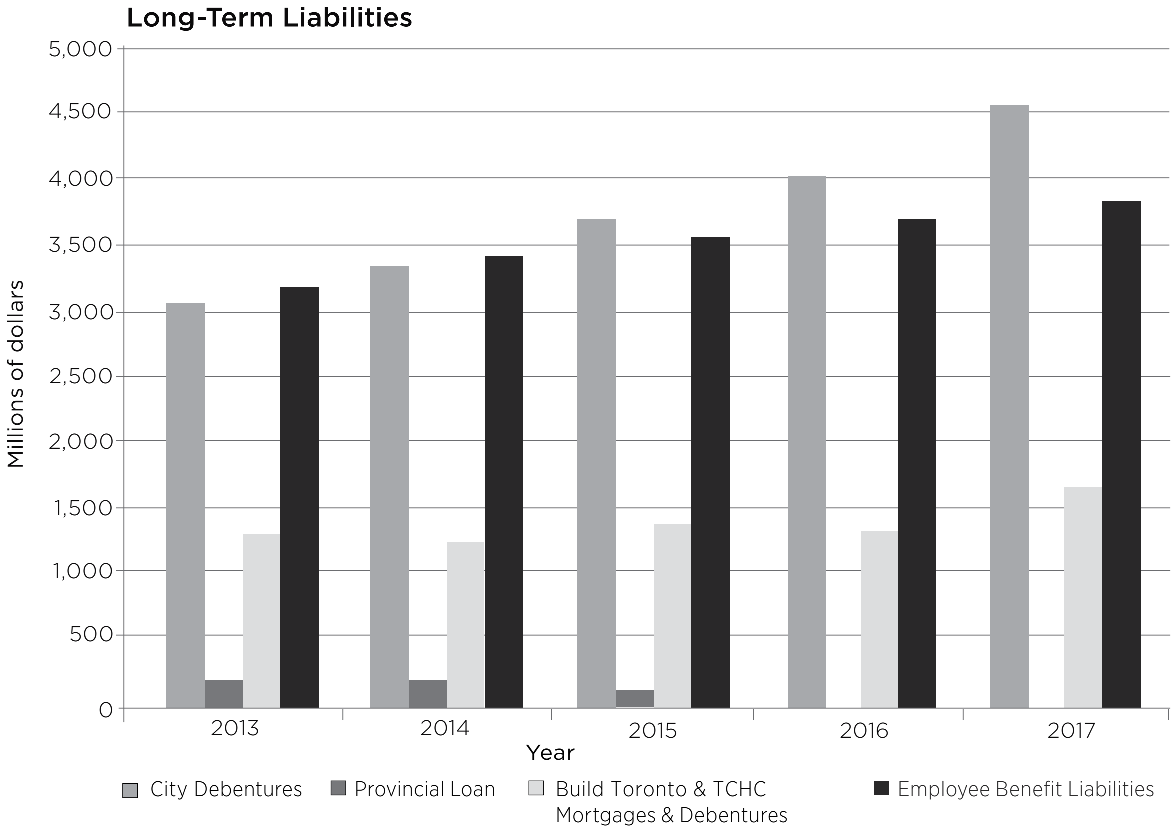
- An increase of $125M in the net employee benefit liabilities as gross employee benefit liabilities increased by $215M reduced by $90M of unamortized gains; and
- A net increase of $830M in mortgages and net long-term debt.

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 3.3% in 2017 primarily due to a 5.7% increase in WSIB obligations and 6.6% 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.

Chart A



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.

Chart B

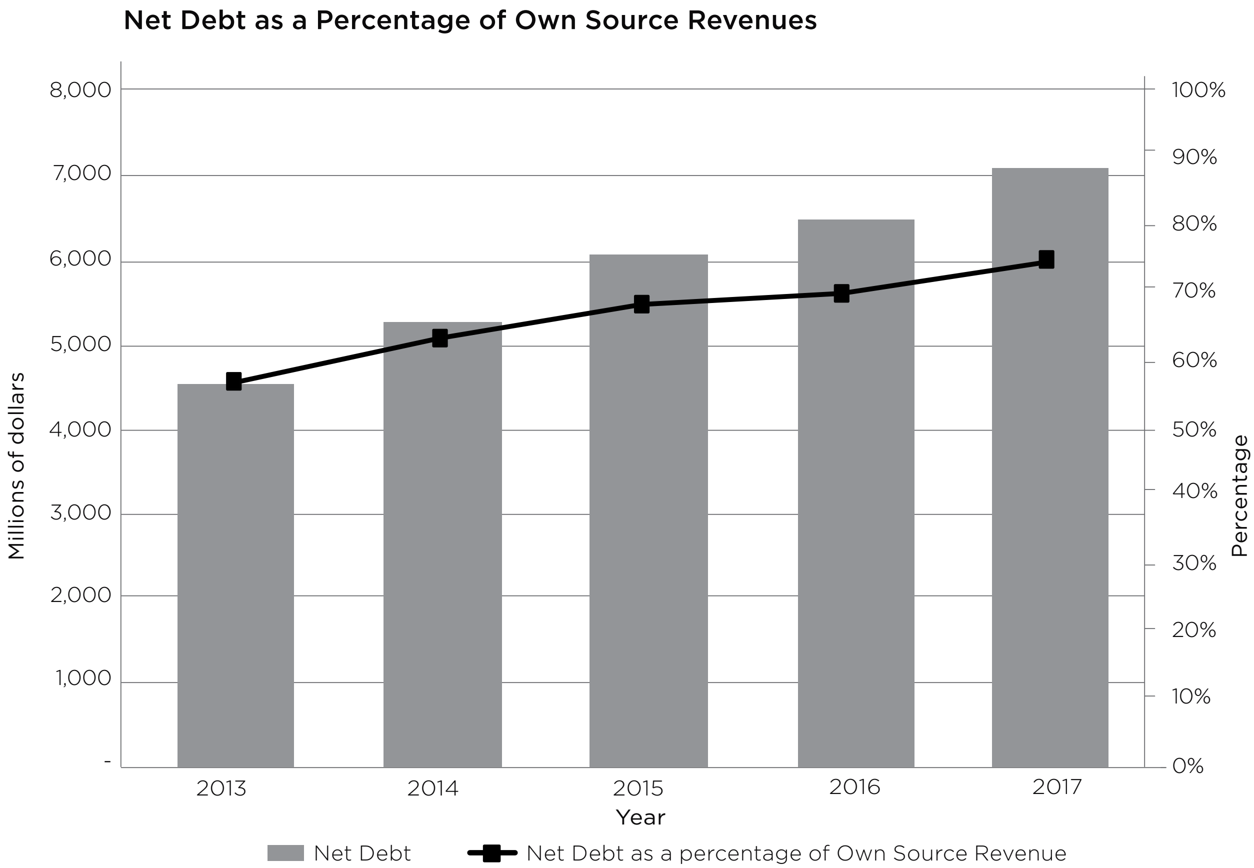
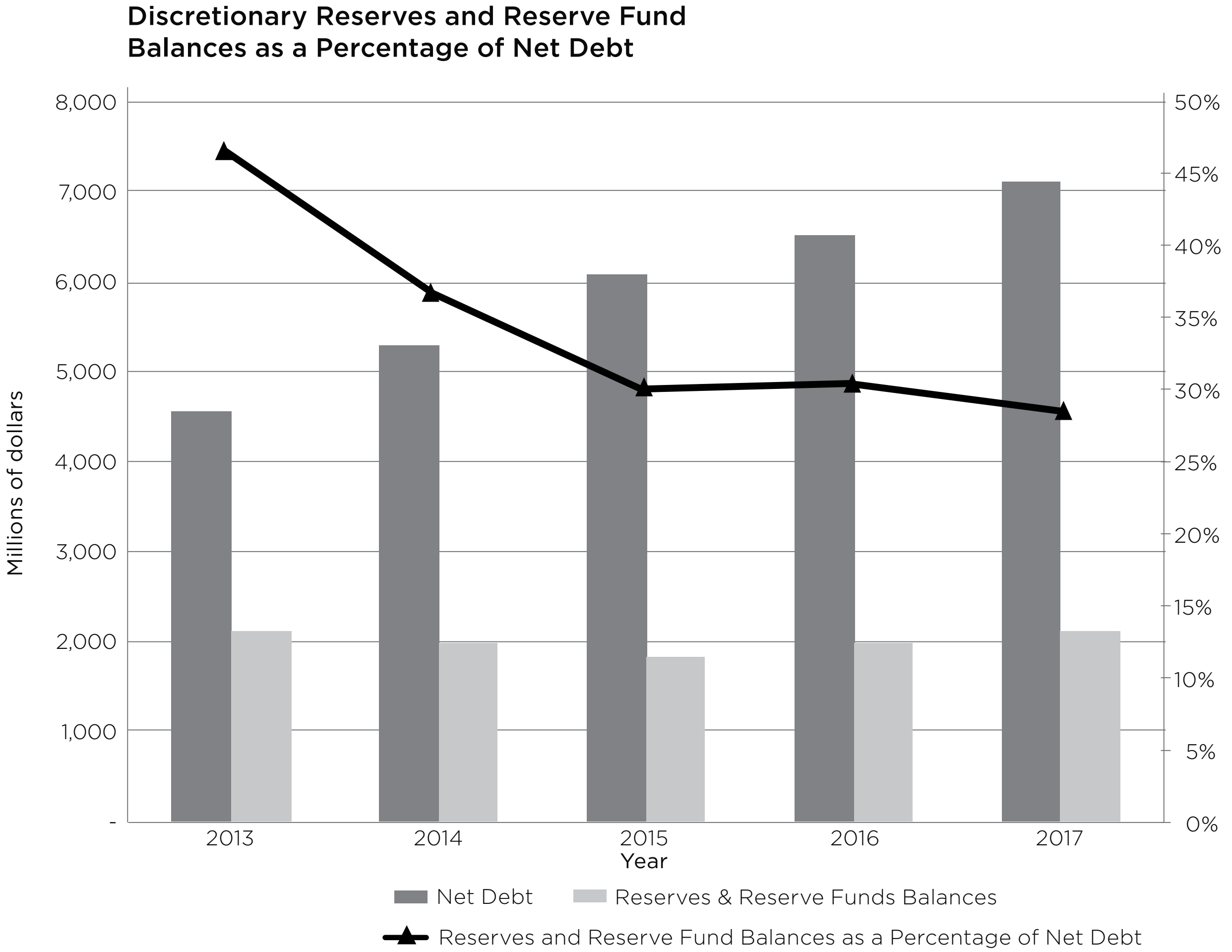


Chart C



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 Reserves, and the transfer of $119M to the Water and Wastewater Capital Obligatory Reserve Fund from the Water and Wastewater Stabilization Reserves. The vast majority of the reserve and reserve funds are committed to fund capital projects identified in the 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 (i.e., 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.

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:

(in $'000s)

Accounts Receivable	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 York Region municipal government ($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 Provincial Offences Act (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 $'000s)

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)
Net Receivables	**253,311**	**261,071**

Other Assets (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:

(in $'000s)

Accounts Payable	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;
- Net decrease in environmental liabilities for TTC and Build Toronto of $6.6M; and
- 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)
– TCHC	(2.5)
– Lakeshore Arena Corporation	(19.6)
– Other ABCs	(2.3)
Interest earned on sinking funds	(58.1)
Mortgage repayments – TCHC	(78.2)
Total	**830.5**

Table 2 below lists all consolidated debt issued in 2017.

Table 2

Debt Issued – 2017 ($'000s)

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
Total	**1,312,042**	**414,509**	**200,000**	**26,700**	**670,833**

Table 3 lists consolidated net long-term debt from all sources for the past five years:

Table 3

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

	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 4

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 LTD	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 5 shows employee benefits liabilities by entity.

Table 5

Employee Benefit Liabilities by Entity ($'000s)

	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 Firefighters), 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.

Consolidated Annual Accounting Surplus

Table 6

Consolidated 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 6 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 7 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 7

Consolidated Revenues – Five-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 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, sidewalk 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; and
- 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 favourable 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.

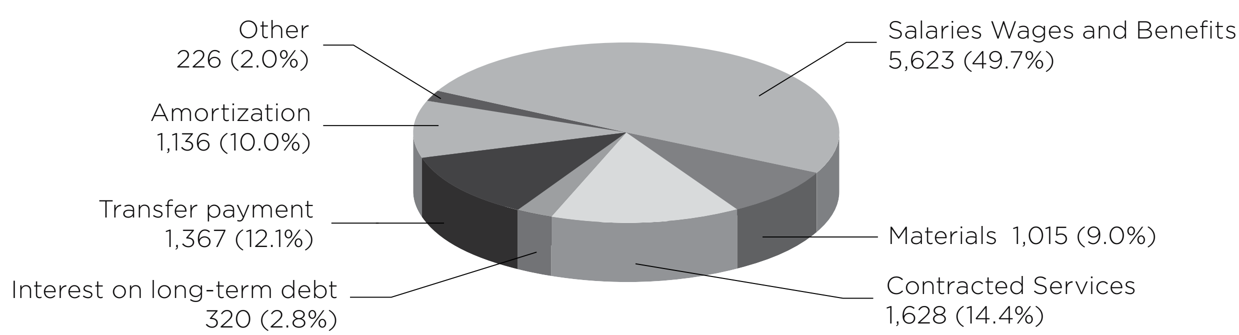
• Planning and development was lower than budget by $117M due primarily to:
  - Lower than budgeted expenditures at Build Toronto of $52M due from delays in the sale of properties;
  - Lower spending of $8M on various streetscape and façade improvement projects; and
  - Lower than budgeted spending of $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 49.9% of the total amount. Principal repayments on debt are not included in accounting analyses, as they are considered financing transactions for accounting purposes and are not considered expenses.

Chart D

Expenses by Object
(in millions of dollars)



Note 20 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenses by object.

Risks and Mitigation

The City continues to face a number of risks that could have a negative impact on the City's financial future. These risks include:

- Growing demand for services;
- 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 continuing to implement its Long-Term Financial Plan. Appendix A lists seven specific financial issues/risks and the actions taken in 2017 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, presented to Committee in early 2018.
- 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, 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.

Mike St. Amant	Toronto, Canada
Treasurer	July 23, 2018

Appendix A: Key Issues/Risks Facing the City of Toronto

Issues / Risk	Actions Taken with Impacts in 2017	Actions planned for 2018 and beyond
The City is challenged to respond to and fund increasing demand for services associated with population growth, traffic congestion, housing affordability and poverty reduction.	• In 2015, City Council adopted a Poverty Reduction Strategy with a set of actions to be carried out over a four-year period. The 2017 work plan contained 91 initiatives, most of which were achieved or being actioned during 2017. • City Council had previously adopted a Housing Opportunities plan and a new Open Door Affordable Housing Program to address the need for affordable housing. In 2017, the City oversaw approximately 4,000 affordable homes being built or repaired (to be completed within one to four years). • In 2017, City Council approved a "Tenants First" implementation plan for the first phase of reforming TCHC and invested an additional $37M into TCHC's operating budget. The City is also providing additional funding to enable TCHC to address its state of good repair backlog. • 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. • With support from the other orders of government, including $34.5M in provincial funding and $21.5M from the Federal government, the City increased access to affordable child care from birth to age 12, through additional fee subsidies, access and affordability measures and capital expansion funding. • In 2017, to make transit more affordable, the City extended its fare equity program (originally targeted to children 12 years of age or younger) to low-income adults aged 20 to 64, providing the same reduced fare available to youth, students and seniors. • To increase employment opportunities, the City has partnered with two major programs – the Partnership to Advance Youth Employment (PAYE) and Youth Employment Partnerships (YEP), which in 2017 connected more than 4,200 youth to employers recruiting and learning and networking events. Toronto Employment and Social Services (TESS) in 2017 began providing wrap-around	• The 2018 Poverty Reduction Strategy Work Plan includes 73 initiatives to further advance the Strategy. • In 2018, the City will continue to aggressively pursue its annual targets of 1,000 new affordable rental and 400 new affordable ownership homes. • In 2018, the City will implement further actions in the reform of TCHC, including the creation of Seniors Housing and Services Entity and other initiatives to modernize the social housing system. • For 2018, in response to the unprecedented demand for shelter, the City is targeting to open 1,000 new shelter beds, with three new shelters to be opened by the end of 2018. • In 2018, the City plans to add an additional 825 subsidies for younger children. 250 new spaces will be added from the remaining balance of the 2017 Canada-Ontario allocation, while the City's growth strategy proposes to add $11.2M in new capital investments to build three child care centres, creating approximately 180 new spaces. • For 2018, it is proposed that the fare equity program provide reduced fares to Toronto residents receiving support from Ontario Works and the Ontario Disability Support Program. • In 2018, employment partnerships will continue, and will build on key learnings in pursuing new approaches. •

<table>
<tr><th>Issues / Risk</th><th>Actions Taken with Impacts in 2017</th><th>Actions planned for 2018 and beyond</th></tr>
<tr><td>cont'd</td><td>• support to Ontario Works clients with complex needs through a new intensive case management pilot program. In 2017, the City also became the first municipality in Canada to implement a Social Procurement Program.</td><td></td></tr>
<tr><td>Demands for growth as laid out in the City's Official Plan or other Sectoral and Program plans are not adequately funded.</td><td>• 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, including public consultations.
• Development of an updated development charges bylaw and Background Study to reflect the City's growth-related capital plans and changes to Provincial legislation.
• 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).
• Council approved road tolling as a new revenue source for the City. The Province later rejected road tolls, but also announced a doubling of provincial gas tax rates for municipalities to be phased in over five years starting in 2018.</td><td>• A new Long-Term Financial Plan was presented in early 2018 for consideration by Committee.
• Continue to refine cost estimates related to growth plans.
• Continue to work with the Province and Metrolinx to plan new transit infrastructure.
• Seek approval of an updated development charges bylaw and Background study reflecting updates to the City's growth-related capital plans and required changes to Provincial legislation.
• Continue to direct funding to the infrastructure backlog.
• Continue to advocate for provincial legislative changes to the Development Charges Act, such as eliminating ineligible costs and services and eliminating the 10% statutory rate discount.
• Work with the Province to find better mechanisms to increase the pricing of public goods, including the potential for congestion pricing on a region-wide basis.</td></tr>
<tr><td>There is a variability in certain program expenditures from year-to-year, some of which are vulnerable to economic down turns and interest rate fluctuations.</td><td>• Continued to work with the Province on a Toronto-Ontario partnership agreement for permanent, sustainable transit-operating funding.
• Continued to monitor and take action on other risks impacting the City with potential financial impacts:
    • Climate change adaptation and environmental risks management;
    • Interest rate changes on Social Housing costs, investment returns and debt charges; and
    • Affordable housing alternatives and the end of federal subsidies.
• In accordance with the City's Surplus Management Policy, select Reserves and Reserve Funds were allocated 2016 Operating Surplus funds in 2017 to accommodate fluctuations in demands.
•</td><td>• Through the Social Service upload, the Province has re-established the principle that income support programs should not be funded from the property tax base. As such, the City will continue its discussion with the Province regarding its funding responsibilities for Social Housing.
• Continue to negotiate with the Province on permanent, sustainable transit-operating funding and the need for sustainable capital funding sources for affordable and public housing and priority transit/transportation projects.
• Implement the new Community Homelessness Prevention Initiative (CHPI).
• Closely monitor key economic indicators and market conditions to identify trends and forecast impacts on expenditures and revenues, and continue to develop funding strategies to mitigate financial risks.
• Continue to monitor the adequacy of the City's Reserves and Reserve Fund balances.</td></tr>
</table>

