2016 CITY OF TORONTO FINANCIAL REPORT

For the fiscal year ending December 31, 2016, City of Toronto, Ontario, Canada

TORONTO

2016 CITY OF TORONTO FINANCIAL REPORT

For the fiscal year ending December 31, 2016

City of Toronto, Ontario, Canada

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

Table of Contents

Government Finance Officers Association (GFOA) Award: Canadian Award for Financial Reporting iv
A Message from the Toronto Mayor 1
A Message from the City Manager 3

Introduction

Profile on Toronto 7
Map of Electoral Wards 17
Toronto City Council 18
2014-2018 Executive Committee & Standing Committee Mandates 20
City Administrative Structure 21
City of Toronto Special Purpose Bodies 22

Financial Condition and Performance

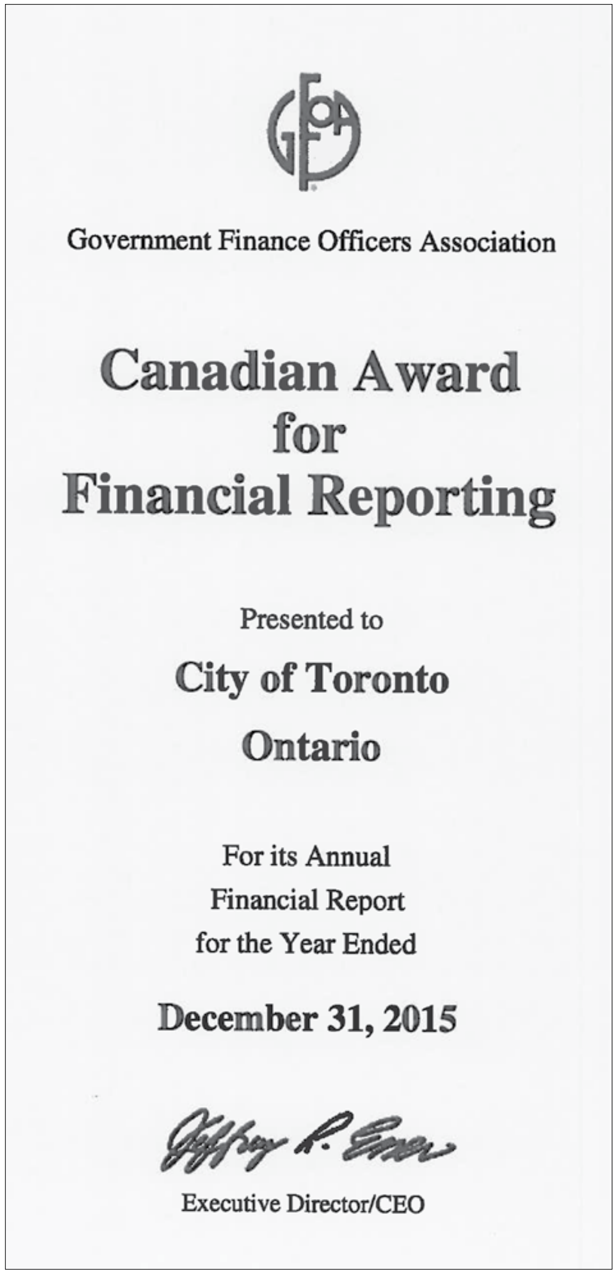
- A Message from the Deputy City Manager & Chief Financial Officer 25
- Physical Infrastructure 26
- Capital Financing and Debt 28
- Investment Activities and Capital Markets 31
- Reserves and Reserve Funds 33
- Deferred Revenues 34
- Revenues 35
  - Property Tax 35
  - Funding Transfers From Other Governments 40
  - User Fees 40
  - Development Charges 40
  - Other Taxation 41
- Credit Rating 42
- Long-Term Financial Plan 44
- Performance Measurement and Benchmarking Results 45
- Treasurer's Report 51
  - Appendix A: Key Issues/Risks Facing the City of Toronto 71

2016 Consolidated Financial Statements

Management's Report 79
Independent Auditor's Report 80
Consolidated Statement of Financial Position 81
Consolidated Statement of Operations and Accumulated Surplus 82
Consolidated Statement of Change in Net Debt 83
Consolidated Statement of Cash Flows 84
Notes to Consolidated Financial Statements 85
Consolidated Schedule of Tangible Capital Assets – Schedule 1 125
Schedule of Government Business Enterprises – Appendix 1 127
Consolidated Schedule of Segment Disclosure – Service – Appendix 2 128
Consolidated Schedule of Segment Disclosure – Entity – Appendix 3 130
Consolidated Schedule of Segment Disclosure – Tangible Capital Assets by Entity – Appendix 4 132
Glossary 135

2016 Statistical Information

Five-Year Review Summary 143



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, 2015

Executive Director/CEO

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Canadian Award of Financial Reporting to the City of Toronto for its annual financial report for the fiscal year ending December 31, 2015. 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 2016 Award Program.

A message from the Toronto Mayor

John Tory

Toronto is Canada's champion on the world stage.

As Mayor, I'm focused on building a stronger and fairer Toronto that will continue to compete in today's global economy.

We have a recipe for success here in Toronto – we are a city that is vibrant, welcoming and affordable for all ages and income levels. And we need to ensure that all those qualities remain.

Toronto is a city where people care about each other. That's why City Council under my leadership is investing in things like recreation programming, child care and public health.

But we're also modernizing the government and finding new ways of doing things so we can find real savings and efficiencies.

We have struck a balance between necessary investment and ongoing restraint, just like most people do in their lives and with their finances.

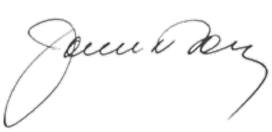
We are building a modern city by expanding transit, creating a Civic Innovation Office, and updating our regulations to deal with new disruptive technology.

This year, we have continued our advocacy for both the provincial and federal governments to invest in Toronto and its future. A city that generates so much economic prosperity for our country must be a funding priority for Queen's Park and Parliament Hill.

Toronto represents a huge opportunity for Ontario and Canada. While there is uncertainty and anxiety in many corners of the world, Toronto is a beacon of peace, prosperity and diversity – a true global metropolis – that is attracting talent and job creators.

I look forward to continuing to work with my colleagues on City Council and our counterparts in the provincial and federal governments to keep building up Toronto for our residents.

Sincerely,



Mayor John Tory
City of Toronto

A message from the City Manager

Peter Wallace

I am pleased to present the City of Toronto's 2016 Annual Financial Report. This report provides details about the City's financial performance, progress and achievements over the past year.

In February and March, Toronto City Council approved new collective agreements with the Canadian Union of Public Employees (CUPE) Local 79, representing the City's 21,000 active inside workers, and Local 416, representing the City's 4,200 outside workers and paramedics. These new agreements are fair and reasonable for both employees and the residents and businesses of Toronto.

In June, I brought forward an initial Long-Term Financial Direction report to Council to support development of an update to the City's Long-Term Financial Plan. In developing the Plan, we are working toward setting the City on a sustainable financial path, closing the gaps that exist between city priorities and available funding.

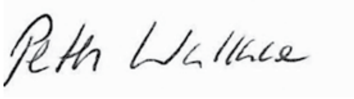
Before the final Long-Term Financial Plan report is delivered in 2017, we will continue to consult with the public about managing City spending, identifying revenue options, and optimizing assets in order to build the city residents and businesses want, and maintain Toronto's position as one of the greatest cities in the world. We will also continue to have conversations with the provincial and federal governments to explore new revenue measures and revenue-sharing arrangements.

In June, Council approved another key action to improve the long-term financial stability of the City with the creation of the Office of the Chief Transformation Officer. The role of this Office will be to:

- Develop a transparent blueprint for corporate transformation
- Select, champion and deliver high-priority, high-impact business transformation initiatives
- Create, communicate and oversee compelling visions for change and promote continuous improvement

For the first time since 2011, the City of Toronto has been named one of Canada's Top 100 Employers. The award recognizes employers across the country that offer exceptional places to work as well as employers whose workplace operations and human resources practices offer the most progressive and forward-thinking programs. Another first for the City this year was winning a Canada's Best Diversity Employer award for our successful diversity initiatives in a variety of areas. The City also won a Greater Toronto Top Employer award, for the third year in a row. I am proud to lead such a committed public service and look forward to continuing to provide a high level of service to Toronto residents, businesses and visitors.