<table>
<tr><th>Issues / Risk</th><th>Actions Taken with Impacts in 2017</th><th>Actions planned for 2018 and beyond</th></tr>
<tr><td>Business property taxes are not competitive with the surrounding urban area (905 area code).</td><td>The City has continued the implementation of the “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 2020, and further, to provide for an accelerated reduction in tax rates for smaller businesses, with a target of 2.5-times the residential rate by 2015 (which was met in 2015). For 2017, the target date was revised to 2023 to reach a ratio of 2.5-times the residential rate.</td><td>To continue with the Business tax reduction strategy, under the revised timeframe.
The City will also consider tax policy options to address unprecedented tax increases on businesses in high-growth areas, including options to support sector specific groups, such as art and culture.
Public consultations are planned to be undertaken in 2018 to identify options for tax policy in 2019 and beyond, including any necessary legislative/regulatory changes needed.</td></tr>
<tr><td>The City lacks adequate revenue sources to fund its municipal responsibilities.</td><td>Province announced a doubling of Provincial Gas Tax revenue for municipalities that is expected to grow from $162M to $320M by 2022.
Municipal Land Transfer Tax (MLTT) continued to attract a record level of revenue in 2017 ($805M).
Council approved a new City of Toronto Investment Policy at its meeting on December 5-8, 2017 allowing the City to invest its general and sinking funds, according to the “Prudent Investor” Standard. The new policy provides the City with the opportunity to improve investment revenues without incurring additional risk.
City Council endorsed the creation of a hotel and short-term rental tax subject to receiving the necessary legislative authority, and directed staff to report back on the proposed design features and implementation authorities.
Continued to undertake continuous improvement, program reviews and cost containment initiatives, and to develop the service-based, multi-year Financial Planning, Analysis and Reporting System (FPARS).
The City Manager’s Office continued work on Council’s direction for expanded gaming at Woodbine Racetrack, associated increase in revenues to the City.</td><td>Consider reporting annually to Council on the estimated foregone revenues associated with tax and fee discounts, waivers, rebates, deferrals and exemptions.
Identify the full cost of all services, including operating costs, capital costs, overhead and externalities in order for Council to decide where user fees and rates can be set to recover the full cost of these services.
Begin diversifying City investments according to the new provincial “prudent investor” standard so as to earn improved risk-adjusted rates of return.
Continue to advance strategies and actions through the Long-Term Financial Planning process to guide the City in the development of a multi-year expense management plan and revenue strategy as well as revised budget processes, as required.
Conduct an analysis to determine the potential of progressive residential property tax rates as a revenue generating opportunity and a means to address inequality in the tax system.
Continue dialogue with Provincial Government regarding legislative/regulatory reforms necessary to implement new taxes for 2018 and future years.
Maintain continuous improvement initiatives including enhanced performance measures and benchmarking.
Continue to implement shared services between the City and its agencies for common corporate functions to improve service delivery and customer service, and/or achieve cost savings by the end of 2018.</td></tr>
</table>

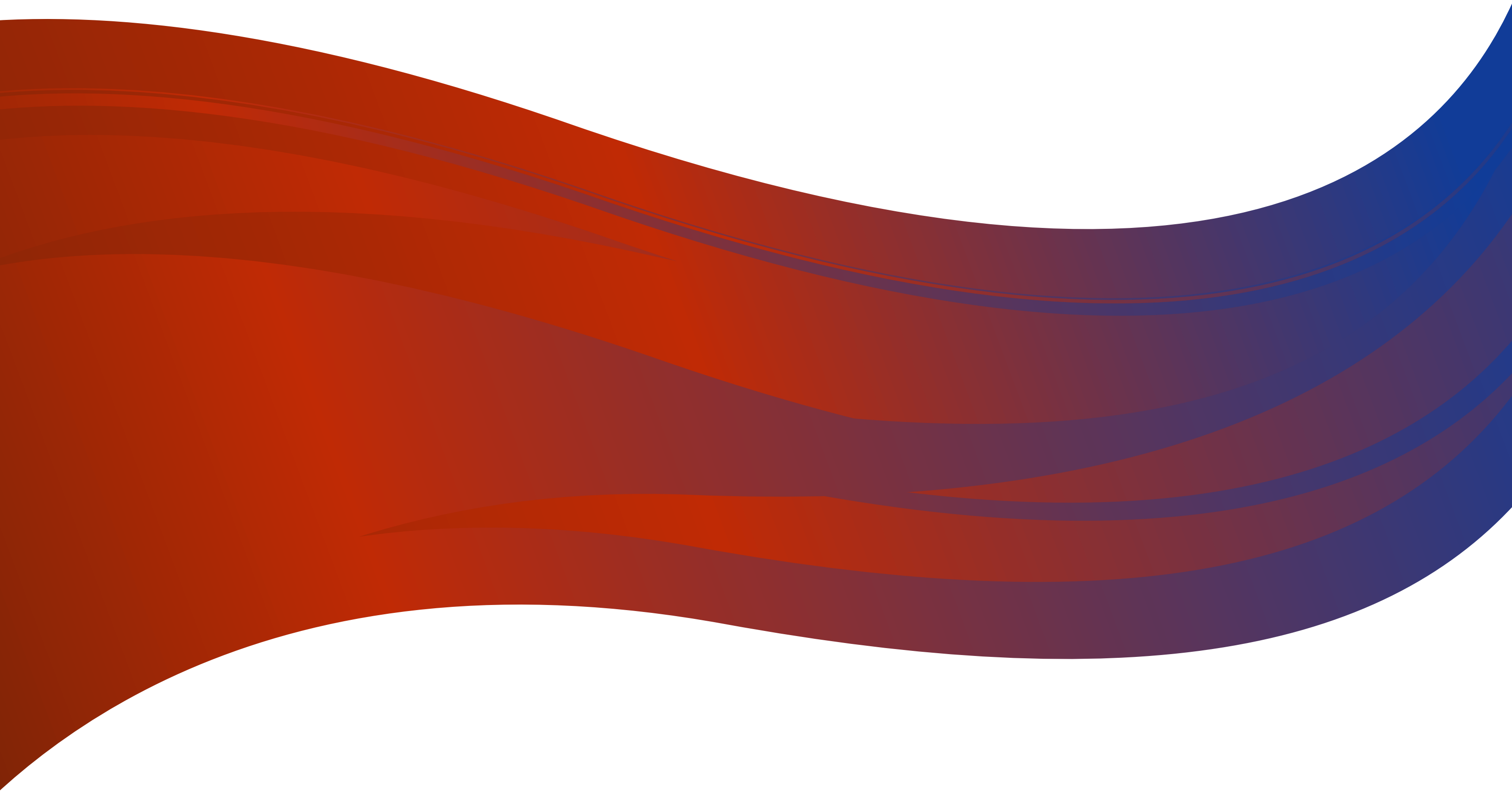
Issues / Risk	Actions Taken with Impacts in 2017	Actions planned for 2018 and beyond
City's investment in aging infrastructure has been lagging.	• The City continued to plan for capital on a 10-year basis. • 75% of the 2016 Operating Budget Surplus transferred to the Capital Financing Reserve for funding priority transit and transportation infrastructure projects. • Continued to grow Capital-from-Current funding by 10% annually. • As part of the 2016 Budget, Council approved a new dedicated property tax levy for priority transit and housing capital projects (Capital Building Fund) to be phased in over five years starting in 2017.	• Continue to develop firm 10-year Capital Plans with an emphasis on the state of good repair activities. • Continue to put aside at least 75% of the previous year's operating budget surplus into the Capital Financing Reserve. • Continue in the implementation of the non-debt capital funding strategy to fund additional TTC and Transportation Capital shortfalls identified in the 10-year Capital Plan. • Continue to grow Capital-from-Current funding by 10% annually. • Continue to work with the Provincial and Federal governments to secure long-term permanent funding solutions for key priorities, such as social housing and transit. • Continue advocacy campaigns to restore Provincial and Federal funding for social housing and the development of a National Housing Strategy. • Consider engaging third-party experts to review the adequacy of the City's reserves and reserve funds with a view to consider funding observed inadequacies in the operating budget. • Investigate all financial implications associated with raising the City's annual debt service limit that is currently limited to no more than 15% of property tax revenues on average over a 10-year period.

The City pays a disproportionate share of the costs to deliver services that provide broad benefits to the region and the province as a whole, including housing, transit and anti-poverty initiatives.	• City Council requested that the Province of Ontario:
	    • Increase health service supports administered through the Local Health Integration Networks to the City's shelter system; and
	    • Re-introduce funding mechanisms to offset the cost of sudden and prolonged increases in demand for emergency shelter space in Toronto.
	• City Council urged that the Federal government:
	    • Expedite the implementation of the National Housing Strategy, including maintaining Toronto's baseline Social Housing funding at 2017 levels;
	    • Pay for all necessary resources, including affordable housing and shelter costs, for any refugees that have moved to Toronto over the last three years.
		• Investigate the development of a strategic approach and a set of priorities for working with the Province, including how the City and Province engage with the Federal government.
		• Continue to work with the Provincial and Federal governments to secure long-term permanent funding solutions for key priorities such as social housing and transit.
		• Work with the Province to find better mechanisms to increase the pricing of public goods, including the potential for congestion pricing on a region-wide basis.
		• Approach the Province for a more realistic working relationship around the integration of community services with funding models based on the allocation of progressive revenue sources to programs that yield broad social benefits.

Issues / Risk	Actions Taken with Impacts in 2017	Actions planned for 2018 and beyond
cont'd	• City Council requested the Mayor and the City Manager to advance discussions with the Government of Ontario and the Government of Canada on funding that will benefit Toronto Community Housing Corporation. • City Council requested the Government of Ontario to increase the Ontario Works Shelter Allowance to reflect the average market rent in Toronto. • City Council requested that the Federal Government require the Province of Ontario to contribute to a 40-40-20 cost share model related to the Public Transit Infrastructure Fund (Phase II) and the National Housing Strategy. • City Council requested the Province of Ontario and the Government of Canada to confirm the sources of funding for the provincial and federal commitments to the Scarborough Subway Extension.	

2017 City of Toronto Financial Report

Consolidated Financial Statements



Management's Report

The management of the City of Toronto (City) is responsible for the integrity, objectivity and accuracy of the financial information presented in the accompanying consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies is disclosed in Note 1 to the consolidated financial statements.

To meet its responsibility, management maintains comprehensive financial and internal control systems designed to ensure the proper authorization of transactions, the safeguarding of assets and the integrity of the financial data. The City employs highly qualified professional staff and deploys an organizational structure that effectively segregates responsibilities and appropriately delegates authority and accountability.

The Audit Committee, a sub-committee of City Council ("Council"), reviews and approves the consolidated financial statements before they are submitted to Council. In accordance with Council's directive, the Auditor General oversees the work of the external auditors performing financial statement attest audits. The Auditor General participates in all significant meetings held between the external auditors and management, is informed of all significant audit issues, and will report on any significant matters not appropriately addressed and resolved.

The 2017 consolidated financial statements have been examined by the City of Toronto's external auditors, PricewaterhouseCoopers LLP, and their report precedes the consolidated financial statements.

Toronto, Canada
July 23, 2018

Mike St. Amant
Treasurer

Joe Farag
Interim Chief Financial Officer

Giuliana Carbone
Interim City Manager

Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of the **City of Toronto**,

We have audited the accompanying consolidated financial statements of the City of Toronto, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statement of operations and accumulated surplus, consolidated statement of change in net debt, and consolidated statement of cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Toronto as at December 31, 2017 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
July 23, 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2017
(with comparative figures as at December 31, 2016)
(all dollar amounts in thousands of dollars)

	2017	2016
FINANCIAL ASSETS		
Cash and cash equivalents	1,869,491	1,492,647
Accounts receivable (Note 2)	1,076,203	1,004,275
Property taxes receivable	253,311	261,071
Loans receivable (Note 3)	157,503	117,732
Other assets (Note 4)	117,103	95,597
Investments (Note 5)	4,117,958	4,248,189
Due from Toronto District School Board (Note 13)	-	4,600
Investments in government business enterprises (Note 6)	2,423,247	2,069,348
Total financial assets	**10,014,816**	**9,293,459**
LIABILITIES		
Bank indebtedness (Note 7)	49,381	65,856
Accounts payable and accrued liabilities (Note 8)	3,420,137	3,349,471
Deferred revenue (Note 9)	2,811,605	2,430,266
Other liabilities (Note 10)	562,770	615,685
Landfill closure and post-closure liabilities (Note 11)	133,707	138,101
Mortgages payable (Note 12)	316,070	363,098
Net long-term debt (Note 13)	5,949,930	5,072,410
Employee benefit liabilities (Note 14)	3,882,033	3,756,844
Total liabilities	**17,125,633**	**15,791,731**
NET DEBT	**(7,110,817)**	**(6,498,272)**
NON-FINANCIAL ASSETS		
Tangible capital assets, net (Note 15, Schedule 1)	30,463,922	28,583,669
Inventories and prepaid expenses (Note 16)	387,299	405,810
	30,851,221	**28,989,479**
Commitments and contingencies (Note 17)		
ACCUMULATED SURPLUS (Note 18)	**23,740,404**	**22,491,207**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

for the year ended December 31, 2017
(with comparative figures for the year ended December 31, 2016)
(all dollar amounts in thousands of dollars)

	2017 BUDGET (Note 19)	2017 ACTUAL	2016 ACTUAL
REVENUE			
Property taxation	4,034,899	4,101,754	3,938,802
Municipal Land Transfer Tax	708,000	805,276	644,590
Taxation from other governments	100,523	95,584	112,211
User charges	3,287,815	3,028,202	3,073,741
Funding transfers from other governments (Note 20)	3,365,336	2,799,528	2,738,317
Government business enterprise earnings (Note 6)	-	236,305	165,810
Investment income	260,152	235,444	197,231
Development charges	364,899	314,423	184,125
Rent and concessions	445,482	468,693	460,724
Other	637,514	479,068	686,412
Total revenue	**13,204,620**	**12,564,277**	**12,201,963**
EXPENSES			
General government	921,720	775,979	760,339
Protection to persons and property	1,786,917	1,811,282	1,808,310
Transportation	3,476,333	3,139,822	3,067,408
Environmental services	1,145,616	955,618	933,176
Health services	460,637	460,518	449,621
Social and family services	2,296,272	2,192,965	2,038,215
Social housing	906,171	823,781	779,499
Recreation and cultural services	1,051,714	1,007,665	1,001,753
Planning and development	264,695	147,450	115,549
Total expenses (Note 21)	**12,310,075**	**11,315,080**	**10,953,870**
ANNUAL SURPLUS	**894,545**	**1,249,197**	**1,248,093**
ACCUMULATED SURPLUS - BEGINNING OF YEAR	**22,491,207**	**22,491,207**	**21,243,114**
ACCUMULATED SURPLUS - END OF YEAR (Note 18)	**23,385,752**	**23,740,404**	**22,491,207**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT

for the year ended December 31, 2017
(with comparative figures for the year ended December 31, 2016)
(all dollar amounts in thousands of dollars)

	2017 BUDGET (Note 19)	**2017 ACTUAL**	**2016 ACTUAL**
Annual Surplus	**894,545**	**1,249,197**	**1,248,093**
Acquisition of tangible capital assets	(3,626,248)	(3,043,407)	(2,587,762)
Amortization of tangible capital assets	1,136,311	1,136,311	973,897
Loss (gain) on disposal of tangible capital assets	-	12,387	(39,093)
Proceeds on disposal of tangible capital assets	-	14,456	14,947
Change due to tangible capital assets	**(2,489,937)**	**(1,880,253)**	**(1,638,011)**
Change in inventories and prepaid expenses	**-**	**18,511**	**(28,535)**
(Increase) in net debt	(1,595,392)	(612,545)	(418,453)
NET DEBT - BEGINNING OF YEAR	(6,498,272)	(6,498,272)	(6,079,819)
NET DEBT - END OF YEAR	**(8,093,664)**	**(7,110,817)**	**(6,498,272)**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2017
(with comparative figures for the year ended December 31, 2016)
(all dollar amounts in thousands of dollars)

	2017	2016
OPERATING ACTIVITIES		
Annual surplus	1,249,197	1,248,093
Add (deduct) items not involving cash:		
Government business enterprise income from operations	(236,305)	(165,810)
Provincial loan forgiveness	-	(93,171)
Amortization of tangible capital assets	1,136,311	973,897
(Gain) on sale of land	(35,591)	-
Loss (gain) on disposal of tangible capital assets	12,387	(39,093)
	2,125,999	1,923,916
Change in non-cash assets and liabilities related to operations:		
(Increase) decrease in accounts receivable	(71,928)	192,350
Decrease (increase) in property taxes receivable	7,760	(20,371)
Increase in accounts payable and accrued liabilities	70,666	206,812
Increase in deferred revenue	381,339	191,160
(Decrease) in other liabilities	(52,915)	(90,342)
Decrease (increase) in inventories and prepaid expenses	18,511	(28,535)
(Decrease) in landfill closure and post-closure liabilities	(4,394)	(3,469)
Increase in employee benefit liabilities	125,189	157,996
Cash provided by operating activities	**2,600,227**	**2,529,517**
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(3,043,407)	(2,587,762)
Proceeds on disposal of tangible capital asset	14,456	14,947
Cash applied to capital activities	**(3,028,951)**	**(2,572,815)**
INVESTING ACTIVITIES		
(Increase) decrease in other assets	(21,506)	15,365
(Increase) in loans receivable	(4,180)	(32,859)
Investment in government business enterprises	(250,000)	-
Purchase of investments, net	242,000	904,948
Principal repayments due from Toronto District School Board	4,600	6,374
Dividends and distributions from government business enterprises	132,406	122,111
Cash provided by investing activities	**103,320**	**1,015,939**
FINANCING ACTIVITIES		
(Decrease) in bank indebtedness	(16,475)	(445)
Principal repayments on mortgages payable	(78,162)	(147,736)
New mortgages issued by Build Toronto and Lakeshore	31,134	-
Proceeds from long-term debt issued	1,152,447	754,574
Principal repayments on long-term debt	(323,960)	(263,720)
Interest earned on sinking funds	(58,136)	(64,853)
Principal repayments on debt by Toronto District School Board	(4,600)	(6,374)
Cash provided by financing activities	**702,248**	**271,446**
Net Increase in cash during the year	376,844	1,244,087
CASH – BEGINNING OF YEAR	1,492,647	248,560
CASH – END OF YEAR	**1,869,491**	**1,492,647**
SUPPLEMENTARY INFORMATION:		
Cash paid for interest on debt	307,054	310,804
Cash received for interest on investments	246,149	241,138

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 *(all dollar amounts in thousands of dollars)*

The City of Toronto (the "City") is the largest city in Canada, and is the provincial capital of Ontario. The City was incorporated March 6, 1834. In 1998, the existing City was formed through the amalgamation of the City, Metropolitan Toronto, East York, Etobicoke, North York, Scarborough and York. The City operates under the provisions of the *City of Toronto Act, 2006*.

1. Summary of Significant Accounting Policies

Basis of accounting

The consolidated financial statements of the City have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

Principles of consolidation

The consolidated financial statements include all organizations that are accountable for the administration of their financial affairs and resources to City Council (Council) and are controlled by the City. These statements reflect the assets, liabilities, revenues and expenses of the operating fund, capital fund, reserves and reserve funds of the City and each entity, except for government business enterprises which are accounted for by the modified equity basis of accounting and the Toronto Waterfront Revitalization Corporation and Toronto Pan Am Sports Centre Inc., which are accounted for by proportionate consolidation.