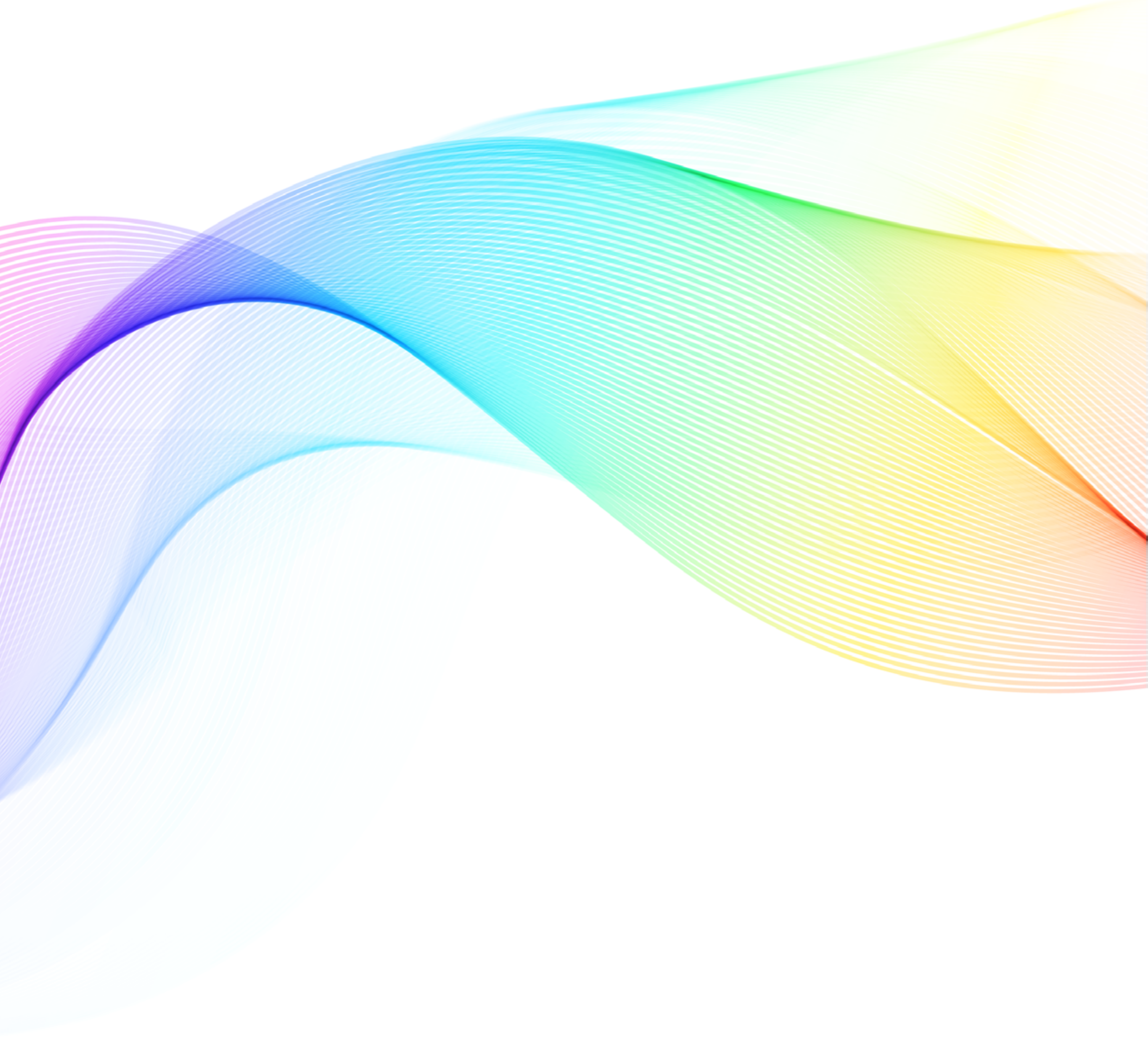
Best regards,



Peter Wallace
City Manager

2016 City of Toronto Financial Report

Introduction



Profile on Toronto

Toronto in World Rankings

Toronto is one of the most livable 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 among 140 global cities in an annual study that rates cities across five categories: stability, healthcare, culture and environment, education, and infrastructure.

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.

Cities of Opportunity Study
PwC

PwC ranked Toronto third among 30 international cities in a study of indicators that contribute to the desirability and resilience of a city, including quality of life, economic potential and connectivity. Toronto ranked first in the quality of life component.

Best Economy for Young People
Youth Economic Strategy Index – Citi Foundation/Economist Intelligence Unit

According to a study done by The Economist Intelligence Unit, Toronto is the best economic environment for young people. The Index, based on 31 economic indicators, evaluates economic drivers and enablers in 35 cities across the world under four themes: government support, employment and entrepreneurship, education and training, and human and social capital.

Second Most High-Rise Buildings Under Construction in North America
Emporis.com

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

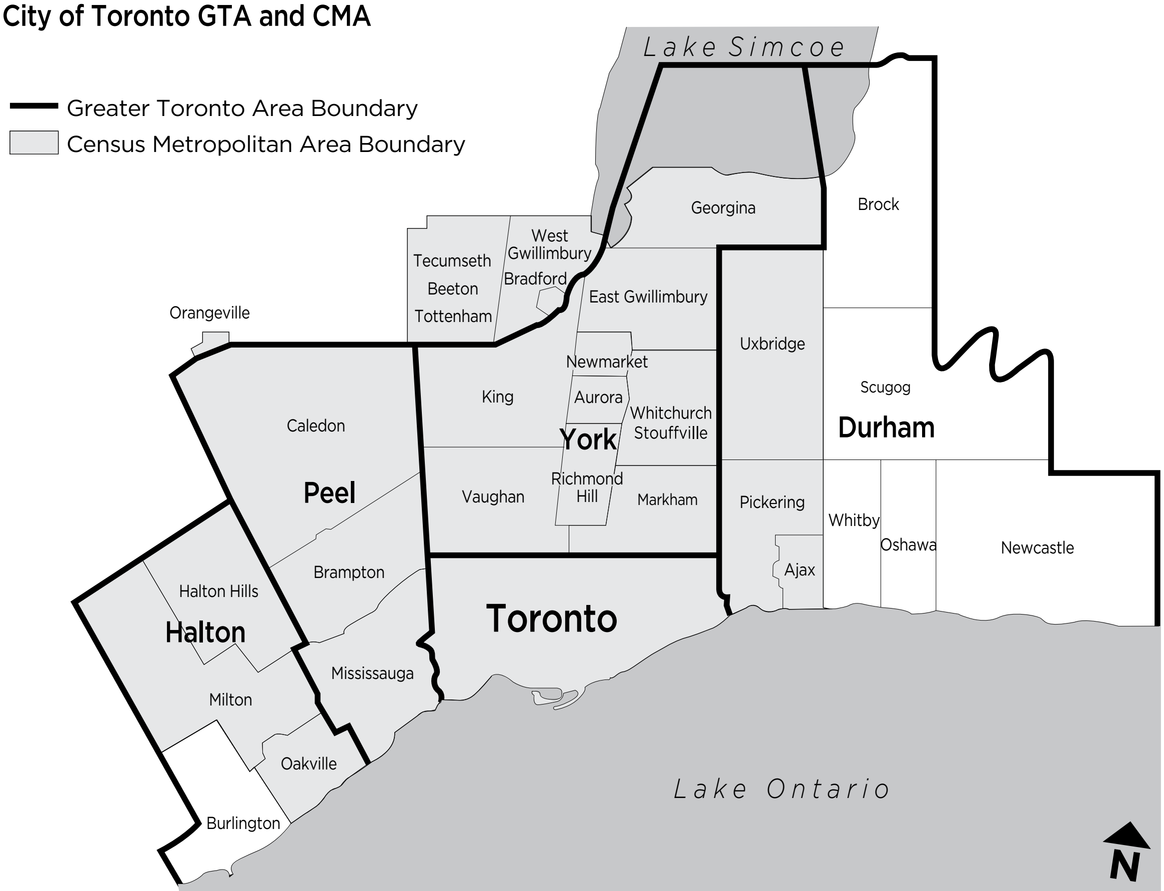
City of Toronto, GTA and CMA

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 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.