Consolidated entities:

Agencies and Corporations:

- Board of Governors of Exhibition Place
- Board of Management of the Toronto Zoo
- Build Toronto Inc. (BTI)
- Casa Loma Corporation
- Heritage Toronto
- Invest Toronto Inc.
- Lakeshore Arena Corporation
- St. Lawrence Centre for the Arts
- The North York Performing Arts Centre Corporation
- The Sony Centre for the Performing Arts (Sony Centre)
- Toronto Atmospheric Fund (TAF)
- Toronto Board of Health
- Toronto Community Housing Corporation (TCHC)
- Toronto Licensing Commission
- Toronto Pan Am Sports Centre Inc. (TPASC) (1/2 proportionately)
- Toronto Police Services Board
- Toronto Public Library Board
- Toronto Transit Commission (TTC)
- Toronto Waterfront Revitalization Corporation (TWRC) (1/3 proportionately)
- Yonge-Dundas Square

Arenas:

- Forest Hill Memorial
- George Bell
- Leaside Memorial Community Gardens
- McCormick Playground
- Moss Park
- North Toronto Memorial
- Ted Reeve Community
- William H. Bolton

Community Centres:

- 519 Church Street
- Applegrove
- Cecil Street
- Central Eglinton
- Community Centre 55
- Eastview Neighbourhood
- Waterfront Neighbourhood
- Ralph Thornton
- Scadding Court
- Swansea Town Hall

Business Improvement Areas (BIA):

- Albion Islington Square
- Baby Point Gates
- Bayview Leaside
- Bloor Annex
- Bloor By The Park
- Bloor Street
- Bloor West Village
- Bloor Yorkville
- Bloorcourt Village
- Bloordale Village
- Cabbagetown
- Chinatown
- Church Wellesley Village
- City Place & Fort York
- College Promenade
- College West
- Corso Italia
- Crossroads of the Danforth
- Danforth Mosaic
- Danforth Village
- Dovercourt Village
- Downtown Yonge
- DuKe Heights
- Dundas West
- Dupont by the Castle
- Eglinton Hill
- Emery Village
- Fairbank Village
- Financial District
- Forest Hill Village
- Gerrard India Bazaar
- Greektown on the Danforth
- Harbord Street
- Hillcrest Village
- Historic Queen East
- Junction Gardens
- Kennedy Road
- Kensington Market
- Korea Town
- Lakeshore Village
- Leslieville
- Liberty Village
- Little Italy
- Little Portugal
- Long Branch
- Marketo District
- Midtown Yonge
- Mimico by the Lake
- Mimico Village
- Mirvish Village
- Mount Dennis
- Mount Pleasant
- Oakwood Village
- Ossington Avenue
- Pape Village
- Parkdale Village
- Queen Street West
- Regal Heights Village
- Riverside District
- Roncesvalles Village
- Rosedale Main Street
- Sheppard East Village
- shoptheQueensway.com
- St. Clair Gardens
- St. Lawrence Market Neighbourhood
- The Beach
- The Danforth
- The Eglinton Way
- The Kingsway
- The Waterfront
- Toronto Entertainment District
- Trinity Bellwoods
- Upper Village
- Uptown Yonge
- Village of Islington
- West Queen West
- Weston Village
- Wexford Heights
- Wilson Village
- Wychwood Heights
- Yonge Lawrence Village
- York Eglinton

All inter-fund assets and liabilities and sources of financing and expenses have been eliminated in these consolidated financial statements.

Government business enterprises (GBEs)
The following entities are accounted for in these consolidated financial statements as government business enterprises using the modified equity basis of accounting. Under the modified equity basis, the accounting principles of government business enterprises are not adjusted to conform to the City's accounting principles and inter-organizational transactions and balances are not eliminated. Inter-organizational gains and losses are, however, eliminated on assets remaining within the government reporting entities at the reporting date.

- Toronto Hydro Corporation
- Toronto Parking Authority
- City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company (TPLC)

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 23).

Use of estimates and measurement uncertainty
The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Significant estimates and assumptions, which include employee benefit liabilities; property tax assessment appeals; property, liability and accident claims provisions; landfill closure and post-closure liabilities; and environmental provisions, 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.

Tax revenues
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 *City of Toronto Act, 2006*, 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 in order 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 rates for the class (approved by Council or set by provincial regulation), together with any adjustments that reflect Council-approved mitigation or other tax policy measures, rebate programs, etc.

Property taxes are billed by the City twice annually. The interim billing, issued in January, is based on 50% of the previous year's total property taxes, 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 May, following Council's approval of the capital and operating budgets 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.

Taxation revenues in any year may also be reduced by reductions 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 (i.e., uncollectible amounts, write-offs, etc.).

In Toronto, annual property tax increases for properties within the commercial, industrial and multi-residential tax classes have been subject to limitations on the maximum allowable year-over-year increase since 1998, in order to mitigate dramatic tax increases due to changes in assessed values.

In October 2005, Council adopted a staff report entitled "Enhancing Toronto's Business Climate – It's Everybody's Business," that introduced a number of new tax policy initiatives that began in 2006 and has been amended through the annual budget process in recent years. These changes included limiting allowable annual tax increases on these property classes to a fixed percentage of the previous year's taxes or full CVA taxation level, and gradually reducing the proportion of the total property tax levy that is borne by the commercial, industrial and multi-residential classes through 2023.

In 2008, the City implemented the Municipal Land Transfer Tax, which applies to all land sales. The revenues are transaction-based and are recognized at the time of the transaction, at registration of the sale of land.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at banks, internally restricted cash and other short-term highly liquid investments with original maturities of three months or less.

Loans receivable
Loans receivable are recorded at amortized cost less any amount for valuation allowance. Valuation allowances are made to reflect loans receivable at the lower of amortized cost and the net recoverable value, when collectability and risk of loss exists. Changes in valuation allowance are recognized in the Consolidated Statement of Operations and Accumulated Surplus. Interest is accrued on loans receivable to the extent it is deemed collectable.

User charges
User charges relate to 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.

Government transfers

Government transfer revenues are transfers from other levels of government that are not the result of an exchange transaction and are not expected to be repaid in the future. Government transfers without eligibility criteria or stipulations are recognized as revenue when the transfer is authorized. All other transfers are recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that any stipulations give rise to an obligation that meets the definition of a liability for the City.

The City also provides transfers to individuals or organizations. These transfers are recognized as expenses once they are authorized and eligibility criteria, if any, are met.

Development charges

Development charges are charges imposed on land development or redevelopment projects. Fees are set out in a City by-law, which conforms to the requirements of the *Development Charges Act, 1997*. Development charges are collected when an above grade building permit is issued and recognized in revenues when used to fund the growth-related portion of qualifying capital projects.

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.

Expenses

Expenses are recognized in the year that the events giving rise to the expenses occur and there is a legal or constructive obligation to pay.

Investments

Investments are recorded at amortized cost less any amounts written off to reflect a permanent decline in value. All investments consists of authorized investments pursuant to the provisions of the *City of Toronto Act, 2006*, mainly government and corporate bonds, debentures and short-term instruments of various financial institutions. TCHC and TAF have their own investment policies, which allow them to invest in equities.

Investment income is reported as revenue in the period earned. Investment income earned on reserve funds that are set aside for specific purposes by legislation, regulation or agreement, is added to the fund balance and forms part of the respective deferred revenue balances.

Property and liability claims

Estimated costs to settle property and liability claims are actuarially determined based on available loss information and projections of the present value of estimated future expenditures, developed from the City's historical experience on loss payments. Where the costs are deemed to be likely and reasonably determinable, claims are reported as an operating expenditure, and are included in other liabilities on the Consolidated Statement of Financial Position.

TTC unsettled accident claims

The TTC has a self-insurance program for automobile and general liability claims. When claims are reported, case reserves are initially estimated on an individual basis by adjusters and lawyers. A provision is made, on a present value basis, for claims incurred, for claims incurred-but-not-reported, and for internal and external adjustments.

Environmental provisions
The City provides for the cost of compliance with environmental legislation when conditions are identified which indicate non-compliance and costs can be reasonably determined. These provisions are outside of PS3260 as they relate to remediation of productive contaminated sites.

The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation. Where the costs are deemed to be likely and reasonably determinable, claims are reported as an operating expense, and are included in other liabilities on the Consolidated Statement of Financial Position.

Liability for remediation of contaminated sites
Beginning in 2015, applied prospectively, the City accounts for the remediation of contaminated sites in accordance with PS3260 Liability for Contaminated Sites.

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

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.

Deferred revenue
Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the completion of specific work. 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, as this is the time the eligibility criteria have been met and the revenue is earned.

Derivative financial instruments
A derivative financial instrument (interest rate swap) is used to manage interest rate risk with respect to a certain TCHC term loan. TCHC does not account for its interest rate swap as a hedge, and as such, any realized or unrealized gains or losses are recognized in the Consolidated Statement of Operations and Accumulated Surplus. The City also uses derivative financial instruments in the management of its purchase of electricity and natural gas. The City's policy is not to use derivative financial instruments for trading or speculative purposes. Derivative contracts are recorded at their fair value as an asset or liability based on quoted market prices, with changes in fair value, if any, recorded in the Consolidated Statement of Operations and Accumulated Surplus.

Employee benefit liabilities
The costs of termination benefits and compensated absences 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 other employee benefit liabilities are actuarially determined using the projected benefits method, pro-rated on service and management's best estimates of retirement ages of employees, salary escalation, expected health costs and plan investment performance. Accrued obligations and related costs of funded benefits are net of plan assets.

December 31, 2017 (all dollar amounts in thousands of dollars)

Past service costs from plan amendments related to prior period employee services are accounted for in the period of the plan amendment. The effects of a gain or loss from settlements or curtailments are expensed in the period they occur. Net actuarial gains and losses related to the employee benefits are amortized over the estimated average remaining service life of the related employee group. Employee future benefit assets are presented net of any required valuation allowance. Employee future benefit liabilities are discounted using current interest rates on long-term municipal debentures.

The costs of workplace safety and insurance obligations are actuarially determined and are expensed in the period they occur.

Tangible capital assets

Tangible capital assets (TCA) are recorded at historical cost or estimated historical cost based on appraisals or other acceptable methods where historical cost is not available. Cost includes amounts directly attributable to the acquisition, construction, development or betterment of an asset. The cost less expected residual value is amortized on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Asset	
Land improvements	15 - 70 years
Buildings and building improvements	25 - 100 years
Machinery and equipment	4 - 60 years
Motor vehicles	5 - 20 years
Water and wastewater linear	60 - 100 years
Roads linear	25 - 70 years
Transit	10 - 65 years

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

Donated tangible capital assets are recorded at estimated fair market value as at the date of donation, and are also recorded in revenue.

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

The City does not capitalize interest costs associated with the acquisition or construction of tangible capital assets.

The cost of normal maintenance and repairs which does not add value to the asset, or materially extend asset lives, is not capitalized.

Reserves and reserve funds

Reserves and reserve funds are comprised of funds set aside for specific purposes by Council and funds set aside for specific purposes by legislation, regulation or agreement. For financial reporting purposes, reserve funds set aside by legislation, regulation or agreement are reported as deferred revenue on the Consolidated Statement of Financial Position, while other reserve funds and reserves are balances within the accumulated surplus.

December 31, 2017 (all dollar amounts in thousands of dollars)

2. Accounts Receivable

Accounts receivable consist of the following:

	2017	**2016**
	$	**$**
Government of Canada	183,495	161,336
Government of Ontario	177,367	160,722
Other municipal governments	52,145	24,817
School boards	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 accrued on investments	26,445	24,599
Trade receivables – City's Agencies and Corporations	71,082	61,514
Other fees and charges	201,973	198,707
	1,076,203	**1,004,275**

December 31, 2017 (all dollar amounts in thousands of dollars)

3. Loans receivable

Loans receivable consist of the following:

	2017	2016
	$	$
BTI loan receivable from Pinewood Toronto Studio Inc. (PTSI) of $33,404 was converted on March 10, 2017. PTSI made payments of $1,700 on the day of renewal and $618 during the year.	-	33,404
BTI's new loan facility of $31,134 was converted to a 10-year conventional with a 25-year amortization period at an interest rate of 3.33% effective March 15, 2017 and matures on March 15, 2027. The loan is secured by a leasehold mortgage, shareholder guarantees, and a first charge against the assets of PTSI.	31,134	-
BTI Vendor-take-back (VTB) mortgage receivable balance of $17,919 was related to a property sale transaction in September 2016. The VTB mortgage has an interest rate of 4.75% per annum payable in arrears with a maturity date of March 2018 and a promissory note of $3,512 were also issued at an interest rate of 5% per annum. The notes secure obligations of the Purchaser to build the shell portion of the building.	21,431	20,630
TCHC Mortgages receivable related to sales-type leases from 2010 to 2057 for commercial space in a TCHC building. Maturities vary from May 11, 2037 to May 11, 2057. The interest rates on these mortgages vary from 4.877% to the negotiated debenture coupon rate at the expiry of debenture Series A bonds that are due on May 11, 2037.	11,643	11,699
TCHC loan agreement with Dundas and Parliament Development Corporation (DPDC) to finance the pre-development and construction of the condominium building. As at December 31, 2017, $2,367 had been advanced. In 2017, TCHC sold land to developers and received cash and three loan receivable totalling $35,591, bearing no interest rate for a period of one year and 4.5% per annum thereafter with maturity dates of February 15, June 2 and June 8, 2019 respectively. The receivable of $35,591 related to gain on sale of land.	37,958	2,374
In 2016, TCHC sold land to Soul Residence Inc. (SRI) and Connect Residence Inc. (CRI) in exchange for promissory notes of $4,854 and $4,946 respectively. Those promissory notes are non-interest bearing and repayment is due on the earlier of the final closing of the market units or the termination of the development project. TCHC also sold land to a developer with a 3% loan receivable of $3,732 with a maturity date of November 14, 2019.	13,532	13,423
Loans receivable from community housing organizations bearing interest at rates from 0% to 5% (2016 – 0% to 5%) per annum, maturing from 2017 to 2074.	41,805	36,202
	157,503	**117,732**

December 31, 2017 (all dollar amounts in thousands of dollars)

4. Other assets

Other assets consist of the following:

	2017	2016
	$	$
BTI's investment property at the Film Studio $13,159 (2016 - $13,159). 20% interest in Toronto Waterfront Studio Inc. (TWSI) of $3,867 (2016 - $3,342) and joint venture agreement with Build Toronto Holdings (Harbour) Inc. (BTHHI) $22,172 (2016 - $22,424) to develop a condominium project.	39,198	38,925
Real Estate inventory that was valued at a market value of $123,683 consists of capitalized actual costs including decommissioning cost, development cost, and pre-acquisition cost.	26,980	17,542
Provincial affordability housing grants for the development of five TCHC projects are paid monthly over 20 years until 2034 and have been set up as grants receivable. The remaining grants receivable are from the Province of Ontario resulting from a contribution agreement for housing projects.	31,481	16,572
TCHC's equity in Joint Ventures consists of a co-tenancy agreement with a developer for the construction of certain properties in Regent Park and a loan agreement with Parliament and Gerrard Development Corporation (PGDC) to finance the pre-development costs of condominium buildings. Additionally, TCHC's wholly owned subsidiaries Railway Lands Development Corporation (RLDC) and Allenbury Garden Development Corporation (AGDC) have entered into equal interest co-tenancy agreement with a developer, for the construction of certain properties.	14,719	16,373
Other	4,725	6,185
	117,103	**95,597**

December 31, 2017 (all dollar amounts in thousands of dollars)

5. Investments

Investments consist of the following:

	2017		
	Cost	**Market value**	**Carrying value**
	$	**$**	**$**
Federal government bonds	147,334	150,970	147,334
Provincial government bonds	1,071,107	1,127,995	1,071,107
Municipal government bonds	1,067,974	1,128,127	1,067,974
Money market instruments	1,200,892	1,212,087	1,200,892
Corporate bonds	572,541	572,916	572,541
Other	58,110	73,732	58,110
	4,117,958	**4,265,827**	**4,117,958**

	2016		
	Cost	**Market value**	**Carrying value**
	$	**$**	**$**
Federal government bonds	192,027	197,359	192,027
Provincial government bonds	1,119,323	1,186,678	1,119,323
Municipal government bonds	1,136,130	1,167,732	1,136,130
Money market instruments	1,022,983	1,021,073	1,022,983
Corporate bonds	688,385	695,211	688,385
Other	89,341	99,853	89,341
	4,248,189	**4,367,906**	**4,248,189**

Municipal and Federal government bonds include bonds held in trust by the insurance carrier as collateral for the provision of automobile and primary liability insurance with a carrying value of $70,052 (2016 - $70,357). The weighted average yield on the cost of the bond investment portfolio during the year was 2.81% (2016 – 2.71%). Maturity dates on investments in the portfolio range from 2018 to 2045 (2016 - 2017 to 2045). Included in the City's municipal government bonds portfolio are City of Toronto debentures at coupon rates varying from 2.40% to 6.80% (2016 – 2.95% to 6.80%) with a carrying value of $235,511 (2016 - $251,430).

December 31, 2017 (all dollar amounts in thousands of dollars)

Other investments are held by the following entities:

	2017		
	Cost	**Market value**	**Carrying value**
	$	**$**	**$**
City investments	497	497	497
BIA	12,068	12,068	12,068
BTI	4,736	4,736	4,736
TPASC	5,460	5,460	5,460
Sony Centre	560	560	560
TAF	29,101	44,723	29,101
TWRC	5,688	5,688	5,688
	58,110	**73,732**	**58,110**

	2016		
	Cost	**Market value**	**Carrying value**
	$	**$**	**$**
City investments	405	405	405
BIA	2,870	2,870	2,870
BTI	45,995	45,995	45,995
TPASC	3,767	3,767	3,767
TAF	32,363	42,875	32,363
TWRC	3,941	3,941	3,941
	89,341	**99,853**	**89,341**

In 2017, TCHC received $111,769 of the proceeds from long-term debt issued as investments for capital expenditures under restrictions with IO. As at December 31, 2017, TCHC has the amount of $145,800 included in investments for capital expenditures under restrictions with IO.

On March 28, 2017, City Council adopted the report on establishment of an Investment Board and delegated its authority to the Board to manage City's investment of funds not immediately required by the City, as is required by Regulation 610/06, Financial Activities, under the *City of Toronto Act, 2006*. The Province approved amendments to the Ontario Regulation 610/06, to allow the City to add securities such as equities and non-bank corporate bonds to its current holdings. This regulation came into force on January 1, 2018.

December 31, 2017 (all dollar amounts in thousands of dollars)

6. Investments in Government Business Enterprises (GBEs)

Government business enterprises consist of 100% interest in Toronto Hydro Corporation (a hydro-electric local distribution company), Toronto Parking Authority (an operator of public parking for the City of Toronto), and Toronto Port Lands Company (a company involved in development of real estate in the Toronto port lands).

Details of the continuity of the book value of these investments are as follows:

	2017	2016
	$	$
Balance - beginning of year	2,069,348	2,025,649
Additional investment in Toronto Hydro	250,000	-
Income from operations (Appendix 1)	234,785	164,290
Dividends received (Appendix 1)	(75,000)	(63,399)
Distribution to City (Appendix 1)	(57,406)	(58,712)
Change in net book value of street-lighting assets eliminated on sale to Toronto Hydro Corporation (Appendix 1)	1,520	1,520
Balance – end of year (Appendix 1)	**2,423,247**	**2,069,348**

On June 28, 2017, the Toronto Hydro Corporation issued 200 common shares to the City for total proceeds of $250,000, net of share issue costs and expenses.

a) Investment in Government Business Enterprises is comprised of equity as follows:

		2017	2016
		$	$
Toronto Hydro Corporation	Equity	1,735,916	1,397,196
Toronto Parking Authority	Equity	304,076	294,819
Toronto Port Lands Company	Equity	383,255	377,333
		2,423,247	**2,069,348**

b) Condensed financial results for each government business enterprise are disclosed in Appendix 1 to the notes to these consolidated financial statements.

c) Government Business Enterprise Earnings on the Consolidated Statement of Operations and Accumulated Surplus consists of the following:

	2017	2016
	$	$
Income from Operations (Appendix 1)	234,785	164,290
Change in net book value of street-lighting assets eliminated on sale to Toronto Hydro Corporation (Appendix 1)	1,520	1,520
Government Business Enterprise Earnings	**236,305**	**165,810**

December 31, 2017 (all dollar amounts in thousands of dollars)

d) Related party transactions between the City and its government business enterprises are as follows:

	2017	**2016**
	$	**$**
Purchased by the City:		
Street-lighting, electricity and maintenance services from Toronto Hydro Corporation	**283,300**	**275,300**

e) Principal repayment due dates of long-term debt of the GBEs are as follows:

	Total
	$
2018	512
2019	250,539
2020	567
2021	300,597
2022	627
Thereafter	1,485,707
	2,038,549

December 31, 2017 (all dollar amounts in thousands of dollars)

7. Bank indebtedness

The City has an unsecured demand revolving credit facility in the amount of $100,000 (2016 - $100,000) bearing interest at the bank prime rate with an effective rate during 2017 of 3.2% (2016 - 2.70%) per annum.

TCHC has a committed revolving credit facility of $200,000 (2016 - $200,000) that is available for short-term advances and letters of credit, with standby charges of 0.25%. Short-term advances are available by way of a prime loan at the bank prime rate and bankers' acceptances (BAs) at the bank BA rate plus 1.10%. Short-term advances of $nil (2016 - $32,000) have been used during the year.

TAF has a revolving line of credit to a maximum of $2,000, repayable on demand, with a Canadian chartered bank at the bank prime rate plus 0.5% per annum, secured by TAF's fixed income investment portfolio. The line of credit balance drawn as of December 31, 2017 was $nil (2016 - $320).

519 Church Street Community Centre has a line of credit of $350. The interest rate on the line of credit is prime plus 2% and is secured by the Centre's short-term investments, of which $nil was utilized at year-end (2016 - $58).

During 2015, Toronto Waterfront Revitalization Corporation secured a revolving credit facility which provides for a maximum borrowing amount of $40,000 subsequently reduced to $37,000 in 2017. The facility bears interest at the bank prime rate less 0.25%. The interest rate was 2.45% as at December 31, 2017. The facility is secured by a first lien interest over several of the Corporation's properties in the City of Toronto, and a General Security Agreement creating a first priority interest over property of the Corporation not obtained through a contribution agreement, including accounts receivables. The Corporation had not drawn on the facility and the full $37,000 (2016 - $40,000) remained available as at December 31, 2017.

Bank indebtedness consists of the following:

	2017	2016
	$	$
City, net outstanding cheques	49,381	33,478
Toronto Housing Corporation	-	32,000
Toronto Atmospheric Fund	-	320
519 Church Street Community Centre	-	58
	49,381	**65,856**

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	2017	2016
	$	$
Trade payables and accruals	2,406,957	2,377,308
School boards	466,399	452,427
Provision for assessment appeals on property taxes paid	290,795	265,796
Credit balances on property tax accounts	120,071	125,594
Wage accruals	135,915	128,346
	3,420,137	**3,349,471**

December 31, 2017 (all dollar amounts in thousands of dollars)

9. Deferred Revenue

(a) Obligatory reserve funds

Revenues received that have been set aside for specific purposes by Provincial legislation, as well as certain City by-laws or agreements, are included in deferred revenue and reported on the Consolidated Statement of Financial Position.

Details of these deferred revenues are as follows:

	2017 $	2016 $
Restricted by Provincial legislation		
Development Charges	653,647	685,906
Recreational Land *(Planning Act)*	646,233	603,944
Building Code Act Service Improvement	82,233	65,321
Provincial Gas Tax	15,890	3,582
	1,398,003	1,358,753
Restricted by other agreements		
Public Transit Funds	98,519	96,232
Water and Wastewater	885,735	536,003
Community Services	73,152	82,898
Third-Party Agreements	18,191	12,479
State of Good Repair	2,697	2,516
Parking Authority	1,516	3,362
	1,079,810	733,490
Total obligatory reserve funds	**2,477,813**	**2,092,243**

(b) Advanced payments and contributions

Revenues received for advance payments for tickets and building permits, program registration fees and contributions from developers according to Section 37 of the *Planning Act* are included in deferred revenue and reported on the Consolidated Statement of Financial Position. Details of these deferred revenues are as follows:

	2017 $	2016 $
Community Services	3,285	3,170
Building Code Act	84,491	71,798
Long-Term Care – Public Health and Housing	2,532	2,452
Police	6,269	2,038
Parks	21,387	42,327
Union Station	83,973	83,973
Other	6,874	18,093
City's agencies and corporations	124,981	114,172
Total advance payments and contributions	**333,792**	**338,023**
Total Deferred Revenue [9(a) and 9(b)]	**2,811,605**	**2,430,266**

December 31, 2017 (all dollar amounts in thousands of dollars)

	2017 (a) Obligatory Reserve Funds	2017 (b) Advance payments and contributions	2017 Total
	$	$	$
Balance – beginning of year	2,092,243	338,023	2,430,266
Receipts during the year	1,805,196	1,043,433	2,848,629
Transferred to revenue	(1,419,626)	(1,047,664)	(2,467,290)
Balance – end of year	**2,477,813**	**333,792**	**2,811,605**

	2016 (a) Obligatory Reserve Funds	2016 (b) Advance payments and contributions	2016 Total
	$	$	$
Balance – beginning of year	1,933,279	305,827	2,239,106
Receipts during the year	1,548,271	4,621,231	6,169,502
Transferred to revenue	(1,389,307)	(4,589,035)	(5,978,342)
Balance – end of year	**2,092,243**	**338,023**	**2,430,266**

10. Other Liabilities

Other liabilities consist of the following:

	2017	2016
	$	$
Property and liability claims provision (Note 17b)	382,225	393,582
TTC – unsettled accident claims (Note 17b)	156,633	192,253
Build Toronto – environmental liabilities (Note 17h)	8,298	17,729
TTC – environmental liabilities (Note 17h)	8,125	5,332
Contaminated sites liabilities	7,489	6,789
	562,770	**615,685**

11. Landfill Closure and Post-Closure Liabilities

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 solid waste landfill sites. The costs related to these obligations are provided for all inactive landfill sites and active landfill sites based on usage.

Active Sites

In 2007, the City acquired the Green Lane Landfill, securing the City's long-term disposal requirements. The landfill is located in the Township of Southwold, Elgin County, Ontario. The landfill is projected to reach its approved capacity by the end of 2034, based on Toronto achieving a 70% residential waste diversion rate. The post-closure care period is expected to occur in perpetuity.

The estimated liability for the care of this landfill site is the present value of future cash flows associated with closure and post-closure costs discounted using the City's average long-term borrowing rate of 3.9% (2016 – 3.7%). The estimated present value of future expenditures for closure and post-closure care as at December 31, 2017 is $10,131 (2016 - $9,556), based on the percentage of total approved capacity used of 49.93% (2016 – 47.15%).

In order to help reduce the future impact of these obligations, the City has established two reserve fund accounts. The Green Lane account holds surpluses from the operations of the Green Lane landfill site, and the Green Lane Perpetual Care account provides funding for the future costs of long-term post-closure care of the Green Lane landfill site. The balance in the Green Lane account as at December 31, 2017 was $14,567 (2016 - $14,586) and the balance in the Green Lane Perpetual Care account as at December 31, 2017 was $4,751 (2016 - $4,227). Total contributions to the Green Lane Perpetual Care account of $503 (2016 - $483) were based on a contribution rate of 95¢ (2016 - 89¢) per tonne of waste disposed. Both of these reserve fund accounts are included as part of the State of Good Repair Reserve Fund (Note 18).

Inactive Sites

The City has identified 160 (2016 - 160) inactive landfill sites for which it retains responsibility for all costs relating to closure and post-closure care [Note 17(i)].

Post-closure care activities for landfill sites are expected to occur in perpetuity and will involve surface and ground water monitoring, maintenance of drainage structures, monitoring leachate and landfill gas, and maintenance of the landfill cover.

The estimated liability for the care of inactive landfill sites is the present value of future cash flows associated with closure and post-closure costs discounted using the City's average long-term borrowing rate of 3.9% (2016 - 3.7%). The estimated present value of future expenditures for post-closure care as at December 31, 2017 was $123,576 (2016 - $128,545).

In order to help reduce the future impact of these obligations, the City has established a reserve fund for the care of these sites and maintains a trust fund in satisfaction of requirements of the Ministry of the Environment. The balance in the Solid Waste Management Perpetual Care Reserve Fund as at December 31, 2017 was $29,653 (2016 - $39,373) and is included as part of the State of Good Repair Reserve Fund (Note 18), and the balance in the Keele Valley Site Post-Closure Trust Fund as at December 31, 2017 was $7,573 (2016 - $7,552) (Note 23).

December 31, 2017 (all dollar amounts in thousands of dollars)

The total landfill closure and post-closure liabilities are as follows:

	2017	2016
	$	$
Active landfill site (Green Lane)	10,131	9,556
Inactive landfill sites	123,576	128,545
	133,707	**138,101**

Landfill closure and post-closure costs totalling $10,300 (2016 - $7,456) were expensed during the year.

12. Mortgages Payable

Mortgages payable are as follows:

	2017	2016
	$	$
Mortgages issued by TCHC, bearing interest at rates ranging from 1.39% to 12.75% (2016 – 1.39% to 12.75%) per annum, with maturities ranging from 2018 to 2048, and collateralized by housing properties owned by TCHC with a net book value of approximately $1,615,349 (2016 - $1,576,439).	284,936	363,098
Mortgages issued by BTI, bearing interest at 3.33% per annum, maturing on March 15, 2027. The mortgage is secured by the assets and corporate guarantees of Build Toronto Holdings One Inc. (BTHOI), the future leasehold charge related to the land lease on additional expansion lands to be developed, BTI and the common shares of PT Studios Inc.	31,134	-
	316,070	**363,098**

Principal repayments on mortgages are due as follows:

	$
2018	33,450
2019	20,960
2020	22,383
2021	23,643
2022	23,915
Thereafter	191,719
	316,070

Principal payments made in 2017 were $nil on the BTI mortgages, and $78,162 (2016 - $147,736) on the TCHC mortgages.

December 31, 2017 (all dollar amounts in thousands of dollars)

13. Net Long-Term Debt

Provincial legislation restricts the use of long-term debt to finance only capital expenditures. Provincial legislation also allows the City to issue debt on behalf of the Toronto District School Board (TDSB) at TDSB's request. The responsibility of raising the amounts to service these liabilities lies with TDSB. The debt is a direct, joint and several obligation of the City and TDSB. As at December 31, 2017, due from TDSB was $nil (2016 - $4,600).

The net unsecured long-term debt reported on the Consolidated Statement of Financial Position comprises the following:

	2017 $	2016 $
Debentures issued by the City, bearing interest at various rates ranging from 2.40% to 8% (2016 - 2.40% to 8%) per annum, maturing from 2018 to 2046.	6,264,192	5,824,047
TCHC Debentures issued include issuing costs and interest and are amortized over the terms of the debt. These issues consist of series A bonds of $250,000 at 4.877% (2007 to 2037) and series B bonds of $200,000 at 5.395% (2010 to 2040).	445,526	445,404
From 2013 to 2017, Infrastructure Ontario (IO) provided loans to TCHC, which are secured loans funded by various floating rates as well as fixed rates ranging from 2.33% to 4.53% and are also subject to financial covenants, maturing 2018 and 2043 to 2047. During 2017, TCHC received $111,769 of the proceeds from long-term debt issued as investments for capital expenditures under restrictions with IO. As at December 31, 2017, TCHC has the amount of $145,800 included in investments for capital expenditures under restrictions with IO.	853,083	482,395
In April 2017, Lakeshore Arena Corporation obtained two credit facilities from IO. The credit facilities, bearing interest at 3.48%, payable in equal monthly blended instalments with a maturity date of October 31, 2042. The credit facilities are secured by a mortgage over the property, a general security agreement and assignment of rents and leases. Debt issued by Lakeshore Arena Corporation with outstanding amount of $19,259 was fully paid during 2017.	26,700	19,259
TCHC bridge-loan of $35,440 converted to a 12-year interest rate swap facility in 2006 with a fixed interest rate of 4.55% and with an unrealized loss of approximately $136 (2016 - $1,110) maturing on February 15, 2018.	25,682	28,177
Build Toronto Inc. loan facility agreement provided for conversion of the facility to a 25-year amortizable debenture with a borrowing rate currently at 1.86% (2016- 1.80%). The loan is secured by the assets and corporate guarantees of Build Toronto Holdings One Inc. (BTHOI), the future leasehold charge related to the land lease on additional expansion lands to be developed, the Company and the common shares of PT Studios Inc. (PTSI). In March 2017, BTI loan facility agreement was converted into a 10-year term mortgage (Note 12).	-	33,407
In November 2016, BTI obtained a new loan facility, comprised of an interim construction loan and an operating loan, bearing interest at prime plus 0.50% and bankers' acceptances at 2%, and prime plus 0.50% per annum respectively. BTI started to draw down on the loan in February 2017 and the total amount is payable on July 2018. The loan facility is collateralized by a first mortgage charge on the construction site, guarantee, insurance policies and by assignment of term deposits, rents and leases.	12,306	-
Other, bearing interest from 1.75% to 8.05% maturing from 2018 through 2027.	3,284	1,355
Debentures issued by the City on behalf of the TDSB, bearing interest at 6.10% (2016 - 6.10%) per annum, which matured in 2017.	-	75,846
City sinking fund deposits bearing interest at rates between 2% and 5% (2016 - 2% to 5%) per annum.	(1,680,843)	(1,766,234)
TDSB sinking fund deposits bearing interest at 5% (2016 - 5%) per annum, which matured in 2017.	-	(71,246)
	5,949,930	**5,072,410**

December 31, 2017 (all dollar amounts in thousands of dollars)

Principal repayments are due as follows:

	$
2018	459,393
2019	402,567
2020	356,796
2021	363,345
2022	306,679
Thereafter	4,061,150
	5,949,930

Principal payments made in 2017 were $328,560 (2016 - $511,007).

Included in net long-term debt are outstanding debentures of $6,025,000 (2016 - $5,625,000) for which there are sinking fund assets with a carrying value of $1,687,844 (2016 - $1,844,450) and a market value of $1,741,064 (2016 - $1,854,635).

Sinking fund assets are comprised of short-term notes and deposits, government and government-guaranteed bonds and debentures, and corporate bonds. Government and government-guaranteed bonds and debentures include City of Toronto debentures with a carrying value of $106,108 (2016 - $118,285) and a market value of $124,076 (2016 - $133,662).

14. Employee Benefit Liabilities

Employee benefit liabilities as at December 31 are as follows:

	2017	2016
	$	$
Future payments required for:		
Sick leave benefits (a)(i)	540,861	522,742
WSIB obligations (a)(ii)	635,515	601,062
Other employment and post-employment benefits (a)(iii)	2,636,654	2,473,792
Total employee accrued benefit obligation	3,813,030	3,597,596
Unamortized actuarial gain	69,003	159,248
Employee benefit liabilities	**3,882,033**	**3,756,844**

December 31, 2017 (all dollar amounts in thousands of dollars)

The continuity of the City's **employee benefit liabilities**, in aggregate, is as follows:

	2017			
	Employment and post-employment	**TTC Pension Plan**	**City Pension Plans**	**Total**
	$	**$**	**$**	**$**
Balance – beginning of year	3,756,844	-	-	3,756,844
Current service cost	273,445	87,252	-	360,697
Interest cost (revenue)	116,467	(18,739)	(13,224)	84,504
Amortization of actuarial (gain)	(10,136)	(57,429)	(19,882)	(87,447)
Employer contributions	(239,172)	(117,034)	-	(356,206)
Plan amendments	(15,415)	37,880	-	22,465
Change in valuation allowance	-	68,070	33,106	101,176
Balance – end of year	**3,882,033**	**-**	**-**	**3,882,033**

	2016			
	Employment and post-employment	**TTC Pension Plan**	**City Pension Plans**	**Total**
	$	**$**	**$**	**$**
Balance – beginning of year	3,598,848	-	-	3,598,848
Current service cost	271,155	84,077	-	355,232
Interest cost (revenue)	108,070	(17,813)	(11,110)	79,147
Amortization of actuarial (gain)	(3,378)	(9,425)	(34,427)	(47,230)
Employer contributions	(236,942)	(112,403)	-	(349,345)
Plan amendments	19,091	40,916	-	60,007
Change in valuation allowance	-	14,648	45,537	60,185
Balance – end of year	**3,756,844**	**-**	**-**	**3,756,844**

December 31, 2017 (all dollar amounts in thousands of dollars)

The continuity of the **accrued benefit obligation**, in aggregate, is as follows:

	2017			
	Employment and post-employment	**TTC Pension Plan**	**City Pension Plans**	**Total**
	$	**$**	**$**	**$**
Balance – beginning of year	3,597,596	2,660,589	1,391,776	7,649,961
Current service cost	273,445	87,252	-	360,697
Interest cost	116,467	149,216	67,392	333,075
Amortization of actuarial (gain) loss	80,109	(152,183)	(13,918)	(85,992)
Benefits paid	(239,172)	(145,394)	(140,729)	(525,295)
Plan amendments	(15,415)	37,880	-	22,465
Balance – end of year	**3,813,030**	**2,637,360**	**1,304,521**	**7,754,911**

	2016			
	Employment and post-employment	**TTC Pension Plan**	**City Pension Plans**	**Total**
	$	**$**	**$**	**$**
Balance – beginning of year	3,498,439	2,512,295	1,473,506	7,484,240
Current service cost	271,155	84,077	-	355,232
Interest cost	108,070	141,490	72,823	322,383
Amortization of actuarial (gain) loss	(62,217)	11,297	(8,475)	(59,395)
Benefits paid	(236,942)	(129,486)	(146,078)	(512,506)
Plan amendments	19,091	40,916	-	60,007
Balance – end of year	**3,597,596**	**2,660,589**	**1,391,776**	**7,649,961**

December 31, 2017 (all dollar amounts in thousands of dollars)

The continuity of the **plan asset** is as follows:

	2017			
	Employment and post-employment	**TTC Pension Plan**	**City Pension Plans**	**Total**
	$	**$**	**$**	**$**
Balance – beginning of year	-	3,067,899	1,650,959	4,718,858
Contributions	239,172	117,034	-	356,206
Actual return on assets	-	283,600	86,674	370,274
Benefits paid	(239,172)	(145,394)	(140,729)	(525,295)
Balance – end of year	**-**	**3,323,139**	**1,596,904**	**4,920,043**

	2016			
	Employment and post-employment	**TTC Pension Plan**	**City Pension Plans**	**Total**
	$	**$**	**$**	**$**
Balance – beginning of year	-	2,904,957	1,687,152	4,592,109
Contributions	236,942	112,403	-	349,345
Actual return on assets	-	180,025	109,885	289,910
Benefits paid	(236,942)	(129,486)	(146,078)	(512,506)
Balance – end of year	**-**	**3,067,899**	**1,650,959**	**4,718,858**

December 31, 2017 (all dollar amounts in thousands of dollars)

The reconciliation of the plan assets and accrued benefit obligation to the amounts in the Consolidated Statement of Financial Position is as follows:

	2017			
	Employment and post-employment	**TTC Pension Plan**	**City Pension Plans**	**Total**
	$	**$**	**$**	**$**
Accrued benefit obligation	3,813,030	2,637,360	1,304,521	7,754,911
Plan assets	-	3,323,139	1,596,904	4,920,043
Funding deficit (surplus)	3,813,030	(685,779)	(292,383)	2,834,868
Unamortized actuarial gain	69,003	210,399	-	279,402
Valuation allowance	-	475,380	292,383	767,763
Employee benefit liability(assets)	**3,882,033**	**-**	**-**	**3,882,033**

	2016			
	Employment and post-employment	**TTC Pension Plan**	**City Pension Plans**	**Total**
	$	**$**	**$**	**$**
Accrued benefit obligation	3,597,595	2,660,589	1,391,776	7,649,960
Plan assets	-	3,067,899	1,650,959	4,718,858
Funding deficit (surplus)	3,597,595	(407,310)	(259,183)	2,931,102
Unamortized actuarial gain	159,249	-	-	159,249
Valuation allowance	-	407,310	259,183	666,493
Employee benefit liability	**3,756,844**	**-**	**-**	**3,756,844**

December 31, 2017 (all dollar amounts in thousands of dollars)

The total expenses related to these employee benefits include the following components:

	2017			
	Employment and post-employment	**TTC Pension Plan**	**City Pension Plans**	**Total**
	$	**$**	**$**	**$**
Current service cost	273,445	87,252	-	360,697
Interest cost (revenue)	116,467	(18,739)	(13,224)	84,504
Amortization of actuarial (gain)	(10,136)	(57,429)	(19,882)	(87,447)
Plan amendments	(15,416)	37,880	-	22,464
Change in valuation allowance	-	68,070	33,106	101,176
Total expense	**364,360**	**117,034**	**-**	**481,394**

	2016			
	Employment and post-employment	**TTC Pension Plan**	**City Pension Plans**	**Total**
	$	**$**	**$**	**$**
Current service cost	271,155	84,077	-	355,232
Interest cost (revenue)	108,070	(17,813)	(11,110)	79,147
Amortization of actuarial (gain)	(3,378)	(9,425)	(34,427)	(47,230)
Plan amendments	19,091	40,916	-	60,007
Change in valuation allowance	-	14,648	45,537	60,185
Total expense	**394,938**	**112,403**	**-**	**507,341**

December 31, 2017 (all dollar amounts in thousands of dollars)

(a) Sick leave benefits, WSIB obligations and other employment and post-employment benefits

Actuarial valuation reports were prepared for the valuation of post-retirement, post-employment, sick leave gratuity and self-insured Workplace Safety Insurance Board (WSIB) benefit plans for the City, Toronto Police Service and the City's Agencies and Corporations as at December 31, 2017. The significant actuarial assumptions adopted in measuring the City's accrued benefit obligations and benefit costs for these post-retirement and post-employment, and other retirement benefits are as follows:

	2017	2016
Discount rate for accrued benefit obligation:		
Post-employment	2.8%	2.7%
Post-retirement	3.2%	3.5%
Sick leave	3.0%	3.1%
WSIB	3.0%	3.1%
Rate of compensation increase	2.25% to 3.5%	1.18% to 3.5%
Health care inflation – LTD, hospital and other medical	3.0% to 7.0%	3.0% to 7.0%
Health care inflation – Dental care	3.0% to 4.0%	3.0% to 4.5%
Health care inflation – Drugs	6.0% to 8.35%	6.0% to 10.0%

	2017	2016
Discount rate for benefit costs:		
Post-employment	2.7%	2.5%
Post-retirement	3.5%	3.4%
Sick leave	3.1%	2.9%
WSIB	3.1%	2.9%
Rate of compensation increase	1.18% to 3.5%	1.18% to 3.5%
Health care inflation – LTD, hospital and other medical	3.0% to 7.0%	3.0% to 7.0%
Health care inflation – Dental care	3.0% to 4.5%	3.0% to 4.5%
Health care inflation – Drugs	6.0% to 10.0%	6.0% to 10.0%

For 2017 benefit costs and year-end 2017 benefit obligations, the health care inflation rate for Long-Term Disability (LTD), hospital, other medical and drugs is assumed to reduce to 4.5% by 2030.