Toronto, with approximately 90,000 businesses, 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 nationally 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 – in 2007 $s) are produced in the Toronto Census Metropolitan Area (CMA)[2]. 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.

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, multimodal transportation hub, is the busiest multimodal 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 transform Union Station into a major destination for shopping, dining and visiting. The Revitalization Project is expected to be completed in 2018.

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 eighth of 84 cities in the 2015 Global Financial Centres Index. According to a November 2016 Conference Board of Canada report, Toronto's financial services sector directly employs over 250,000 people in Toronto and is home to 31% of all financial services headquarters in Canada. Also, according to the report, the share of financial services employment in the metro Toronto area has risen from 28.2% in 2004 to 31.7% in 2015.

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 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 new home of the Toronto International Film Festival, the Four Seasons Centre for the Performing Arts, which is the new home of the National Ballet of Canada and the Canadian Opera Company, and the Gardiner Museum of Ceramic Art. In the fall of 2013, Ripley's Aquarium of Canada opened its doors as a major new tourist attraction in the city featuring 450 species and 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, Citytv 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. In 2012, Google Canada 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 – established their Canadian head offices in Toronto.

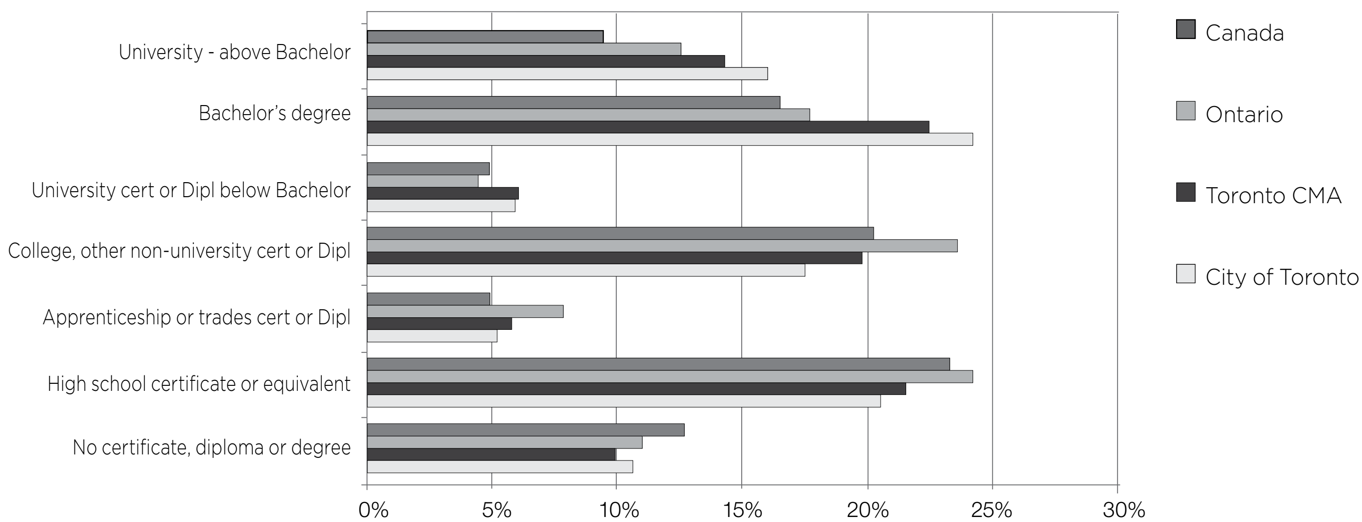
The backbone of the technology sector in the Toronto CMA is its telecommunication infrastructure. Home to two of the three largest telecommunications companies in Canada, as well as to smaller service providers, Toronto is connected by sophisticated high speed networks. A critical mass of talent and 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.

One significant trend is that employment in the manufacturing industry in the city, though still one of the largest sectors, declined at an average annual rate of 4.3% from 2001 to 2011. In the 10 years ended 2011, the number of people employed in the manufacturing industry decreased by more than a third.

Workforce

Toronto has a large educated, skilled and multilingual workforce. Toronto is the 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). More than 60% of Toronto workers have post-secondary degrees, diplomas or certificates.

Population Aged 25-64 by Education



Source information: Statistics Canada - Census (2011)

With an estimated 1.5 million people working in Toronto, the City 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

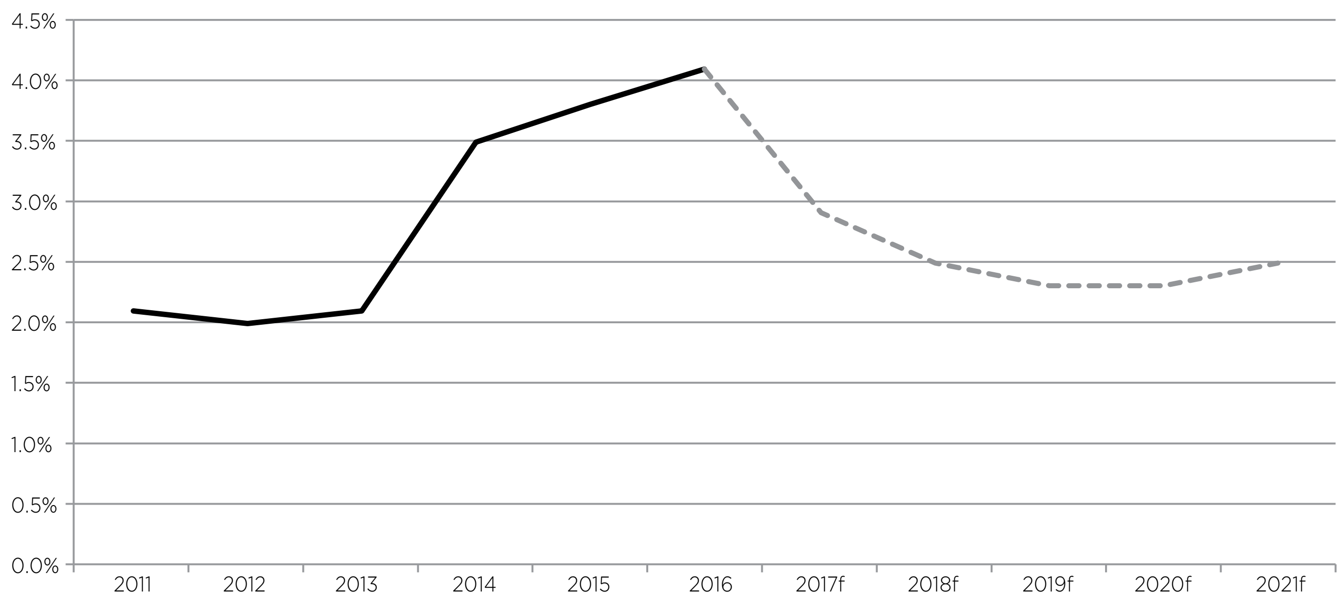
The Canadian economy is expected to grow at a moderate pace in 2017 led by strong consumer spending and improved exports. Trade protectionist rhetoric from the United States is a cause for export uncertainty beyond 2017. According to the Conference Board of Canada, Canada's real GDP is forecasted to grow 2.0% in 2017 before slipping back to an average of 1.8% from 2018-2021.

Ontario is also expected to benefit from strong consumer spending and related employment growth. The Conference Board is forecasting that Ontario's real GDP will grow by 2.4% in 2017, before returning to moderate economic growth of approximately 2.0% from 2018-2021.