(i) Vested Sick Leave Benefit Liability

Under the sick leave benefit plan, employees were credited with a maximum of 18 days sick time per annum. Unused sick leave can accumulate and employees may become entitled to a cash payment, capped at one half (or 100% for former City of Toronto employees who retire) of unused sick time to a maximum of 130 days when they leave the City's employment. The liability for the accumulated sick leave represents the extent to which sick leave benefits have vested and could be taken in cash by employees on termination of employment. A Sick Leave Reserve Fund is established to help reduce the future impact of these obligations.

Effective March 1, 2008, a new short-term disability plan for all management and non-union employees (approximately 4,000) came into effect. Under the plan, existing employees in this group, who had a vested payout entitlement (10 or more years of service), had their sick days and service frozen as of March 1, 2008 and are entitled to a future payout of this frozen entitlement upon termination based on the former municipality's policy provisions. Employees with less than 10 years of service as of March 1, 2008 had their days frozen and are not entitled to a future payout. Instead, they can use these days to top up their short-term disability plan, if necessary. The new short-term disability plan does not have a cash payout provision and will help contain sick leave benefit liabilities over time.

In addition, effective July 31, 2009, the City ratified new collective agreements with TCEU Local 416 and CUPE Local 79, which provided for a new Illness or Injury Plan (IIP) to replace the existing Sick Pay Plan (SPP) for all employees hired after July 31, 2009. During 2009, all employees hired on or before the date of ratification who were in an SPP were provided with a one-time option to join the new IIP, effective January 1, 2010, and receive a partial payout of their sick credits or freeze their sick credits for a payout upon termination/retirement. As a result, 40% of this group of employees joined the IIP, reducing the City's sick leave liability.

As of December 31, 2017, the balance in the Sick Leave Reserve Fund is $43,900 (2016 - $41,040) and is included in the Employee Benefits Reserve Fund grouping (Note 18). Payments during the year amounted to $53,516 (2016 - $47,651).

(ii) WSIB Obligations

The City is a Schedule 2 employer under the Workplace Safety and Insurance Act and, as such, assumes responsibility for financing its workplace safety insurance costs. The accrued obligation represents the actuarial valuation of claims to be insured based on the history of claims with City employees. A Workers' Compensation Reserve Fund was established to help reduce the future impact of these obligations. As at December 31, 2017, the balance in the Workers' Compensation Reserve Fund is $13,623 (2016 - $12,496) and is included as part of the Employee Benefits Reserve Fund (Note 18). Payments during the year by the City to the WSIB amounted to $46,716 (2016 - $46,481).

(iii) Other Employment and Post-Employment Benefits

The City provides health, dental, life insurance and long-term disability benefits to certain employees. The accrued liability represents the actuarial valuation of benefits to be paid based on the history of claims with City employees. An Employee Benefits Reserve Fund was established to help reduce the future impact of these obligations. As at December 31, 2017, the balance in the Employee Benefits Reserve Fund was $221,890 (2016 - $203,730) and is included as part of the Employee Benefits Reserve Fund (Note 18). Payments during the year amounted to $59,798 (2016 - $59,241).

December 31, 2017 (all dollar amounts in thousands of dollars)

(b) Pension benefits

(i) OMERS Pension Plan

The City makes contributions to the Ontario Municipal Employees Retirement System (OMERS) plan, a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit plan that specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer pension plan, the City does not recognize any share of the pension plan surplus of $605 (2016 - $2,341) based on the fair market value of the Plan's assets, as this is a joint responsibility of all Ontario municipalities and their employees. Employer contributions for current service amounted to $212,095 (2016 - $194,049) and were matched by employee contributions in a similar amount.

The amount contributed for past service to OMERS for the year ended December 31, 2017 was $831 (2016 - $696). Employer's contributions for current and past service are included as an expenditure on the Consolidated Statement of Operations and Accumulated Surplus.

(ii) TTC Pension Plan

The TTC participates in a joint defined benefit/defined contribution pension plan that covers substantially all of its employees. This pension plan is registered as a Jointly Sponsored Pension Plan (JSPP) effective January 1, 2011. The pension plan is operated by the Toronto Transit Commission Pension Fund Society (the "Society"), a separate legal entity. The Society provides pensions to members, based on the length of service and average base year (pensionable) earnings. The Society also administers defined benefit supplemental plans designed to pay employees and executives the difference between their earned pension under the by-laws of the Society and the maximum allowable pension under the Income Tax Act (Canada).

The City has accounted for its 50% portion of the plan in accordance with the standards for defined benefit plans.

Actuarial valuations of the pension plan are carried out each year, as at December 31, with the most recent valuation carried out on December 31, 2017. Plan assets are carried at market value. Since there is uncertainty about the TTC's right to the funded surplus, these amounts have not been reflected in the Consolidated Statement of Financial Position. As a result, the accrued benefit asset as at December 31, 2017 is comprised solely of unamortized actuarial losses.

The significant actuarial assumptions for the TTC Pension Plan are as follows:

	2017	**2016**
Discount rate	6%	5.50%
Expected rate of return on plan assets	6%	5.50%
Rate of increase in salaries	3.25%	3.25%
Inflation rate	2%	2%

(iii) City Sponsored Pension Plans

The City sponsors five defined benefit pension plans that provide benefits to employees who were employed prior to the establishment of the OMERS pension plan. The plans cover closed groups of employees hired prior to July 1, 1968 and provide for pensions based on length of service and final average earnings.

The plans provide increases in pensions to retirees and their spouses in accordance with the criteria set out under the applicable by-laws. As at December 31, 2017, there are no members left in the plan (2016 – 1 with age of 71). There were also 2,976 (2016 - 3,188) pensioners with an average age of 81.3 (2016 – 80.3) and 2,358 (2016 - 2,449) spousal beneficiaries in receipt of a pension, with an average age of 83 (2016 - 82.5). Pension payments and refunds during the year were approximately $140,729 (2016 - $146,078).

Given that all remaining members in the plans have over 35 years of service, there are no contributions being made into the plans.

Actuarial valuations for funding purposes for each of the five plans are carried out annually using the projected benefit method pro-rated on service. The most recent actuarial funding reports were prepared as at December 31, 2017. The accrued benefit obligation as at December 31, 2017 is based on actuarial valuations for accounting purposes as at December 31, 2017. The actuarial gains or losses in each of the five plans are accounted for in 2017. The Pension Benefits Act of Ontario requires that the sponsor fund the Fund's benefit obligation as determined by an annual actuarial valuation. For December 31, 2017, there is no employer special payment to cover an irrevocable Letter of Credit (2016 - $20,933) that had been mandated to fund solvency-deficiency position in 2017. As a result of the 2016 actuarial valuation, this letter of credit was cancelled in 2017.

The actuarial valuations were based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases, and employee turnover and mortality. The assumptions used reflect the City's best estimates. The inflation rate is estimated at 2.3% per annum (2016 - 2.3%) and the rate of compensation increase is estimated at 3.5% per annum (2016 - 3.5%) for determining the accrued benefit obligation. The discount rate used to determine the December 31, 2017 accrued benefit obligation is 5% (2016 - 5.1%) and the discount rate used to determine the fiscal year 2017 benefit cost is 5.1% (2016 - 5.2%).

Pension plan assets are valued at market values. The expected rate of return on plan assets is 5.1% (2016 - 5.1%) per annum, net of all administrative expenses. The actual return on the market value of plan assets during the year was a gain of 5.48% (2016 – 6.81%). The pension plans hold the following mix of assets: Cash and equivalents 1.3%, Bonds and Fixed Income 64.9%, Canadian equities 19.1%, and foreign equities 14.7%.

As at December 31, 2017, all plans (2016 - all plans), the Toronto Civic Employee Pension Plan, the Metropolitan Toronto Pension Plan, the Toronto Firefighters Pension Plan, the City of York Employee Pension Plan and Metropolitan Toronto Police Pension Plan are in a surplus position (shaded in the table on the following page). Since there is uncertainty about the City's right to this accrued benefit asset, historically these amounts have not been reflected in the Consolidated Statement of Financial Position.

December 31, 2017 (all dollar amounts in thousands of dollars)

Merger discussions between the City, the pension funds and OMERS have continued throughout 2017 and into 2018. These potential mergers require completion of discussions, approval by all three entities for each of the five funds, completion of regulatory requirements, including approval of Financial Services Commission of Ontario (FSCO). Although regulatory approvals are required, it is likely that four of the funds will be merged into OMERS, and there will be a sharing of surpluses in 2019. As the valuations will be completed and any surplus sharing can only occur after completion of regulatory processes and after the effective dates of transfer to OMERS of the pension liabilities in each fund, the assets and the estimate of the City's portion of surplus in each fund is uncertain at this time, therefore, no estimate of the City's portion of surpluses has been recorded in these financial statements.

	2017	**2017**	**2017**	**2016**
	Pension assets – market value – end of year	**Actuarial pension obligation – end of year**	**Net actuarial surplus**	**Net actuarial surplus**
	$	**$**	**$**	**$**
Toronto Civic Employee Pension Plan	330,319	216,470	113,849	98,764
Metropolitan Toronto Pension Plan	481,386	404,346	77,040	71,377
Toronto Firefighters Pension Plan	222,971	186,588	36,383	25,638
City of York Employee Pension Plan	40,618	36,025	4,593	2,496
Metropolitan Toronto Police Pension Plan	521,610	461,092	60,518	61,002

December 31, 2017 (all dollar amounts in thousands of dollars)

15. Tangible capital assets

Tangible capital assets consist of the following:

	2017			2016
	Cost	**Accumulated amortization**	**Net book value**	**Net book value**
	$	**$**	**$**	**$**
General				
Land	3,637,426	-	3,637,426	3,615,218
Land improvements	1,003,984	437,572	566,412	561,158
Buildings and building improvements	10,402,546	3,537,837	6,864,709	5,406,926
Machinery and equipment	2,641,813	1,452,064	1,189,749	962,138
Motor vehicles	2,585,153	1,612,672	972,481	865,601
Total General	**20,270,922**	**7,040,145**	**13,230,777**	**11,411,041**
Infrastructure				
Land	140,044	-	140,044	140,046
Buildings and building improvements	715,064	178,402	536,662	541,250
Machinery and equipment	2,362,987	1,141,943	1,221,044	1,198,513
Water and wastewater linear	6,363,767	2,292,831	4,070,936	4,040,473
Roads linear	4,591,679	2,197,864	2,393,815	2,280,538
Transit	8,531,075	4,031,800	4,499,275	3,393,051
Total Infrastructure	**22,704,616**	**9,842,840**	**12,861,776**	**11,593,871**
Assets under construction	**4,371,369**	**-**	**4,371,369**	**5,578,757**
Total	**47,346,907**	**16,882,985**	**30,463,922**	**28,583,669**

General capital assets include those assets which are not part of a network. Land includes all of the City's land except land under the roads. Land improvements include outdoor parks and recreation facilities, land improvements around buildings, and the active landfill site. Buildings include office buildings, community centres, police, fire and ambulance stations, TCHC housing units and transit buildings. Machinery and equipment includes equipment used by Fire and Toronto Paramedic Services as well as computers and furniture. Corporate fleet and transit buses make up the vehicle assets.

Infrastructure assets are described as those capital assets which are part of one of three networks: roads, water/wastewater and transit. The land within this category is the value of the land under the City's roads. Water and wastewater treatment plants, pumping stations, and storm facilities are included within infrastructure buildings and building improvements. Machinery and equipment include expressway signs and traffic signals, as well as equipment within the water and wastewater treatment plants and pumping stations related to the relevant processes. Water and wastewater infrastructure includes the pipe networks which deliver the water and which remove the waste water. Road networks are inclusive of the road bases, surfaces and sidewalks. Transit infrastructure includes assets related to the subway system, rolling stock, track work and power distribution.

General machinery and equipment includes capital leases from TCHC totalling $5,760 (2016 - $7,040).

Contributed (Donated) Tangible Capital Assets

Contributed tangible capital assets are recognized at fair market value at the date of contribution. Contributed assets received during the year were valued at $nil (2016 - $3,047) for land, $nil (2016 - $15,579) for land improvements, $nil (2016 - $10,104) for buildings and building improvements, $nil (2016 - $1,291) for machinery and equipment and $nil (2016 - $8,500) for roads linear.

Tangible Capital Assets Recognized at Nominal Value

Tangible capital assets are recognized at nominal value whenever fair value cannot be determined. Land is the only capital asset category which includes nominal values and these are primarily for small parcels of land such as reserve strips and walkways.

Works of Art and Historical Treasures

The City of Toronto owns both works of art and historical treasures at various City owned facilities, such as Casa Loma, Old City Hall, and its museums, such as Fort York. The City of Toronto maintains and preserves these assets because of their historical and cultural significance. These assets are not recorded as tangible capital assets and are not amortized.

Impairment of Tangible Capital Assets

Capital asset condition and state of good repair reviews are conducted on a regular basis to assess potential impairments. Minor impairments are addressed through the capital plans. Any capital assets which are significantly impaired are written down by the value of the impairment.

Additional information on the City's tangible capital assets is provided in Schedule 1.

December 31, 2017 (all dollar amounts in thousands of dollars)

16. Inventories and Prepaid Expenses

	2017	2016
	$	$
Prepaid Expenses	118,886	135,448
Inventories	156,614	157,053
Inventories of Surplus Property	111,799	113,309
	387,299	**405,810**

17. Commitments and contingencies

a) The City is subject to various litigation and claims arising in the normal course of its operations. The final outcome of the outstanding claims cannot be determined at this time. Any amendment to amounts accrued will be recorded once new information becomes available.

b) Exposures on property, liability and accident claims are covered by a combination of self-insurance and coverage with insurance carriers. Provisions for property, liability and accident claims are recorded in other liabilities (Note 10) on the Consolidated Statement of Financial Position in the aggregate amount of $538,858 (2016 - $585,835).

c) On December 21, 2006, a contract was awarded by the TTC for the purchase of 234 subway cars or 39 train sets. In May 2010, the TTC approved purchasing an additional 10 subway train sets for the Toronto-York Spadina Subway line extension and 21 replacement train sets. In March 2014, the TTC approved a further purchase of 10 train sets for future ridership growth bringing the total delivery requirement to 80 train sets. In June 2015, an amendment to the contract was authorized by TTC for modification of four 6-car trainsets into six 4-car trainsets to support the conversion to ATC-equipped trainsets. This brought the total delivery requirements to 82 trainsets, with the total contract value of $1,510,800. At December 31, 2017, 82 train sets had been delivered at a cost of $1,452,500. The outstanding commitment as at December 31, 2017 is $58,300.

d) On June 26, 2009, a contract was awarded by the TTC for the design and supply of 204 Light Rail Vehicles (LRVs). As at December 31, 2017, the total contract cost was $1,011,300. As at December 31, 2017, 62 LRVs had been delivered and TTC had incurred costs of $652,800. The balance of the deliveries will continue in 2018 with all 204 cars scheduled for delivery by 2019. As at December 31, 2017, the outstanding commitment is $358,500.

e) In July 2012, a contract was awarded by the TTC for purchase of 27 60-foot Articulated Low Floor Clean Diesel Buses. In March 2013, TTC approved an amendment to the contract authorizing the purchase of 126 additional 60-foot Articulated Low Floor Clean Diesel Buses and on April 30, 2014 a subsequent contract was awarded for 55 additional 40-foot low floor clean diesel buses. In February 2015 and July 2015, TTC approved a further purchase of 50 40-foot low floor clean diesel buses and 108 40-foot low floor clean diesel buses respectively. In May 2016 and November 2016, the TTC approved the purchase of 97 additional 40-foot low floor clean diesel buses and 285 40-foot low floor clean diesel buses respectively. In September 2017, a subsequent contract was awarded for 325 40-foot low floor clean diesel buses, bringing the total delivery requirement to 1,073 buses. The total contract as at December 31, 2017 is $730,700. At December 31, 2017, 707 buses had been delivered at a cost of $473,700, with 366 buses to be delivered in 2019. As at December 31, 2017, the outstanding commitment is $257,000.

f) In March 2017, a contract was awarded by the TTC for purchase of 20 low floor Wheel-Trans mini buses. In September 2017, the TTC authorized the procurement of an additional 60 low floor Wheel-Trans mini buses. As at December 31, 2017, the total contract value was $14,800. As December 31, 2017, 11 buses had been delivered at a cost of $2,100 with 69 buses to be delivered in 2018. As at December 31, 2017, the outstanding commitment is $12,700.

g) As at December 31, 2017, the TTC has other various capital project contractual commitments of $643,200 (2016 - $593,900). Of this amount, $172,700 (2016 - $130,500) relate to multi-component shared projects for Toronto Waterfront, Toronto-York Spadina Subway Extension project (TYSSE) and TTC; contractual commitments of $42,000 (2016 - $119,800) relate to the TYSSE project and $428,500 (2016 - $343,600) relate to various TTC construction projects.

h) The TTC and Build Toronto have provisions for environmental costs of $8,125 (2016 - $5,332); and $8,298 (2016 - $17,729) respectively. These estimated costs based on third-party engineering reports are to cover estimated costs of remediating sites with known contamination for which these entities are responsible. Given that the estimate of environmental liabilities is based on a number of assumptions, actual costs may vary. The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation. Provisions for environmental costs are recorded in other liabilities (Note 10) on the Consolidated Statement of Financial Position.

i) The Ministry of the Environment has issued Certificates of Approval for 33 (2016 - 30) of the identified 160 (2016 - 160) inactive landfill sites. Applications for Certificates of Approval at other inactive sites may be required prior to the commencement of any remediation work. It is not possible to quantify the effect, if any, of this request on these consolidated financial statements beyond those amounts recorded as landfill closure and post-closure liabilities (Note 11).

j) Council has approved the Policy for the Provision of Line of Credit and Loan Guarantees for Cultural and Community-Based Organizations that have a financial relationship with the City. The total amount of all lines of credit provided by the City under the policy for operating line of credit guarantees is limited to $10,000 in the aggregate. The total amount of all capital loan guarantees provided by the City under the policy for capital loan guarantees is limited to $300,000 in the aggregate, with individual loan guarantees being limited to a maximum of $10,000 unless otherwise approved by Council. The total amount of all direct loans provided by the City under the policy for direct City loans is limited to $125,000 in the aggregate. At December 31, 2017, the City had provided capital loan guarantees to certain third parties amounting to $43,672 (2016 - $38,066), and operating line of credit guarantees of $5,995 (2016 - $5,905), primarily related to several cultural non-profit organizations, and direct City loans amounting to $60,064 (2016 - $70,100), primarily to City agencies.

   Interest terms on the direct City loans were generally set equivalent to the cost of City borrowing at the time the loans were made. The repayment maturity dates on these loans typically range from 20 to 30 years. For loans guaranteed by the City, third-party financing rates to community organizations are closer to prime interest rates, on terms ranging from 5 to 30 years.

   The City maintains priority lender status on direct City loans, and has the right to remedy any defaults on line of credit and loan guarantees. Further, the City has established a doubtful loan reserve to serve as source for funding any potential losses. The current balance in this fund is $250 as at 2017 year end (2016 – $250).

December 31, 2017 (all dollar amounts in thousands of dollars)

k) At December 31, 2017, the City is committed to future minimum annual operating lease payments for premises and equipment as follows:

	$
2018	65,201
2019	45,329
2020	39,359
2021	27,016
2022	19,562
Thereafter	84,327
	280,794

18. Accumulated Surplus

Accumulated surplus is comprised of the following:

	2017	**2016**
	$	**$**
Invested in tangible capital assets (Note 15)	30,463,922	28,583,669
Operating fund	3,051,520	2,455,147
Capital fund	(1,133,473)	(798,940)
Reserves and reserve funds	2,038,014	1,982,887
	34,419,983	**32,222,763**
Amounts expected to be recovered from future revenues*:		
Mortgages (Note 12)	(316,070)	(363,098)
Net long-term debt (Note 13)	(5,949,930)	(5,072,410)
Recoverable from TDSB (Note 13)	-	4,600
Landfill closure and post-closure liabilities (Note 11)	(133,707)	(138,101)
Employee benefits (Note 14)	(3,882,033)	(3,756,844)
Contaminated sites (Note 10)	(7,489)	(6,789)
Property and liability claims provision (Note 10)	(382,225)	(393,582)
TTC – environmental liabilities (Note 10)	(8,125)	(5,332)
	(10,679,579)	(9,731,556)
	23,740,404	**22,491,207**

* Amounts expected to be recovered from future revenues are gross of any reserves or reserve funds set aside for these purposes of $268,048 (2016 - $261,916).

December 31, 2017 (all dollar amounts in thousands of dollars)

Reserves and reserve funds consist of the following:

	2017	2016
	$	$
Reserves:		
Corporate	674,385	535,705
Stabilization	163,738	185,667
Water and Wastewater	75,734	168,155
Donations	1,442	1,462
	915,299	**890,989**
Reserve Funds:		
Employee Benefits (Note 14)	279,413	257,266
Corporate	465,688	446,777
Community Initiatives	128,720	106,331
State of Good Repair	248,894	281,524
	1,122,715	1,091,898
Total Reserves and Reserve Funds	**2,038,014**	**1,982,887**

December 31, 2017 (all dollar amounts in thousands of dollars)

19. Budget Data

Budget data presented in these consolidated financial statements are based upon the 2017 operating and capital budgets approved by Council. Adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The following chart reconciles the approved budget with the budget figures as presented in these consolidated financial statements.

	Budget Amount $
Revenue	
Approved budgets:	
Operating	10,794,506
Capital	3,986,903
Reserve	55,626
	14,837,035
Adjustments:	
Proceeds on debt issue	(1,632,415)
Total revenue	**13,204,620**
Expenses	
Approved budgets:	
Operating	10,426,297
Capital	4,666,214
	15,092,511
Adjustments:	
Tangible Capital Assets	(3,626,248)
Amortization	1,136,311
Debt principal repayments	(292,499)
Total expenses	**12,310,075**
Annual surplus	**894,545**

December 31, 2017 (all dollar amounts in thousands of dollars)

20. Funding Transfers from Other Governments

By Function	2017 $	2016 $
General government	102,201	113,841
Protection to persons and property	42,852	50,206
Transportation	470,005	545,218
Environmental services	27,064	25,448
Health services	308,222	295,630
Social and family services	1,708,204	1,547,748
Social housing	117,114	131,079
Recreation and cultural services	21,374	25,025
Planning and development	2,492	4,122
	2,799,528	**2,738,317**

By Source	2017 $	2016 $
Operating Transfers		
Federal	162,057	153,160
Provincial	2,152,222	1,997,983
Other	19,047	26,969
	2,333,326	2,178,112
Capital Transfers		
Federal	187,965	269,331
Provincial	111,705	247,995
Other	166,532	42,879
	466,202	560,205
Total	**2,799,528**	**2,738,317**

December 31, 2017 (all dollar amounts in thousands of dollars)

21. Expenses by Object

Expenses by object comprise the following:

	2017	2016
	$	$
Salaries, wages and benefits	5,623,330	5,618,259
Materials	1,015,208	1,011,400
Contracted services	1,627,407	1,596,096
Interest on long-term debt	320,319	320,250
Transfer payments	1,366,831	1,184,893
Amortization (Schedule 1)	1,136,311	973,897
Other	225,674	249,075
	11,315,080	**10,953,870**

22. Segmented Information

The City provides a wide range of services to its citizens. Certain services are delivered on behalf of another level of government, a number of services are cost shared, and some services are fully funded by the municipality. Services are delivered through a number of different agencies, corporations and divisions, with certain services delivered directly, while others may be fully or partially contracted through other organizations.

For each reported segment, revenues and expenditures represent both amounts that are directly attributable to the segment, as well as amounts that are allocated to the segment on a reasonable basis. The accounting policies used in the segments are consistent with the accounting policies followed in the preparation of these consolidated financial statements as disclosed in Note 1.

The segmented information is provided in Appendices 2 to 4 of the consolidated financial statements.

Appendix 2 includes the following segments:

- **General government** is comprised of Council, administration and amounts paid to the Municipal Property Assessment Corporation. These groups are responsible for bylaws and administrative policies, levying taxes, acquiring and managing City assets, ensuring effective financial management, planning and budgeting, monitoring financial and operating performance, and ensuring that high-quality City service standards are met.

- **Protection to persons and property** is comprised of police, fire and other protective services such as By-law Enforcement, Animal Control, Vehicle and Business Licensing, Security and Provincial Offences. These groups maintain the safety and security of all citizens by reducing or eliminating loss of life and property, maintaining law enforcement and preserving peace and good order.

- **Transportation** includes transit, roads, traffic and parking services. Transit services provide local public transportation for all citizens within the city of Toronto. Other transportation services provide planning, development, and maintenance of roads, traffic operations, parking, winter control and street lighting.

- **Environmental services** include water supply and distribution, wastewater treatment and waste and recycling services. These services provide clean drinking water to residents, collect and treat wastewater, and collect and properly process waste and recycling items.

- **Health services** include paramedic and mandated health services. Mandated health services promote and maintain health programs that optimize the health of residents. Paramedic services deliver timely and effective care for pre-hospital emergency care, along with medically required inter-hospital transportation.

- **Social and family services** include social assistance, long-term care and child care services. Social assistance services determine, issue and monitor clients' eligibility for financial, social and employment assistance. Long-term care services provide secure and supervised health services for seniors who can no longer live at home. Child care services provide subsidized child care spaces and provide funding for wage subsidy, pay equity and special needs.

- **Social housing** provides a range of services including high-quality housing for low and moderate income tenants, emergency shelters, outreach, search and stabilization to people in the community.

- **Recreation and cultural services** include parks services, recreational programs, recreation facilities, golf courses, libraries, museums and other cultural services and activities. Parks and recreation services develop and deliver high-quality recreational programs, and develop and maintain recreational facilities, parks and sports fields to ensure all residents have the opportunity to enjoy a healthy lifestyle. Cultural services invest in local non-profit organizations that deliver services on behalf of the City. Library services provide public library services to the citizens via physical facilities, bookmobile, virtual and telephone services.

- **Planning and development** manages urban development for residential and business interests as well as infrastructure. It includes planning and zoning, commercial and industrial developments and forestry.

Appendices 3 and 4 reflect disclosure by entity which are significant agencies and corporations for the City of Toronto.

December 31, 2017 (all dollar amounts in thousands of dollars)

23. Trust Funds

Trust funds administered by the City amounting to $26,303 (2016 - $24,374) have not been included on the Consolidated Statement of Financial Position nor have their operations been included in the Statement of Operations and Accumulated Surplus. Separate Audited Financial Statements are prepared for funds held in Trust by the City. Trust fund balances as at December 31 are as follows:

	2017	**2016**
	$	**$**
Keele Valley Site Post-Closure Trust Fund (Note 11)	7,573	7,552
Homes for the Aged Trust Fund – Residents	6,303	6,279
Community Centre Development Levy Trust Fund – Railway Lands	5,010	4,941
Toronto Police Service Board Mounted Unit	1,816	-
Waterpark Place Trust Fund	1,108	1,105
Contract Aftercare Trust Fund	1,104	1,102
Community Services Levies Trust Fund	778	767
Regent Park Legacy Trust	720	713
Music Garden Trust Fund	615	615
Development Charges Trust Fund – Queen's Quay	335	340
Lakeshore Pedestrian Bridge Trust Fund	255	254
Children's Greenhouse Trust Fund – Allan Gardens	118	116
Green Lane Small Claims Trust Fund	113	111
Public Art Maintenance Trust Funds	107	221
Toronto Police Trust Funds	92	3
Preservation Trust Fund	55	54
Hugh Clydesdale Trust Fund	45	45
Michael Sansone Trust Fund	43	43
Tenant Displacement Trust Fund	28	28
90 Lisgar Street Trust Fund	21	21
Other trust funds	64	64
	26,303	**24,374**

24. Comparative Amounts

Certain 2016 amounts have been regrouped from consolidated financial statements previously presented, to conform with the presentation adopted in 2017.

25. Subsequent Events

CreateTO

In 2016, City Council authorized a City-wide Real Estate Review to strengthen the financial processes, strategic planning, oversight and decision-making involving its real estate portfolios. As part of the transformation, the real estate assets of some of the City's real estate entities will be managed centrally under CreateTO, a newly established agency. CreateTO's objective is to put City assets to best use by implementing a holistic, City building strategy, balancing the community and economic benefits through a consolidated framework over the next two to four years. Once the transformation is complete, CreateTO will provide real estate development and management services to the City of Toronto. This is effective January 1, 2018.

As a result of this transformational initiative, $1,200 of restructuring costs were incurred in 2017.

Consolidated Schedule of Tangible Capital Assets – SCHEDULE 1

As at and for the year ended December 31, 2017
(all dollar amounts in thousands of dollars)

	2017									
	Cost 2017					Accumulated Amortization 2017				
	Beginning	Additions	Disposals / Transfers	Donated	Ending	Beginning	Amortization	Disposals	Ending	**Net Book Value 2017**
General										
Land	3,615,218	26,706	(4,498)	-	3,637,426	-	-	-	-	3,637,426
Land improvements	971,802	39,791	(7,609)	-	1,003,984	410,644	29,205	(2,277)	437,572	566,412
Buildings and building improvements	8,657,493	1,754,185	(9,132)	-	10,402,546	3,250,567	292,231	(4,961)	3,537,837	6,864,709
Machinery and equipment	2,292,385	387,207	(37,779)	-	2,641,813	1,330,247	159,370	(37,553)	1,452,064	1,189,749
Vehicles	2,379,829	295,353	(90,029)	-	2,585,153	1,514,228	184,443	(85,999)	1,612,672	972,481
Total General	**17,916,727**	**2,503,242**	**(149,047)**	**-**	**20,270,922**	**6,505,686**	**665,249**	**(130,790)**	**7,040,145**	**13,230,777**
Infrastructure										
Land	140,046	-	(2)	-	140,044	-	-	-	-	140,044
Buildings and building improvements	706,437	8,627	-	-	715,064	165,187	13,215	-	178,402	536,662
Machinery and equipment	2,269,289	93,698	-	-	2,362,987	1,070,776	71,167	-	1,141,943	1,221,044
Water and wastewater linear	6,251,376	113,416	(1,025)	-	6,363,767	2,210,903	82,605	(677)	2,292,831	4,070,936
Roads linear	4,398,771	208,204	(15,296)	-	4,591,679	2,118,233	94,196	(14,565)	2,197,864	2,393,815
Transit	7,221,966	1,316,103	(6,994)	-	8,531,075	3,828,915	209,879	(6,994)	4,031,800	4,499,275
Total infrastructure	**20,987,885**	**1,740,048**	**(23,317)**	**-**	**22,704,616**	**9,394,014**	**471,062**	**(22,236)**	**9,842,840**	**12,861,776**
Assets under construction	**5,578,757**	**895,004**	**(2,102,392)**	**-**	**4,371,369**	**-**	**-**	**-**	**-**	**4,371,369**
TOTAL	**44,483,369**	**5,138,294**	**(2,274,756)**	**-**	**47,346,907**	**15,899,700**	**1,136,311**	**(153,026)**	**16,882,985**	**30,463,922**

Consolidated Schedule of Tangible Capital Assets – SCHEDULE 1

As at and for the year ended December 31, 2016
(all dollar amounts in thousands of dollars)

	2016										
	Cost 2016					Accumulated Amortization 2016					
	Beginning	Additions	Disposals / Transfers	Donated	Ending	Beginning	Amortization	Disposals	Ending	**Net Book Value 2016**
General										
Land	3,603,549	13,490	(4,868)	3,047	3,615,218	-	-	-	-	3,615,218
Land improvements	912,180	44,975	(932)	15,579	971,802	383,968	27,600	(924)	410,644	561,158
Buildings and building improvements	7,946,383	703,780	(2,774)	10,104	8,657,493	2,997,148	254,166	(747)	3,250,567	5,406,926
Machinery and equipment	2,053,103	292,912	(54,921)	1,291	2,292,385	1,243,255	139,883	(52,891)	1,330,247	962,138
Vehicles	2,258,601	180,904	(59,676)	-	2,379,829	1,446,836	126,346	(58,954)	1,514,228	865,601
Total General	**16,773,816**	**1,236,061**	**(123,171)**	**30,021**	**17,916,727**	**6,071,207**	**547,995**	**(113,516)**	**6,505,686**	**11,411,041**
Infrastructure										
Land	139,146	911	(11)	-	140,046	-	-	-	-	140,046
Buildings and building improvements	607,997	98,440	-	-	706,437	154,125	11,062	-	165,187	541,250
Machinery and equipment	1,742,933	526,989	(633)	-	2,269,289	1,012,932	57,955	(111)	1,070,776	1,198,513
Water and wastewater linear	5,860,236	396,940	(5,800)	-	6,251,376	2,137,148	77,436	(3,681)	2,210,903	4,040,473
Roads linear	4,324,353	108,026	(42,108)	8,500	4,398,771	2,059,369	92,550	(33,686)	2,118,233	2,280,538
Transit	6,790,530	431,436	-	-	7,221,966	3,642,016	186,899	-	3,828,915	3,393,051
Total infrastructure	**19,465,195**	**1,562,742**	**(48,552)**	**8,500**	**20,987,885**	**9,005,590**	**425,902**	**(37,478)**	**9,394,014**	**11,593,871**
Assets under construction	**5,802,565**	**841,174**	**(1,064,982)**	**-**	**5,578,757**	**-**	**-**	**-**	**-**	**5,578,757**
TOTAL	**42,041,576**	**3,639,977**	**(1,236,705)**	**38,521**	**44,483,369**	**15,076,797**	**973,897**	**(150,994)**	**15,899,700**	**28,583,669**

Schedule of Government Business Enterprises – APPENDIX 1

As at and for the year ended December 31, 2017
(all dollar amounts in thousands of dollars)

Condensed Financial Results ($) Fiscal Year Ended	Toronto Hydro Corporation December 31		Toronto Parking Authority December 31		Toronto Port Lands Company December 31		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Financial Position								
Assets								
Current	526,700	573,500	54,285	88,414	41,285	32,357	622,270	694,271
Capital	4,439,600	4,125,000	204,127	160,730	356,707	359,060	5,000,434	4,644,790
Other	254,202	244,503	72,861	78,957	-	-	327,063	323,460
	5,220,502	**4,943,003**	**331,273**	**328,101**	**397,992**	**391,417**	**5,949,767**	**5,662,521**
Liabilities								
Current	770,500	1,083,200	23,160	28,733	6,944	6,116	800,604	1,118,049
Long-term	2,695,300	2,442,300	4,037	4,549	7,793	7,968	2,707,130	2,454,817
	3,465,800	**3,525,500**	**27,197**	**33,282**	**14,737**	**14,084**	**3,507,734**	**3,572,866**
Net equity	**1,754,702**	**1,417,503**	**304,076**	**294,819**	**383,255**	**377,333**	**2,442,033**	**2,089,655**
City's share (Note 6)	**1,735,916**	**1,397,196**	**304,076**	**294,819**	**383,255**	**377,333**	**2,423,247**	**2,069,348**
Results of Operations								
Revenues	3,865,298	3,938,850	151,151	145,798	17,572	20,336	4,034,021	4,104,984
Expenses	3,703,100	3,847,501	89,595	87,129	6,541	6,064	3,799,236	3,940,694
Net income (loss)	**162,198**	**91,349**	**61,556**	**58,669**	**11,031**	**14,272**	**234,785**	**164,290**
City's share (Note 6)	**162,198**	**91,349**	**61,556**	**58,669**	**11,031**	**14,272**	**234,785**	**164,290**
Distribution to City (Note 6)	-	-	52,297	51,821	5,109	6,891	57,406	58,712
Dividends paid to City (Note 6)	75,000	63,399	-	-	-	-	75,000	63,399
Net book value of assets sold from the City to Toronto Hydro Corporation (Note 6)	18,788	20,308	-	-	-	-	18,788	20,308

Consolidated Schedule of Segment Disclosure – Service – APPENDIX 2*

for the year ended December 31, 2017
(all dollar amounts in thousands of dollars)

	2017									
	General Government	**Protection**	**Transportation**	**Environmental**	**Health**	**Social and Family**	**Social Housing**	**Recreation and Cultural**	**Planning and Development**	**Consolidated**
Taxation	5,002,614	-	-	-	-	-	-	-	-	5,002,614
User charges	60,564	203,372	1,355,775	1,134,596	2,359	60,347	17,781	158,418	34,990	3,028,202
Government transfers	102,201	42,852	470,005	27,064	308,222	1,708,206	117,114	21,374	2,490	2,799,528
Net GBE income	236,305	-	-	-	-	-	-	-	-	236,305
Other	215,511	61,454	309,256	119,974	4,820	30,355	480,383	193,290	82,585	1,497,628
TOTAL REVENUES	**5,617,195**	**307,678**	**2,135,036**	**1,281,634**	**315,401**	**1,798,908**	**615,278**	**373,082**	**120,065**	**12,564,277**
Salaries, wages and benefits	445,674	1,649,590	1,548,255	267,788	370,206	582,634	156,285	556,736	46,162	5,623,330
Materials	163,507	28,153	333,486	108,061	17,365	73,072	141,810	94,749	55,005	1,015,208
Contracted services	167,985	24,147	449,812	288,399	32,308	417,361	81,130	152,089	14,176	1,627,407
Interest on long-term debt	2,603	11,993	190,346	10,924	1,010	4,624	75,856	13,056	9,907	320,319
Transfer payments	(182,983)	47,746	(231)	73,499	34,767	1,096,964	197,605	80,579	18,885	1,366,831
Other	90,676	13,815	22,453	28,108	2,026	16,788	7,883	42,557	1,368	225,674
Amortization	88,517	35,838	595,701	178,839	2,836	1,522	163,212	67,899	1,947	1,136,311
TOTAL EXPENSES	**775,979**	**1,811,282**	**3,139,822**	**955,618**	**460,518**	**2,192,965**	**823,781**	**1,007,665**	**147,450**	**11,315,080**
ANNUAL SURPLUS/ (DEFICIENCY)	**4,841,216**	**(1,503,604)**	**(1,004,786)**	**326,016**	**(145,117)**	**(394,057)**	**(208,503)**	**(634,583)**	**(27,385)**	**1,249,197**

*Definition of Segments by Service provided in Note 22 – Segmented Information.