In Toronto, the outlook for the services and wholesale/retail industries remains bright as a still relatively low Canadian dollar and a strengthening U.S. economy bolster tourism and retail expansion.

The Conference Board indicates that Toronto CMA will lead all Canadian municipalities in real GDP growth for the second year in a row in 2017 with a growth forecast of 2.9% after recording strong growth of 4.1% in 2016. From 2018-2021, growth is expected to moderate to the 2.3-2.5% range. The higher economic growth in the forecast period is supported by an expectation for strong growth in the service sector, including finance, insurance, real estate and personal and business services industries.

GDP Growth Rate
Toronto CMA

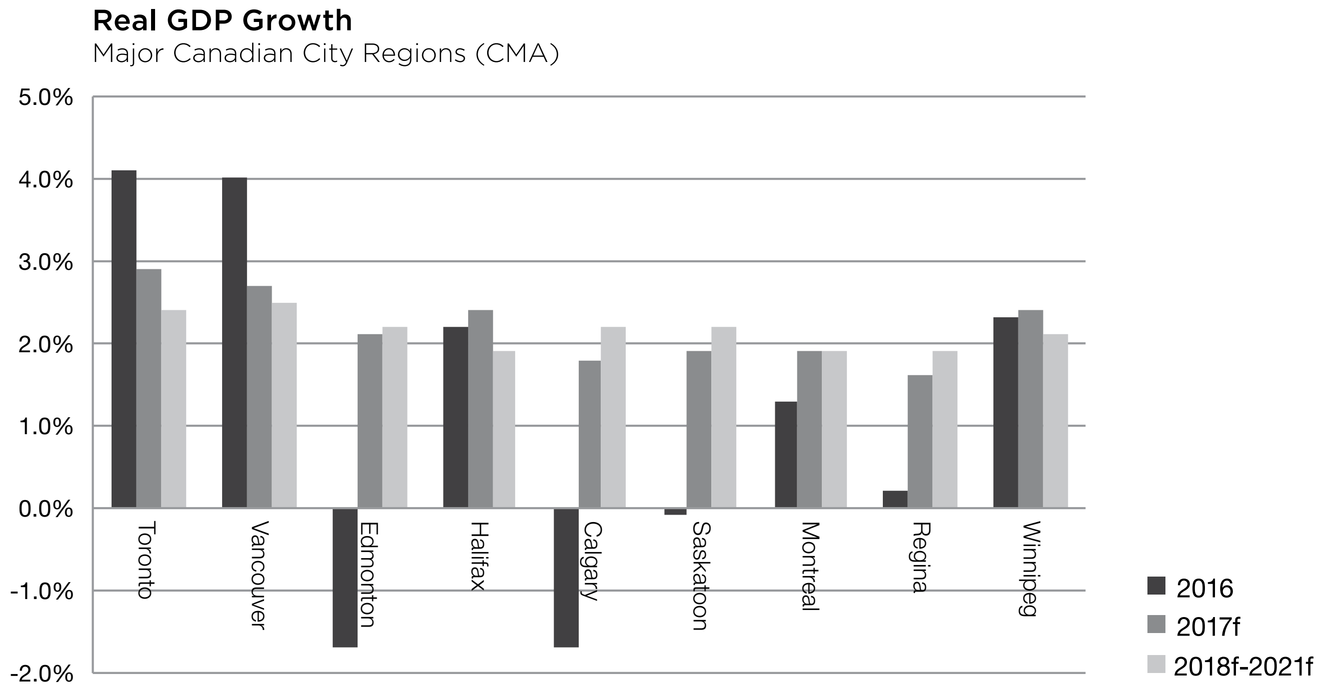


Source: Conference Board of Canada Metropolitan Outlook: Winter 2017

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 throughout the forecast period.



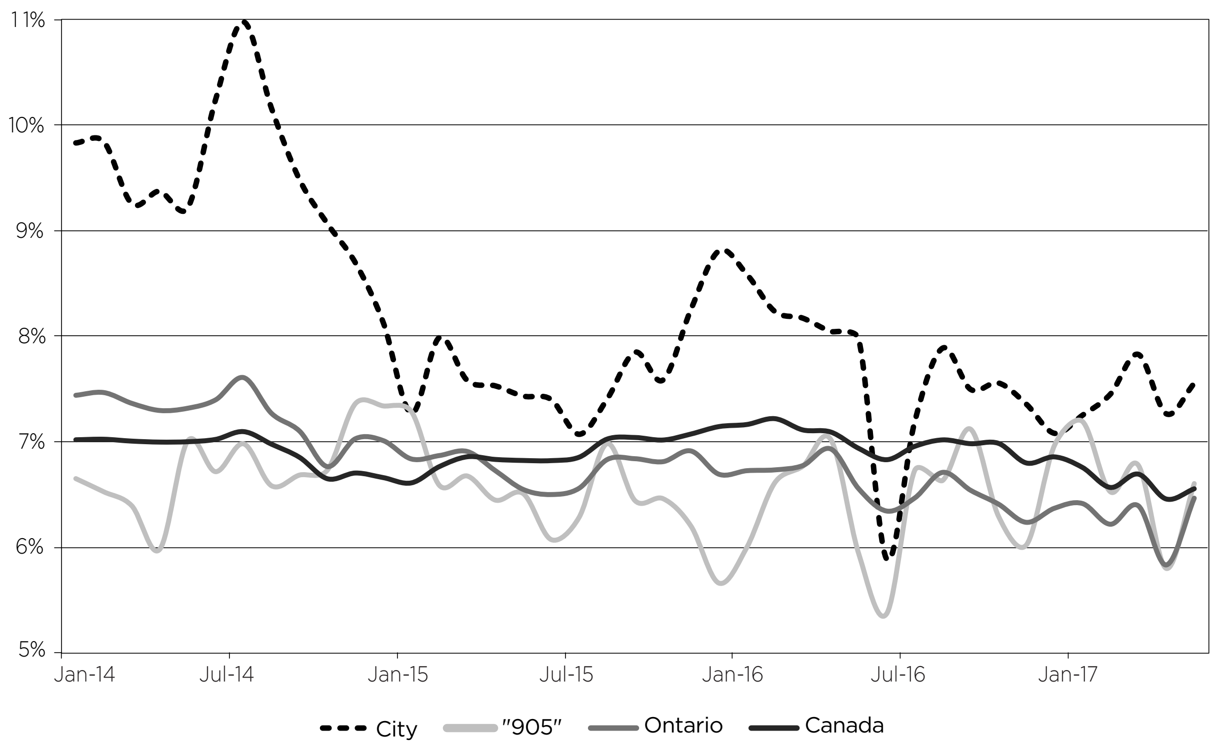
Source: Conference Board of Canada Metropolitan Outlook Winter 2017

Economic Indicators

Unemployment Rate

Within the Toronto region, the city and the rest of the CMA region ("905") exhibited different economic growth patterns. In the city, job losses during the recession coupled with decreased participation rates led the city's unemployment rate to average 10% in 2009 and 2010, a level not seen since the early/mid-1990s. Despite having emerged from the recession, Toronto's unemployment rate remained stubbornly high until the final quarter of 2014, when the unemployment rate started to decline steadily to reach a cyclical low of 6.0% by June 2016. Despite some short-term turbulence in the second half of 2016, the city's unemployment rate of 7.2% in December remained well below the long-run average of 8.4%.

Unemployment Rate Trend – 2014 to 2017
City of Toronto, 905 Municipalities, Ontario and Canada



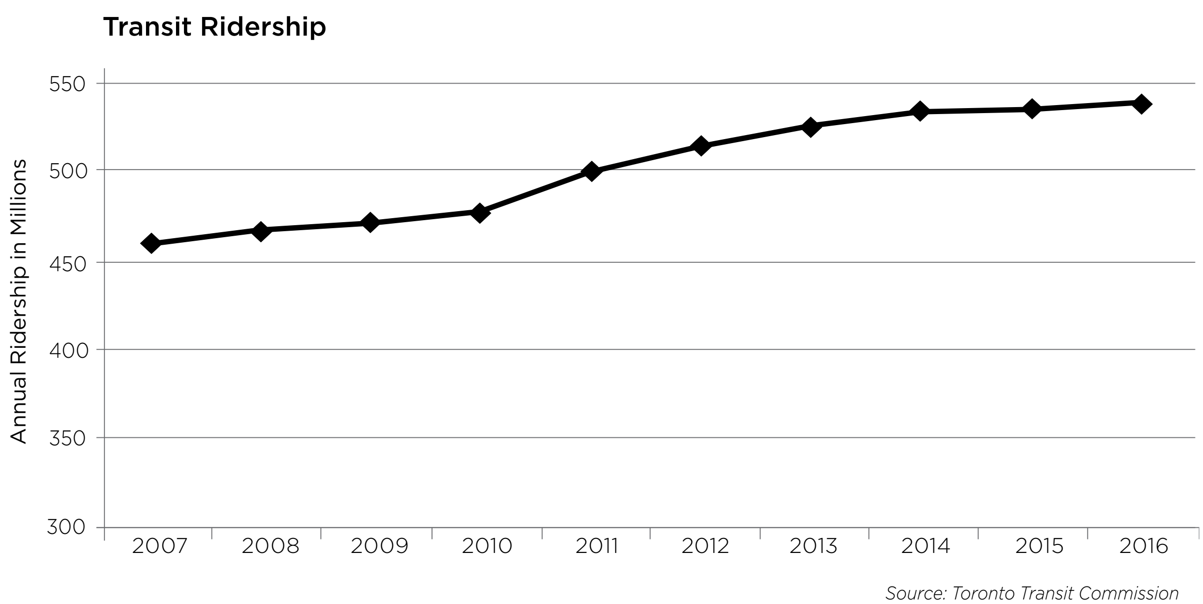
Source: Statistics Canada Labour Force Survey – Seasonally Adjusted – (May 2017)
**City of Toronto population rebased and seasonal adjustments by City staff*

Social Assistance Caseload

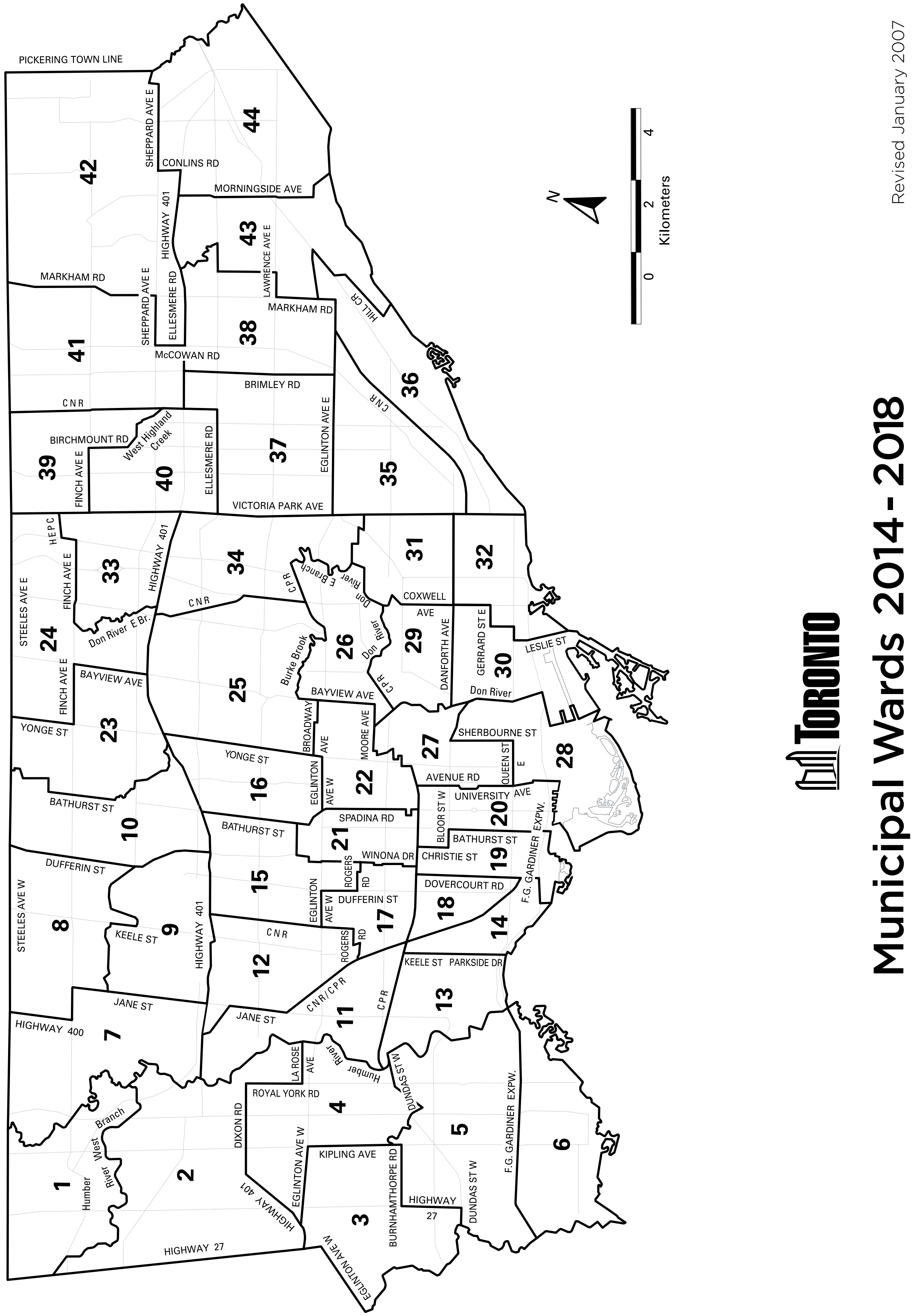
The number of cases and people on social assistance is largely associated with the unemployment rate and, to a certain extent, population and participation rate. The City's Social Assistance (Ontario Works) caseload has followed a similar historical trend as its unemployment rate (although lagging by anywhere from six to 12 months). Since 2007, the average monthly caseload has risen from approximately 75,000 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 in 2016.

Transit Ridership

Transit ridership has grown annually since 2004, with the exception of 2015. In that year, free rides for Pan Am Games patrons were excluded from the statistics. In 2016, ridership of 538 million fell 15 million below the budgeted ridership of 553 million. Economic factors, including less than expected job growth, were cited as an explanation for the recent weak growth in transit ridership, a trend observed by many transit authorities across North America.



Map of Electoral Wards



Toronto City Council

(January 1 - December 31, 2016)

Mayor John Tory

Ward 1
Vincent Crisanti

Ward 2
Michael Ford
Elected to office July 25, 2016, succeeding Rob Ford (deceased March 22, 2016)