Consolidated Schedule of Segment Disclosure – Service – 2016 – APPENDIX 2*

for the year ended December 31, 2016
(all dollar amounts in thousands of dollars)

	2016									
	General Government	**Protection**	**Transportation**	**Environmental**	**Health**	**Social and Family**	**Social Housing**	**Recreation and Cultural**	**Planning and Development**	**Consolidated**
Taxation	4,695,603	-	-	-	-	-	-	-	-	4,695,603
User charges	55,474	187,112	1,300,487	1,271,216	2,288	55,933	17,425	150,436	33,370	3,073,741
Government transfers	113,841	50,206	545,218	25,448	295,630	1,547,748	131,079	25,025	4,122	2,738,317
Net GBE income	165,810	-	-	-	-	-	-	-	-	165,810
Other	416,736	51,201	266,424	91,714	7,488	25,747	382,125	225,035	62,022	1,528,492
TOTAL REVENUES	**5,447,464**	**288,519**	**2,112,129**	**1,388,378**	**305,406**	**1,629,428**	**530,629**	**400,496**	**99,514**	**12,201,963**
Salaries, wages and benefits	478,014	1,599,339	1,586,210	263,817	362,341	576,370	151,541	554,397	46,230	5,618,259
Materials	133,419	76,013	350,451	103,213	17,338	65,602	121,613	102,549	41,202	1,011,400
Contracted services	174,364	21,085	420,181	285,512	32,355	383,254	106,223	154,696	18,426	1,596,096
Interest on long-term debt	5,980	10,048	188,025	12,012	909	3,642	74,179	16,984	8,471	320,250
Transfer payments	(176,190)	53,182	(31,381)	81,558	32,564	989,971	171,379	70,584	(6,774)	1,184,893
Other	63,856	13,119	75,863	29,120	2,422	18,061	2,495	39,555	4,584	249,075
Amortization	80,896	35,524	478,059	157,944	1,692	1,315	152,069	62,988	3,410	973,897
TOTAL EXPENSES	**760,339**	**1,808,310**	**3,067,408**	**933,176**	**449,621**	**2,038,215**	**779,499**	**1,001,753**	**115,549**	**10,953,870**
ANNUAL SURPLUS/ (DEFICIENCY)	**4,687,125**	**(1,519,791)**	**(955,279)**	**455,202**	**(144,215)**	**(408,787)**	**(248,870)**	**(601,257)**	**(16,035)**	**1,248,093**

**Definition of Segments by Service provided in Note 22 – Segmented Information.*

Consolidated Schedule of Segment Disclosure – Entity – APPENDIX 3

for the year ended December 31, 2017
(all dollar amounts in thousands of dollars)

2017

	City	Police Services	Toronto Transit Commission	Toronto Public Library	Toronto Community Housing Corporation	Other Agencies and Corporations	TOTAL
Taxation	5,002,614	-	-	-	-	-	5,002,614
User charges	1,717,386	31,987	1,181,925	4,319	17,781	74,804	3,028,202
Government transfers	2,271,943	41,925	468,071	7,634	-	9,955	2,799,528
Net GBE income	236,305	-	-	-	-	-	236,305
Other	665,747	29,469	146,125	17,200	469,682	169,405	1,497,628
TOTAL REVENUES	**9,893,995**	**103,381**	**1,796,121**	**29,153**	**487,463**	**254,164**	**12,564,277**
Salaries, wages and benefits	2,782,303	1,079,954	1,370,606	140,520	156,285	93,662	5,623,330
Materials	547,852	9,921	217,067	9,182	141,809	89,377	1,015,208
Contracted services	1,249,702	15,553	231,653	25,738	81,130	23,631	1,627,407
Interest on long-term debt **	232,220	9,990	-	-	75,758	2,351	320,319
Transfer payments	2,438,147	2,506	(595,485)	(185,656)	(240,377)	(52,304)	1,366,831
Other	175,752	4,264	8,686	3,055	8,620	25,297	225,674
Amortization	408,256	26,652	494,859	33,339	163,212	9,993	1,136,311
TOTAL EXPENSES	**7,834,232**	**1,148,840**	**1,727,386**	**26,178**	**386,437**	**192,007**	**11,315,080**
ANNUAL SURPLUS/ (DEFICIENCY)	**2,059,763**	**(1,045,459)**	**68,735**	**2,975**	**101,026**	**62,157**	**1,249,197**

*** As at December 31, the City has issued $3,704,609 in debentures for capital expenditures made on behalf of the TTC (2016 - $3,473,151). Included in interest on long-term debt is $153,013 related to this debt.*

Consolidated Schedule of Segment Disclosure – Entity – APPENDIX 3

for the year ended December 31, 2016
(all dollar amounts in thousands of dollars)

2016

	City	Police Services	Toronto Transit Commission	Toronto Public Library	Toronto Community Housing Corporation	Other Agencies and Corporations	TOTAL
Taxation	4,695,603	-	-	-	-	-	4,695,603
User charges	1,808,762	33,810	1,141,880	4,481	17,425	67,383	3,073,741
Government transfers	2,465,221	49,226	198,768	6,481	-	18,621	2,738,317
Net GBE income	165,810	-	-	-	-	-	165,810
Other	894,025	24,538	77,335	7,670	378,675	146,249	1,528,492
TOTAL REVENUES	**10,029,421**	**107,574**	**1,417,983**	**18,632**	**396,100**	**232,253**	**12,201,963**
Salaries, wages and benefits	2,805,410	1,057,463	1,367,815	142,356	151,541	93,674	5,618,259
Materials	469,716	54,224	257,144	7,186	121,613	101,517	1,011,400
Contracted services	1,192,136	13,663	234,158	25,153	106,223	24,763	1,596,096
Interest on long-term debt **	235,727	8,447	-	-	74,082	1,994	320,250
Transfer payments	2,242,675	7,082	(626,494)	(184,813)	(231,235)	(22,322)	1,184,893
Other	174,153	4,601	39,164	2,697	2,495	25,965	249,075
Amortization	372,393	27,927	379,101	31,984	152,069	10,423	973,897
TOTAL EXPENSES	**7,492,210**	**1,173,407**	**1,650,888**	**24,563**	**376,788**	**236,014**	**10,953,870**
ANNUAL SURPLUS/ (DEFICIENCY)	**2,537,211**	**(1,065,833)**	**(232,905)**	**(5,931)**	**19,312**	**(3,761)**	**1,248,093**

*** As at December 31, the City has issued $3,473,151 in debentures for capital expenditures made on behalf of the TTC (2015 - $3,265,325). Included in interest on long-term debt is $145,254 related to this debt.*

Consolidated Schedule of Segment Disclosure – Tangible Capital Assets by Entity – APPENDIX 4

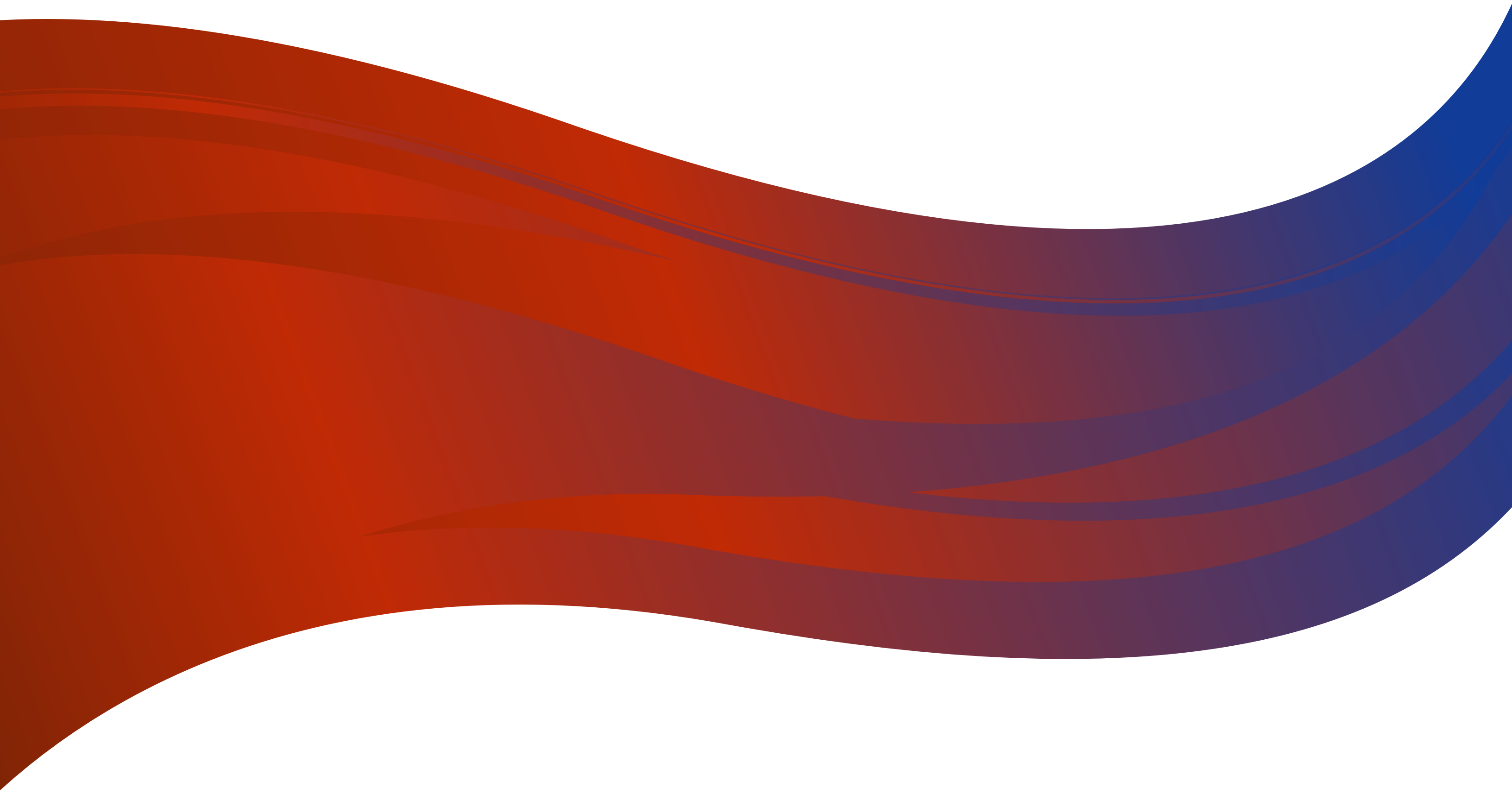
for the years ended December 31, 2017 and 2016
(all dollar amounts in thousands of dollars)

2017 and 2016

	City, including Police Services	Toronto Transit Commission	Toronto Community Housing Corporation	Toronto Public Library	Other Agencies and Corporations	TOTAL
2017						
General						
Cost	7,967,052	7,086,336	4,523,377	476,093	218,064	20,270,922
Accumulated amortization	2,235,740	2,751,199	1,781,223	180,632	91,351	7,040,145
Net Book Value	**5,731,312**	**4,335,137**	**2,742,154**	**295,461**	**126,713**	**13,230,777**
Infrastructure						
Cost	14,173,542	8,531,074	-	-	-	22,704,616
Accumulated amortization	5,811,041	4,031,799	-	-	-	9,842,840
Net Book Value	**8,362,501**	**4,499,275**	**-**	**-**	**-**	**12,861,776**
Assets under construction	**1,958,360**	**2,052,446**	**222,978**	**29,913**	**107,672**	**4,371,369**
Total	**16,052,173**	**10,886,858**	**2,965,132**	**325,374**	**234,385**	**30,463,922**
2016						
General						
Cost	7,775,711	5,225,791	4,240,687	463,843	210,695	17,916,727
Accumulated amortization	2,105,361	2,524,125	1,619,624	172,004	84,572	6,505,686
Net Book Value	**5,670,350**	**2,701,666**	**2,621,063**	**291,839**	**126,123**	**11,411,041**
Infrastructure						
Cost	13,765,920	7,221,965	-	-	-	20,987,885
Accumulated amortization	5,565,100	3,828,914	-	-	-	9,394,014
Net Book Value	**8,200,820**	**3,393,051**	**-**	**-**	**-**	**11,593,871**
Assets under construction	**1,431,621**	**3,888,842**	**142,331**	**17,668**	**98,295**	**5,578,757**
Total	**15,302,791**	**9,983,559**	**2,763,394**	**309,507**	**224,418**	**28,583,669**

2017 City of Toronto Financial Report

Glossary



Glossary

Accrual Accounting: the accrual basis of accounting recognizes revenues as they are earned and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay. This is also known as the full accrual basis of accounting. Prior to 2009, municipal governments did not capitalize tangible capital assets and recorded them as expenditures. This was the only exception to the accrual basis of accounting and therefore municipal accounting was previously referred to as the modified accrual basis of accounting.

Accrued Benefit Liability: see Employee Benefits Liability – Net.

Accrued Benefit Obligation: see Employee Benefits Liability – Gross.

Accumulated amortization: the sum of all amortization expensed on a given asset or asset class to-date.

Accumulated surplus: the difference between the City's financial and non-financial assets and its liabilities. The accumulated surplus represents the net financial and physical assets / resources available to provide future services. It is the sum of amounts invested in: tangible capital assets; the operating, capital, reserve and reserve funds; net of amounts to be recovered from future revenues.

Agencies and Corporations: The City's agencies, boards and corporations are referred to as agencies and corporations.

Amortization expense: annual charge to expense to represent allocation of an asset's cost over its useful life.

Amounts to be recovered: the sum of items that have not been included in previous budgets and that will be recovered from future rates or taxes. Amounts to be recovered consist of outstanding debt, unfunded future employment costs, unfunded landfill post-closure costs, as well as unfunded environmental, property and liability claims.

Assets: have three essential characteristics: (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services; (b) the government can control access to the benefit; and (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

Bankers Acceptance (BA): A short-term debt instrument that is guaranteed by a commercial bank.

BOG: the Board of Governors of Exhibition Place.

Budget - capital: an outline of the government's capital revenue and expense plans for the upcoming year. Certain capital projects are budgeted on a life-to-date basis.

Budget - operating: an outline of the government's operating revenue and expense plan for the upcoming year. The Operating Budget is formally presented early each year, and is subject to public consultation and debate prior to approval. Separate operating budgets are prepared for the tax supported and each of the rate supported areas. The Operating Budget sets out the amount of taxes to be collected for the year, as well as fees to be charged and authorized expenses.

Business Improvement Area (BIA): A Business Improvement Area is an association of commercial property owners and tenants within a defined area who work in partnership with the City to create thriving, competitive and safe business areas that attract shoppers, diners, tourists, and new businesses.

Canadian Institute of Chartered Accountants (CICA): the Canadian Institute of Chartered Accountants. The CICA conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government.

Chartered Professional Accountant (CPA): The CPA is the national organization established to support a unified Canadian accounting profession, representing the following former standalone designations: the Chartered Accountants (CA), Certified General Accountants (CGA) and Certified Management Accountants (CMA).

City of Toronto Act, 2006: an Ontario Statute that outlines the broad permissive powers of the City of Toronto to pass by-laws that range from public safety, to the City's economic, social and environmental well-being.

COLA: Cost of Living Adjustment.

Consolidated statements: financial statements which include all of the entities controlled by the City.

Consolidation: inclusion of all entities controlled by the City, except for those which qualify as government business enterprises, on a line-by-line basis in the City's financial statements.

Contingent Liabilities: possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty. The uncertainty will ultimately be resolved when one or more future events not wholly within the government's control occur or fail to occur. Resolution of the uncertainty will confirm the incurrence or non-incurrence of a liability.

Contra-account: an account in the financial records that offsets or reduces the balance of a related account. For example, Accumulated Amortization of an asset class is contra to the Tangible Capital Asset account for that same class.

Contractual Obligations: obligations of a government to others that will become liabilities when the terms of a contract or agreement are met.

Current Value Assessment (CVA): Under Current Value Assessment a property is assessed for tax purposes at the price that it would be expected to sell for by a willing seller to a willing buyer at the assessment date.

Debenture: a debt instrument where the issuer promises to pay interest and repay the principal by the maturity date. It is unsecured, meaning there is no lien on any specific asset.

Debt: a financial obligation to another entity from borrowing money.

Deferred revenue: amounts received regarding obligatory reserve funds or funds with other internal or external restrictions, which have remained unspent at year end. These amounts are shown with liabilities and are recognized in revenue when the revenues are earned, which may include spending the monies for their intended purpose.

Deficit: the amount, if any, by which government expenses exceed revenues in any given year. Unlike the senior levels of government, municipalities cannot budget to run a deficit.

Derivatives: financial contracts that derive their value from other underlying instruments. TCHC has used a derivative to hedge interest costs.

Dominion Bond Rating Service (DBRS): is a credit rating agency know as Dominion Bond Rating Service (DBRS). It is a bond rating service.

Employee Benefits Liability - Gross: the present value of the expected payouts for benefits which employees have earned at year end. This amount is calculated by the City's actuaries every three years, and updated based on actual data between valuations.

Employee Benefits Liability - Net: the amount recorded in the Statement of Financial Position representing the present value of the expected payouts for benefits which employees have earned at year end, after allowing for the required smoothing of actuarial gains and losses. PSAB requires amortization of each actuarial gain or loss over the Expected Average Remaining Service Life of the employee group, at the time of the actuarial valuation. This net liability may be lower than the gross liability when actuarial losses exceed gains, or larger than the gross liability when gains exceed losses.

Fair Value: the price that would be agreed upon in an arm's length transaction and in an open market between knowledgeable, willing parties who are under no compulsion to act. It is not the effect of a forced or liquidation sale.

Financial Assets: assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash; an asset that is convertible to cash; a contractual right to receive cash or another financial asset from another party; a temporary or portfolio investment; and a financial claim on an outside organization or individual.

Fiscal Year: the City of Toronto's fiscal year runs from January 1 to December 31.

Generally Accepted Accounting Principles (GAAP): generally accepted accounting principles, as laid out in the relevant Handbook – the Public Sector Accounting Handbook for government organizations and the CICA Handbook or IFRS for Government Business Enterprises.

Generally Accepted Auditing Standards (GAAS): Standards established by Canadian Institute of Chartered Accountants (CICA) for use by public accountants when conducting external audits of the financial statements.

Government Business Enterprise (GBE): an organization that has all of the following characteristics: (a) it is a separate legal entity with the power to contract in its own name and that can sue and be sued; (b) it has been delegated the financial and operational authority to carry on a business; (c) it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and (d) it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity. Government business enterprises are accounted for under the modified equity method.

Hedging: a strategy to minimize the risk of loss on an asset (or a liability) from market fluctuations such as interest rate or foreign exchange rate changes. This is accomplished by entering into offsetting commitments with the expectation that a future change in the value of the hedging instrument will offset the change in the value of the asset (or the liability).

IAS: International Accounting Standards.

Indemnity: an agreement whereby one party agrees to compensate another party for any loss suffered by that party. The City can either seek or provide indemnification.

Infrastructure: the facilities, systems and equipment required to provide public services and support private sector economic activity including network infrastructure (i.e., roads, bridges, water and wastewater systems, large information technology systems), buildings (i.e., hospitals, schools, courts), and machinery and equipment (i.e., medical equipment, research equipment).

International Financial Reporting Standards (IFRS): Government Business Enterprises must follow IFRS for fiscal years beginning on or after January 1, 2011. Other government organizations may also choose to follow IFRS. IFRS reporting is also mandatory for publicly accountable (non-government) enterprises beginning in 2011. IFRS are now available in part I of the CICA Handbook.

Jointly Sponsored Pension Plan: a jointly sponsored pension plan is a pension plan where members and the entity (TTC) share responsibility for plan governance, plan administration and plan terms, including funding of the plan.

Liabilities: are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. These liabilities have three essential characteristics: (a) they embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation; (b) the duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and (c) the transactions or events obligating the government have already occurred.

Loan Guarantee: an agreement to pay all or part of the amount due on a debt obligation, in the event of default by the borrower.

LRT: Light Rail Transit.

LRVs: Light Rail Vehicles.

LTD: Long Term Disability.

Modified Equity Method of Accounting: investment balances are adjusted for any earnings or losses of the government business enterprise, without adjustment to correspond to public sector GAAP.

Multi-employer Pension Plan: is a defined benefit pension plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multi-employer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

Municipal Property Assessment Corporation (MPAC): The Municipal Property Assessment Corporation is a non-profit organization which serves Ontario property taxpayers together with provincial and municipal stakeholders by providing property assessments and enumeration services.

Net Book Value of Tangible Capital Assets: historical cost of tangible capital assets less both the accumulated amortization and the amount of any write-downs.

Net Debt: the difference between the City's total liabilities and financial assets. It represents the City's future revenue requirements to pay for past transactions and events.

Non-Financial Assets: assets that normally do not generate cash capable of being used to repay existing debts. For the Province, it comprises tangible capital assets and net assets of broader public sector organizations.

Obligatory reserve funds: amounts collected from developers or through other legislation or legal agreement, which must be spent in a prescribed manner.

Ontario Works (OW): Ontario Works financial assistance, and employment assistance.

Option: a contract that confers the right, but not the obligation, to buy or sell a specific amount of a commodity, currency or security at a specific price, on a certain future date.

Other than a Temporary Decline: a loss in value of a portfolio investment that is other than a temporary decline occurs when the actual value of the investment to the government becomes lower than the carrying value and the impairment is expected to remain for a prolonged period.

Prepaid Expenses: Prepaid expenses are non-financial assets which result when payments are made in advance of the receipt of goods or services. Prepaid expenses may arise from payments for insurance premiums, leases, professional dues, memberships and subscriptions.

Present Value: the current worth of one or more future cash payments, determined by discounting the payments using a given rate of interest.

Public Sector Accounting Board (PSAB): the Public Sector Accounting Board (PSAB) of the CICA sets standards and provides guidance for financial and other performance information reported by the public sector.

Recognition: the process of including an item in the financial statements of an entity.

Reserves and Reserve Funds: fiscal and accounting entity segregated by Municipal Council for the purpose of carrying on specific activities or attaining certain objectives in accordance with internally or externally established restrictions or limitations. By City policy and practice, interest earnings are applied only to reserve funds, while reserves do not earn interest.

S&P: Standard & Poor's (S&P) – is a financial service company that publishes financial research analysis in stocks and bonds. It is known for its stock market indices.

Segment: a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to help users of the financial statements identify the resources allocated to support the major activities of the government.

Sinking Fund Debenture: a debenture that is secured by periodic payments into a fund established to retire long-term debt.

Straight-Line Basis of Amortization: a method whereby the annual amortization expense is computed by dividing the historical cost of the asset less the residual value by the number of years the asset is expected to be used.

Subordinated debt: Debt which ranks after other debts should a company fall into liquidation or bankruptcy.

Surplus: the amount by which revenues exceed expenses in any given year.

TAF: the Toronto Atmospheric Fund.

Tangible Capital Assets: physical assets including land, buildings, transportation and transit infrastructure, water & wastewater infrastructure, vehicles and equipment. These assets were recorded in the City's consolidated financial statements for the first time in 2009.

TCHC: the Toronto Community Housing Corporation.

TDSB: the Toronto District School Board.

TEDCO: Toronto Economic Development Corporation, carrying on business as Toronto Port Lands Company (TPLC).

Total Debt: the City's total borrowings outstanding.

TPA: Toronto Parking Authority.

TPASC: Toronto Pan Am Sports Centre.

TPLC: see TEDCO.

Transfer Payments: grants or transfers of monies to individuals, organizations or other levels of government for which the government making the transfer does not receive any goods or services directly in return, as would occur in a purchase or sale transaction; expect to be repaid, as would be expected in a loan; or expect a financial return, as would be expected in an investment.

TTC: the Toronto Transit Commission.

TWRC: the Toronto Waterfront Revitalization Corporation.

Unamortized Gain or Loss: the amount of actuarial gains or losses, relating to gains or losses upon valuation of pension or employee future liabilities, which will be recognized in income over the expected average remaining service life of the employee group.

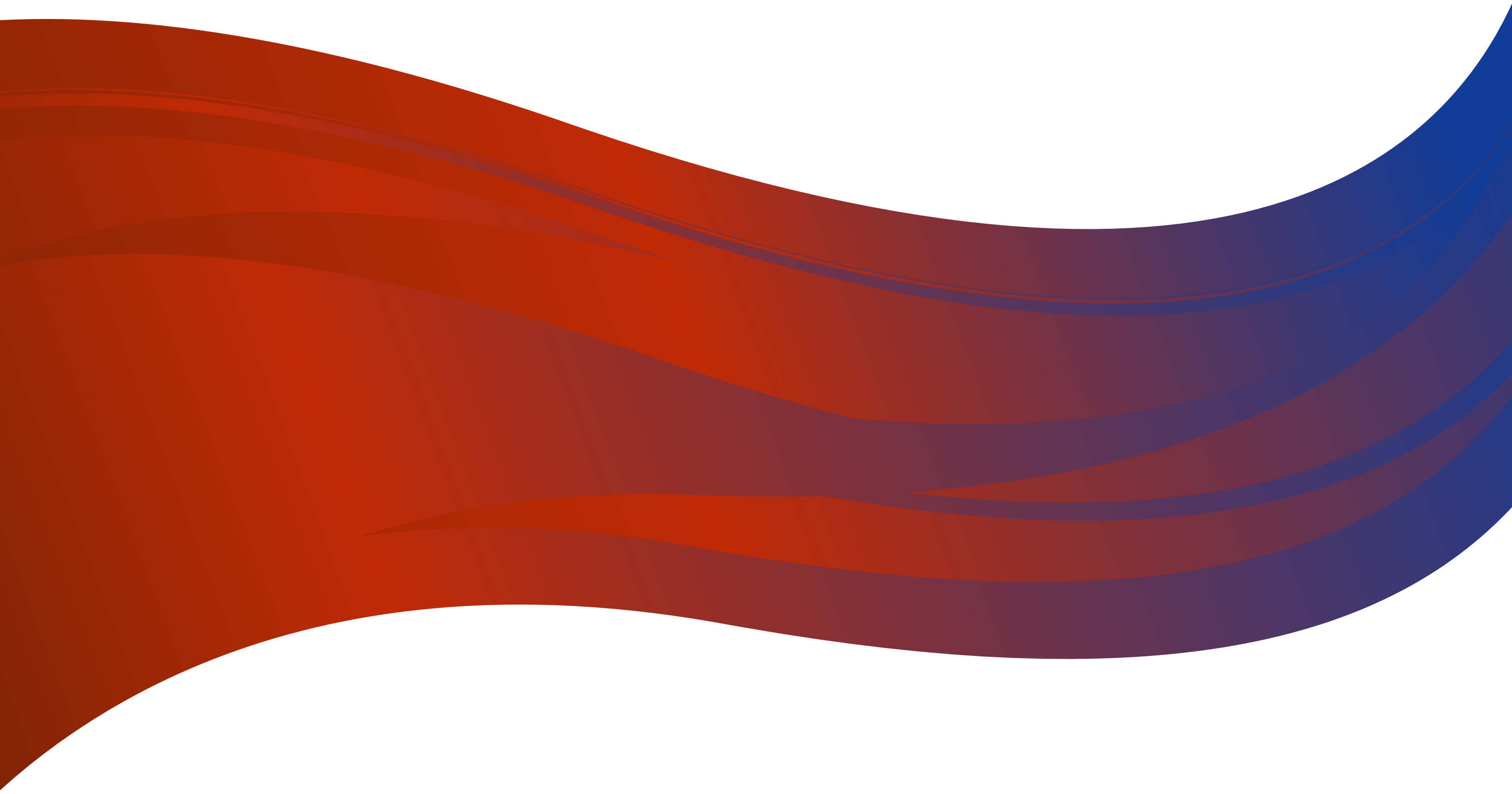
Unrealized Gain or Loss: an increase or decrease in the fair value of an asset accruing to the holder. Once the asset is disposed of or written off, the gain or loss is realized.

WSIA: the Workplace Safety and Insurance Act.

WSIB: the Workplace Safety and Insurance Board.

2017 City of Toronto Financial Report

Statistical Information



FIVE-YEAR REVIEW SUMMARY

(Not subject to audit; all dollar amounts are in thousands except per capita figure)
(See accompanying notes and schedules to financial statements)

	2017	2016	2015	2014	2013
Population (Note 1)	2,929,886	2,876,095	2,826,498	2,808,503	2,771,770
Households (Note 1)	1,193,729	1,171,813	1,132,602	1,125,391	1,110,672
Areas in square kilometres	634	634	634	634	634
Full-time employees	47,209	46,609	45,876	44,807	44,506
Housing starts	15,112	19,617	18,913	11,671	15,618
Building permit values	$14,845,095	$10,297,233	$7,134,638	$8,791,779	$8,784,032
TAXATION ASSESSMENT UPON WHICH TAX RATES WERE SET (Note 2)					
Residential, Multi-residential, New Multi-residential, Farmlands and Managed Forest	$480,319,631	$439,853,402	$410,372,169	$383,083,723	$358,492,808
Commercial, Industrial and Pipeline	$111,939,974	$104,593,452	$99,830,933	$95,292,597	$90,686,368
TOTAL	**$592,259,605**	**$544,446,854**	**$510,203,102**	**$478,376,320**	**$449,179,176**
Total per capita	$202,144	$189,301	$180,507	$170,331	$162,055
TAX RATES (URBAN AREA) (Note 2)					
Residential, New Multi-Residential, Farmlands and Managed Forest (expressed in %) Note - Full Rate Only					
City purposes	0.4826472%	0.4999731%	0.5106037%	0.5200085%	0.5337653%
School board purposes	0.1790000%	0.1880000%	0.1950000%	0.2030000%	0.2120000%
TOTAL	**0.6616472%**	**0.6879731%**	**0.7056037%**	**0.7230085%**	**0.7457653%**
Multi-Residential (expressed in %)					
City purposes	1.2844065%	1.4521427%	1.5315482%	1.5980491%	1.6981011%
School board purposes	0.1790000%	0.1880000%	0.1950000%	0.2030000%	0.2120000%
TOTAL	**1.4634065%**	**1.6401427%**	**1.7265482%**	**1.8010491%**	**1.9101011%**
Commercial (expressed in %)					
City purposes	1.3802233%	1.4598602%	1.5387137%	1.6056690%	1.6716412%
School board purposes	1.1400000%	1.1800000%	1.2278260%	1.2921380%	1.3638850%
TOTAL	**2.5202233%**	**2.6398602%**	**2.7665397%**	**2.8978070%**	**3.0355262%**
Industrial (expressed in %)					
City purposes	1.3698567%	1.4521427%	1.5327263%	1.6006027%	1.6662458%
School board purposes	1.2164150%	1.2536020%	1.2946100%	1.3399890%	1.3888080%
TOTAL	**2.5862717%**	**2.7057447%**	**2.8273363%**	**2.9405917%**	**3.0550538%**
Pipeline (expressed in %)					
City purposes	0.9284027%	0.9617302%	0.9821789%	1.0002695%	1.0267316%
School board purposes	1.3900000%	1.4820840%	1.5065730%	1.5318740%	1.5580410%
TOTAL	**2.3184027%**	**2.4438142%**	**2.4887519%**	**2.5321435%**	**2.5847726%**

FIVE-YEAR REVIEW SUMMARY - *Continued*

(Not subject to audit; all dollar amounts are in thousands except per capita figure)
(See accompanying notes and schedules to financial statements)

	2017	2016	2015	2014	2013
PROPERTY TAXES RECEIVABLE, END OF THE YEAR					
Amount	$253,311	$261,071	$240,700	$252,367	$239,516
Per Capita	$86	$91	$85	$90	$86
NET LONG-TERM DEBT, END OF YEAR					
Amount	$5,949,930	$5,072,410	$4,745,954	$4,178,512	$3,856,165
Per Capita	$2,031	$1,764	$1,679	$1,488	$1,391
INTEREST CHARGES FOR NET LONG-TERM DEBT					
Amount	$296,008	$288,556	$279,403	$275,708	$257,627
Per Capita	$101	$100	$99	$98	$93
LONG-TERM DEBT TO BE RECOVERED FROM FUTURE REVENUES					
Gross Long-Term Debt (Includes Mortgages)	$6,266,000	$5,435,508	$5,256,788	$4,757,917	$4,497,149
Net Long-Term Debt (Net of Sinking Fund deposits)	$5,949,930	$5,072,410	$4,745,954	$4,178,512	$3,856,165
LONG-TERM DEBT AND MORTGAGES CHARGES					
(includes principal repayments, interest on long-term debt and interest earned on sinking funds)					
Amount	$780,576	$889,728	$786,912	$669,400	$666,311
Percentage of Total Consolidated Expenses	6.90%	8.12%	7.22%	6.40%	6.53%
LEGAL DEBT LIMIT (Note 3) (15% of Property Tax Levy)					
Property Tax Levy Amount	$4,101,754	$3,938,802	$3,879,877	$3,768,009	$3,696,738
Debt Limit	$615,263	$590,820	$581,982	$565,201	$554,511
TAXES COLLECTED					
City Collection	$4,988,266	$4,651,471	$4,466,007	$4,201,770	$4,103,183
Taxes Transferred to the School Board	2,057,120	1,980,096	1,950,585	1,841,707	1,813,572
TOTAL	**$7,045,386**	**$6,631,567**	**$6,416,592**	**$6,043,477**	**$5,916,755**
TRUST FUNDS BALANCE - END OF YEAR	**$70,676**	**$66,762**	**$49,558**	**$47,898**	**$46,474**

FIVE-YEAR REVIEW SUMMARY - *Continued*

(Not subject to audit; all dollar amounts are in thousands except per capita figure)
(See accompanying notes and schedules to financial statements)

	2017	2016	2015	2014	2013
SUMMARY OF CONSOLIDATED REVENUES AND EXPENSES (Note 4)					
CONSOLIDATED OPERATIONS					
REVENUE BY SOURCE					
Residential and commercial property taxation	$4,101,754	$3,938,802	$3,879,877	$3,768,009	$3,696,738
Municipal Land Transfer Tax	805,276	644,590	524,000	449,604	360,884
Taxation from other government	95,584	112,211	86,302	111,598	111,292
User charges	3,028,202	3,073,741	2,780,791	2,753,273	2,638,543
Funding transfers from other governments	2,799,528	2,738,317	2,862,220	2,752,112	2,952,158
Government business enterprise earnings	236,305	165,810	294,189	174,326	175,544
Investment income	235,444	197,231	259,679	270,603	232,244
Development charges	314,423	184,125	221,192	132,523	164,004
Rental and concessions	468,693	460,724	451,776	426,929	438,698
Other	479,068	686,412	737,497	511,685	462,454
TOTAL	**$12,564,277**	**$12,201,963**	**$12,097,523**	**$11,350,662**	**$11,232,559**
CONSOLIDATED EXPENSES BY FUNCTION (Note 4)					
General government	$775,979	$760,339	$824,196	$798,088	$770,411
Protection to persons and property	1,811,282	1,808,310	1,807,909	1,820,074	1,656,046
Transportation	3,139,822	3,067,408	2,943,786	2,819,666	2,769,289
Environment services	955,618	933,176	940,017	919,204	838,344
Health services	460,518	449,621	452,389	429,491	422,038
Social and family services	2,192,965	2,038,215	2,023,910	1,915,780	1,963,092
Social housing	823,781	779,499	775,450	727,715	758,024
Recreation and cultural services	1,007,665	1,001,753	989,349	911,428	905,987
Planning and development	147,450	115,549	146,102	120,188	127,660
TOTAL	**$11,315,080**	**$10,953,870**	**$10,903,108**	**$10,461,634**	**$10,210,891**
ANNUAL SURPLUS	**$1,249,197**	**$1,248,093**	**$1,194,415**	**$889,028**	**$1,021,668**
ACCUMULATED SURPLUS (Note 4)					
Financial Assets	$10,014,816	$9,293,459	$9,071,480	$8,533,390	$8,554,867
Liabilities	17,125,633	15,791,731	15,151,299	13,828,081	13,117,281
Net Debt	(7,110,817)	(6,498,272)	(6,079,819)	(5,294,691)	(4,562,414)
Non-Financial Assets	30,851,221	28,989,479	27,322,933	25,343,390	23,722,085
Accumulated Surplus	**$23,740,404**	**$22,491,207**	**$21,243,114**	**$20,048,699**	**$19,159,671**

FIVE-YEAR REVIEW SUMMARY - *Continued*

(Not subject to audit; all dollar amounts are in thousands except per capita figure)
(See accompanying notes and schedules to financial statements)

	2017	2016	2015	2014	2013
CONSOLIDATED SUMMARY OF FUNDING TRANSFERS FROM OTHER GOVERNMENTS (Note 4)					
Social Assistance	$948,756	$898,147	$889,873	$875,200	$896,038
Child Care Assistance	388,263	345,191	323,214	298,329	277,613
Health Services	174,697	170,435	178,744	171,506	168,727
Social Housing	334,178	287,133	350,273	375,214	445,308
Other	487,432	477,206	481,037	497,863	524,494
Government of Canada Transfer - TTC	187,965	269,331	279,674	245,918	271,140
Government of Canada Transfer - Capital	111,705	247,995	304,474	237,545	303,959
Province of Ontario Transfer - Capital	166,532	42,879	54,931	50,537	64,879
TOTAL	**$2,799,528**	**$2,738,317**	**$2,862,220**	**$2,752,112**	**$2,952,158**
CONSOLIDATED EXPENSES BY OBJECT (Note 4)					
Salaries, wages and benefits	$5,623,330	$5,618,259	$5,565,309	$5,349,900	$4,972,018
Materials	1,015,208	1,011,400	1,015,054	918,934	918,231
Contracted Services	1,627,407	1,596,096	1,674,201	1,793,882	1,627,179
Interest on long-term debt & mortgages	320,319	320,250	314,827	313,318	298,800
Transfer payments	1,366,831	1,184,893	1,268,651	1,000,937	1,368,597
Amortization	1,136,311	973,897	851,194	871,099	847,090
Other	225,674	249,075	213,872	213,564	178,976
TOTAL	**$11,315,080**	**$10,953,870**	**$10,903,108**	**$10,461,634**	**$10,210,891**
RESERVE & RESERVE FUND BALANCE - END OF THE YEAR	**$2,038,014**	**$1,982,887**	**$1,826,231**	**$1,963,671**	**$2,117,607**
TANGIBLE CAPITAL ASSETS					
COST:					
General Assets	$20,270,922	$17,916,727	$16,773,816	$15,602,558	$14,792,576
Infrastructure	22,704,616	20,987,885	19,465,195	18,342,839	17,747,566
Assets under construction	4,371,369	5,578,757	5,802,565	5,451,183	4,670,845
TOTAL	**47,346,907**	**44,483,369**	**42,041,576**	**39,396,580**	**37,210,987**
ACCUMULATED AMORTIZATION:					
General Assets	$7,040,145	$6,505,686	$6,071,207	$5,741,220	$5,380,067
Infrastructure	9,842,840	9,394,014	9,005,590	8,685,419	8,444,639
TOTAL	**16,882,985**	**15,899,700**	**15,076,797**	**14,426,639**	**13,824,706**
NET BOOK VALUE	**30,463,922**	**28,583,669**	**26,964,779**	**24,969,941**	**23,386,281**

FIVE-YEAR REVIEW SUMMARY - *Continued*

(Not subject to audit; all dollar amounts are in thousands except per capita figure)
(See accompanying notes and schedules to financial statements)

Note 1: Source of population data and number of households is from the City of Toronto, City Planning Division - which uses the data from the last Annual Demographic Estimate of Statistics Canada. This was updated in 2013 and as a result the prior year numbers have been updated.

Note 2: Taxation related information reflects Current Value Assessment (CVA).

Note 3: Debt Limit is approved by City Council as per the City of Toronto Act (COTA) effective 2007. Debt Limit shall not be greater than 15% of the property tax levy.

Note 4: On January 1, 2013, the City adopted Public Sector Accounting Standard PS 3510, Tax Revenue. This standard was adopted on a retroactive basis from the date of adoption. There were no adjustments as a result of adoption of this standard, however, in conjunction with implementation of PS 3510, presentation of solid waste rebates have been regrouped to net against solid waste revenues, as the rate charged is the net amount. The regrouping was done for 2012 and prior years (see Note 2 of the 2013 consolidated financial statements).

During 2015, Toronto Hydro Inc. (THI) adopted IFRS 14 Regulatory Deferral Accounts, which allows for continuation of regulatory deferral accounts until the International Accounting Standards Board (IASB) completes its comprehensive project on rate regulated activities. As THI had previously been converted to IFRS for reporting in these consolidated financial statements, this standard, implemented retro-actively, has resulted in changes to 2014 numbers (see Note 23 of the 2015 consolidated financial statements).

Certain 2015 amounts were regrouped from consolidated financial statements previously presented, to conform with the presentation adopted in 2016.

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