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

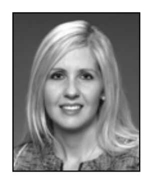
Ward 11
Frances Nunziata

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

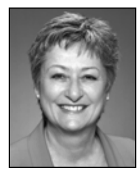

Ward 26
Jon Burnside

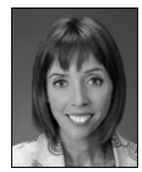

Ward 27
Kristyn Wong-Tam


Ward 28
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

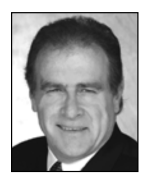

Ward 35
Michelle Holland


Ward 36
Gary Crawford


Ward 37
Michael Thompson


Ward 38
Glenn De Baeremaeker


Ward 39
Jim Karygiannis


Ward 40
Norm Kelly

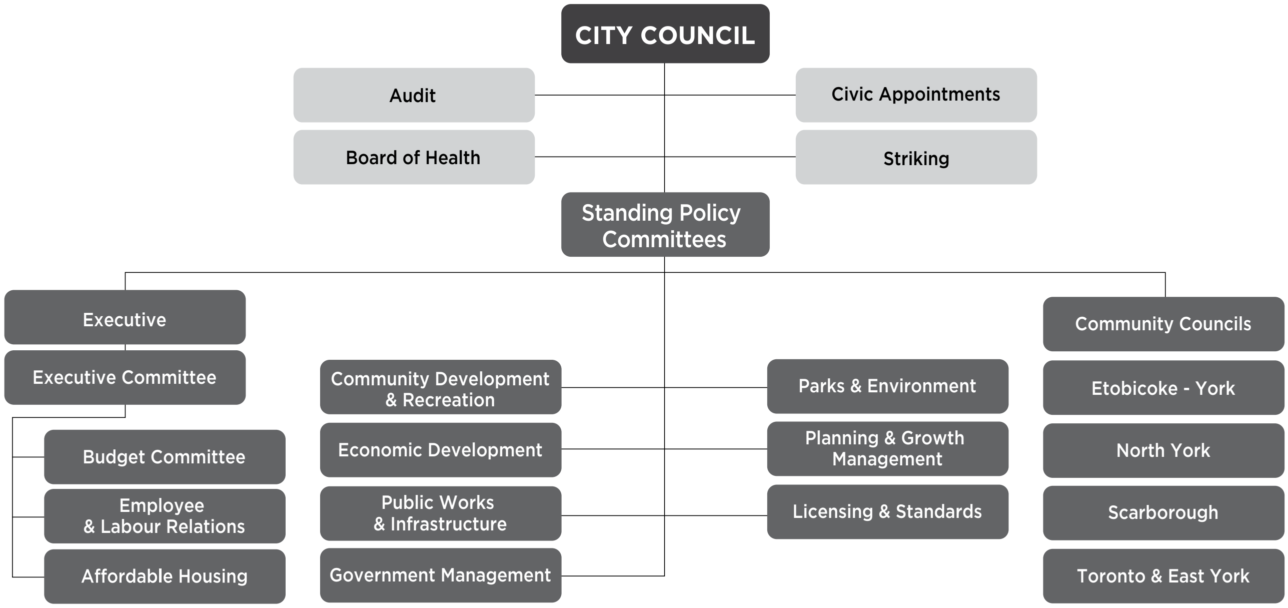

Ward 41
Chin Lee


Ward 42
Raymond Cho
In office until Sept. 10, 2016


Ward 43
Paul Ainslie


Ward 44
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

CITY COUNCIL

- Auditor General – Beverly Romeo-Beehler
- Integrity Commissioner – Valerie Jepson
- Lobbyist Registrar – Christina De Caprio
- Ombudsman – Susan E. Opler
- City Clerk's Office – Ulli S. Watkiss, City Clerk
- Legal Services – Wendy Walberg, City Solicitor

City Manager – Peter Wallace

- Equity, Diversity & Human Rights – Uzma Shakir, Director
- Executive Management – Gwen McIntosh, Director
- Human Resources – Kerry Pond, Executive Director
- Internal Audit – Stuart Campbell, Director
- Strategic & Corporate Policy – Peter Notaro, Executive Director
- Strategic Communications – Jackie DeSouza, Director

Deputy City Manager – Giuliana Carbone

- Public Health* – Dr. Eileen de Villa, Medical Officer of Health
- Affordable Housing – Sean Gadon, Director
- Long-Term Care Homes & Services – Reg Paul, General Manager
- Children's Services – Elaine Baxter-Trahair, General Manager
- Parks, Forestry & Recreation – Janie Romoff, General Manager
- Court Services – Barry Randell, Director
- Shelter, Support & Housing Administration – Paul Raftis, General Manager (Interim)
- Economic Development & Culture – Michael H. Williams, General Manager
- Social Development, Finance & Administration – Chris Brillinger, Executive Director
- Gord McEachen – TPS Chief & General Manager (Acting)
- Toronto Office of Partnerships – Phyllis Berck, Director
- Employment & Social Services – Patricia Walcott, General Manager

Deputy City Manager – John Livey

- Major Capital Infrastructure Coordination Office – Jeffrey Climans, Director
- Office of Emergency Management – Loretta Chandler, Director
- Engineering & Construction Services – Michael D'Andrea, Chief Engineer & Executive Director
- Fire Services – Matt Pegg, Fire Chief & General Manager
- Toronto Building – Will Johnston, Chief Building Official & Executive Director
- Municipal Licensing & Standards – Tracey Cook, Executive Director
- Toronto Water – Lou Di Gironimo, General Manager
- Policy, Planning, Finance & Administration – Carol Moore, Executive Director
- Transportation Services – Barbara Gray, General Manager
- Solid Waste Management Services – Jim McKay, General Manager
- City Planning – Jennifer Keesmaat, Chief Planner & Executive Director
- Waterfront Secretariat – David Stonehouse, Director

Deputy City Manager & Chief Financial Officer – Roberto Rossini

- Corporate Finance – Joe Farag, Executive Director
- Financial Planning – Josie La Vita, Executive Director
- Finance & Administration – Bruce Shintani, Director
- Information & Technology – Rob Meikle, Chief Information Officer
- Treasurer – Mike St. Amant
  - Accounting Services – Sandra Califaretti, Director
  - Pension, Payroll & Employee Benefits – Michael Wiseman, Director
  - Purchasing & Materials Management – Michael Pacholok, Director
  - Revenue Services – Casey Brendon, Director
- Chief Corporate Officer – Josie Scioli
  - Facilities Management – Sunil Sharma, General Manager
  - Corporate Security (Section) – Dwaine Nichol, Director
  - 311 Toronto – Gary Yorke, Director
  - Environment & Energy – Jim Baxter, Director
  - Fleet Services – Lloyd Brierley, Director
  - Real Estate Services – Joe Casali, Director

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

Administrative Structure
June, 2017

City of Toronto Special Purpose Bodies

AGENCIES[1]

Service Agencies

- Board of Health
- Exhibition Place
- Heritage Toronto
- Police Services Board
- Public Library Board
- 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 Parking Authority
- Toronto Transit Commission
- Toronto Zoo
- Yonge-Dundas Square

Community-Based:

- 8 Arena Boards
- 10 Association of Community Centre Boards (AOCCs)
- 82 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

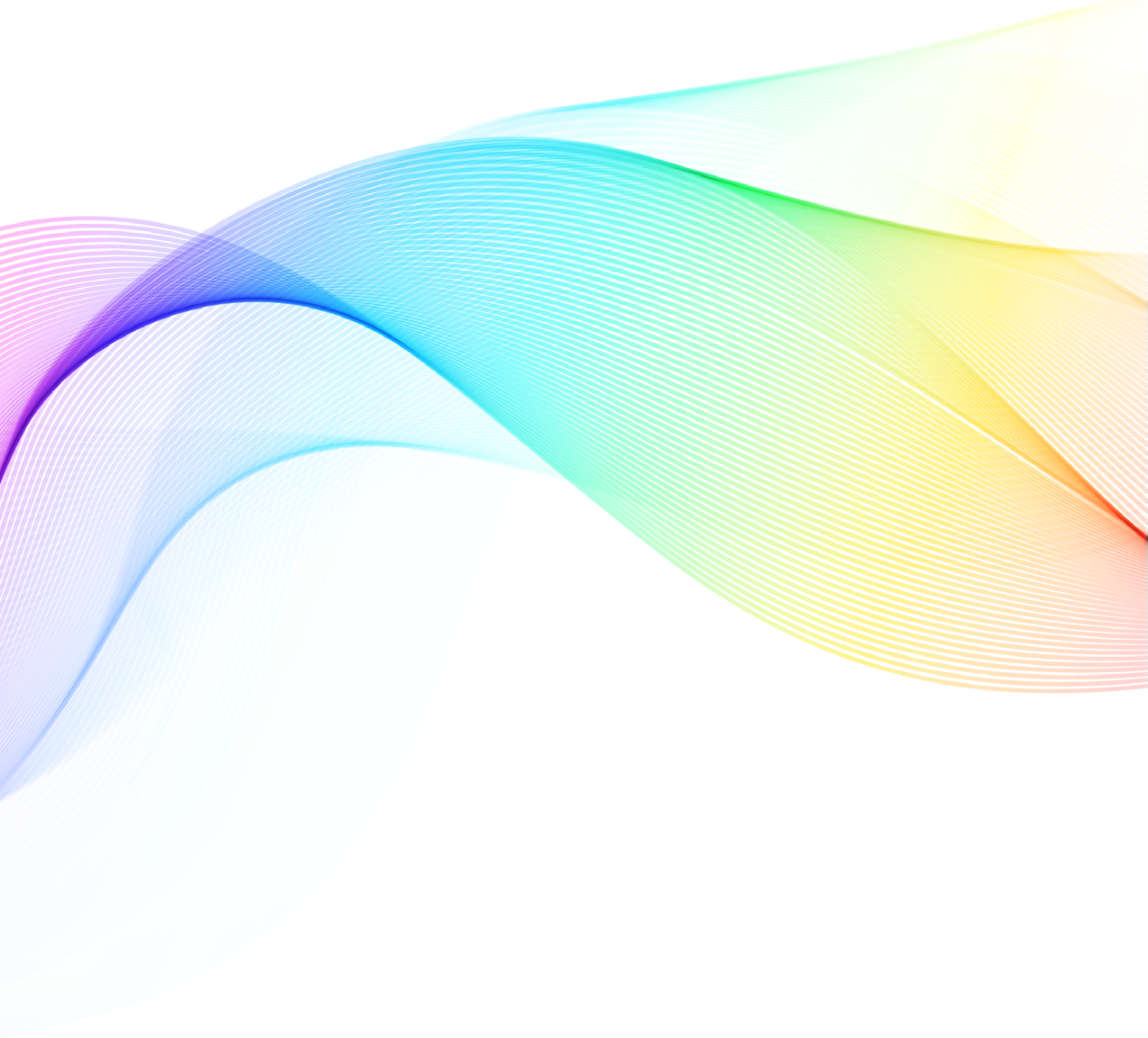
- Waterfront Toronto
- Toronto Pan Am Sports Centre Inc. (TPASC)

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.

2016 City of Toronto Financial Report

Financial Condition & Performance



A message from the Deputy City Manager & Chief Financial Officer

ROBERTO ROSSINI

The City of Toronto's 2016 Annual Financial Report provides an in-depth look at the City's financial performance over the past year. Toronto had another strong financial performance in 2016 highlighted by a 1.9% budgetary surplus supported by higher than anticipated revenues from the Municipal Land Transfer Tax.

As Canada's largest city, Toronto faces unique challenges such as traffic congestion, poverty and significant social housing burdens. In tackling these and other issues, the City is revisiting how its key priorities can be funded, given its limited financial resources. In 2016, the City Manager's initial Long-Term Financial Direction report called for further investigation of viable new revenue measures and expenditure containment strategies with recommendations to be presented in a final Long-Term Financial Plan to be presented in 2017.

A modest property tax increase in the 2016 budget of 1.3% for residential properties and 0.43% for non-residential properties will allow the City to maintain current service levels while making new investments in key strategic priorities, including transit and transportation, public safety and poverty reduction. City Council also approved a special dedicated tax levy for transit and housing capital needs that will be phased over five years starting in 2017. Proceeds from the levy will create new investment room to allow critical projects to move forward.

In preparation for the 2017 budget approval process, City programs, agencies and accountability offices were asked to find sustainable savings in response to a budget reduction target of -2.6%. A number of budget reduction and revenue balancing strategies were used to mitigate the opening budget pressure of $731 million and maintain an inflation-level property tax increase.

For the 10th consecutive year, the City of Toronto has 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,

Roberto Rossini
Deputy City Manager & 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, excluding land, is currently estimated to be worth in excess of $84 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

Transportation	$ 15 Billion
Public Transit	$ 15 Billion
Water & Wastewater	$ 29 Billion
Buildings, Facilities and Fleet (includes 1,465 structures & 5,200 vehicles, ferries & vessels)	$ 13 Billion
Toronto Community Housing (includes 58,800 public housing units)	$ 9 Billion
Parkland & Other Land (8,091 hectares of parkland)	$ 3 Billion
Total (Replacement Cost Estimates)	**$ 84 Billion**

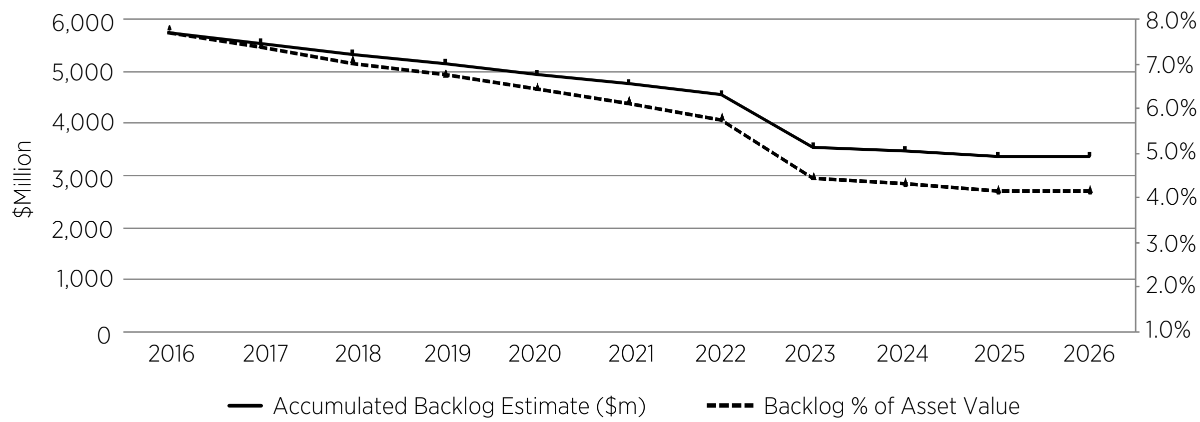
The City's road network, the majority of which was constructed in the 1950s and 1960s, is in need of major repair and rehabilitation. In recognition of the need to reduce the State of Good Repair (SOGR) backlog related to the City's transportation infrastructure, 83% of the 2017-2026 Capital Plan for Transportation Services is dedicated to State of Good Repair projects (including the F.G. Gardiner Expressway Rehabilitation Project) compared to approximately 52% across all other Tax-Supported Programs.

The City's water and wastewater network is similarly aged – the average age of the City's watermains and pipes is 60 years and nearly 13% of them are more than 80 years old. Recognizing the need to largely eliminate the State of Good Repair backlog, Toronto Water budgeted $6.0 billion in State of Good Repair spending in the 2017-2026 Capital Budget and Plan, largely funded through the approval of water rate increases of 5% for 2017 and 2018, and 3% thereafter.

Total City SOGR Backlog

The 2017 to 2026 Capital Budget & Plan allocates $19.8 billion or 49.7% of funding to capital works that ensure City infrastructure required to deliver services to the citizens of Toronto is maintained in a state of good repair. As a result of this investment, the estimated accumulated SOGR backlog as a percent of asset value is projected to decline from $5.7 billion or 7.7% at the end of 2016 to $4.8 billion or 6.1% after five years in 2021 and to $3.4 billion or 4.1% after 10 years in 2026 as shown in the chart below.

SOGR Funding & Backlog (Tax & Rate)



Capital Financing and Debt

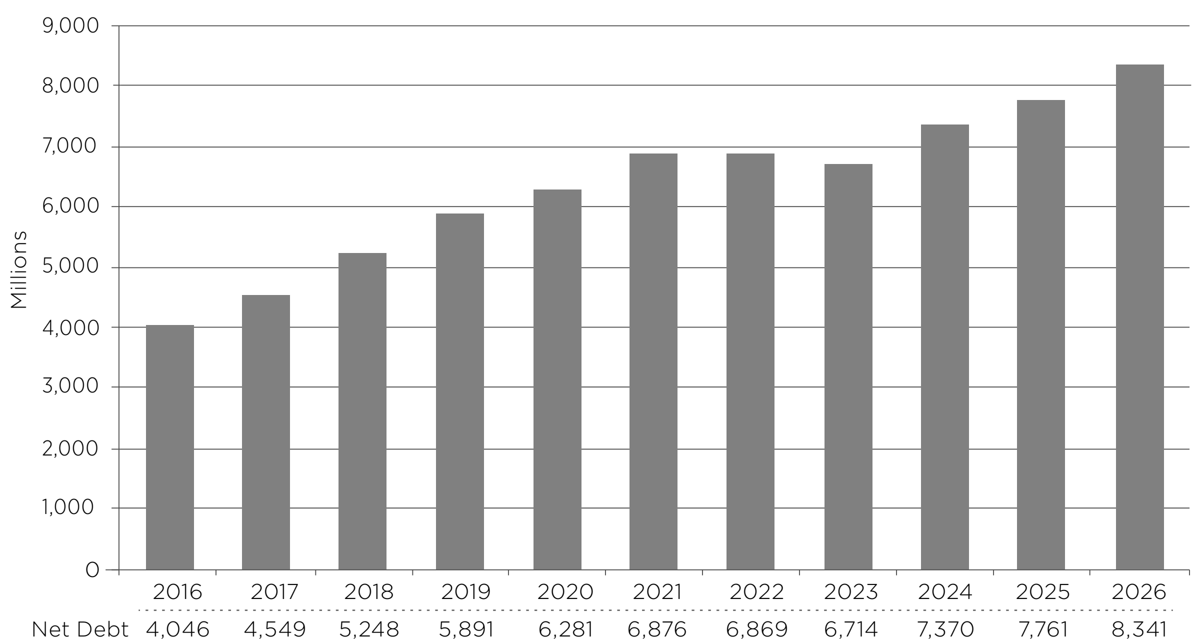
The City borrows money to finance capital expenditures. It cannot borrow to finance operating expenditures under the City of Toronto Act. The goal for capital financing is to maximize all funding from external sources, including federal and provincial governments, development charges, donations and reserve 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, e.g. TTC and Transportation Services needs.

The City has implemented a framework for developing multi-year capital and operating budgets that ensure 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 10-year terms. The 30-year debt was used to finance long-term assets to more closely match the life span of the infrastructure being built or purchased, e.g. subway tunnels and subway cars.

Even with the above-noted actions, estimates showed that the City's net long-term outstanding debt would increase from $4.0 billion in 2016 and grow steadily to $8.3 billion in 2026.

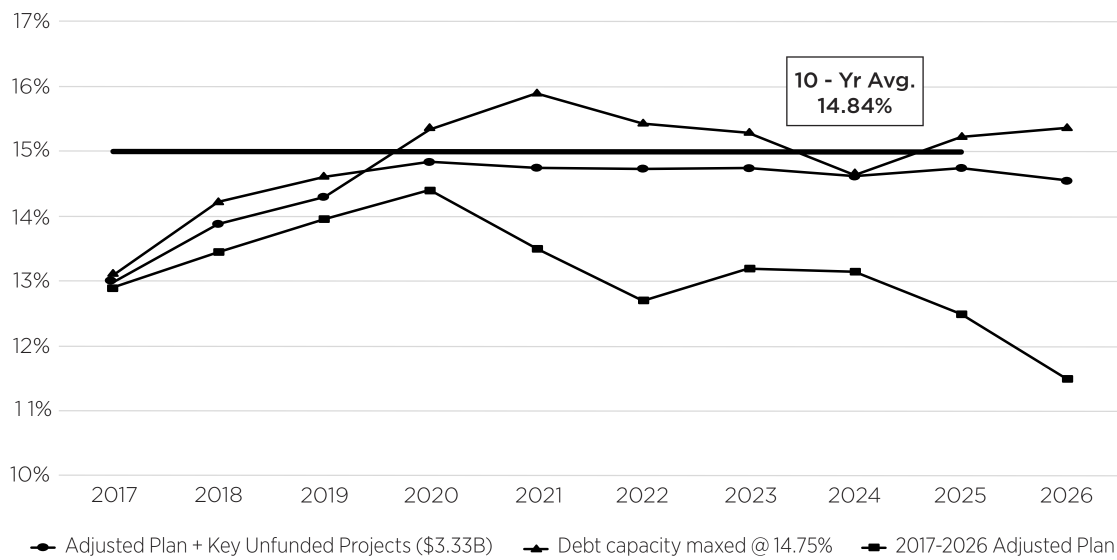
City of Toronto Unconsolidated Net Debt



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 per cent 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 $5.8 billion in key unfunded projects by maximizing debt capacity and leveraging the new City Building Levy. As shown in the chart below, the City is expected to have an average debt charges to Property Tax Levy ratio over the next 10 years of 14.84%. The ratio peaks in 2021 at close to 15.9%.

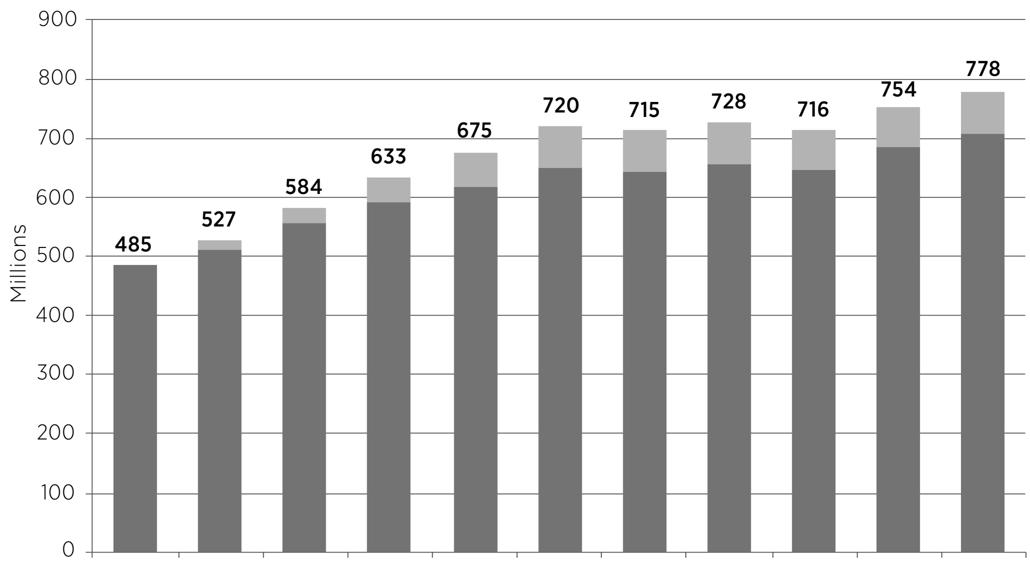
Debt Charges as a % of the Property Tax Levy – 2017 to 2026



The additional debt room funds strategic investments in the state of good repair backlog, service improvement initiatives and future transit expansion projects. Key projects include SmartTrack, F.G. Gardiner, TTC and Non-TTC Public Transit Infrastructure (PTIF) Projects and Port Lands Flood Protection.

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 2017, the debt service charge is budgeted at $527 million, increasing to $778 million by 2026.

Debt Charges 2016-2026



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Debt Funded by City Building Fund	0	14	27	41	56	70	70	70	70	70	70
Debt Funded by Reg. Property Tax	485	513	557	592	619	650	645	658	646	684	708

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 (e.g. Trust Funds).

Investment earnings consist of the annual earned interest income and capital gains/losses that are realized on each portfolio. In 2016, investment earnings on the City's managed funds totalled $130.4 million. The earnings were allocated to the Operating Budget ($114.1 million) and reserve funds ($16.3 million) according to the Council-approved interest allocation policy.

The 2016 distribution of investment earnings is summarized in the following table:

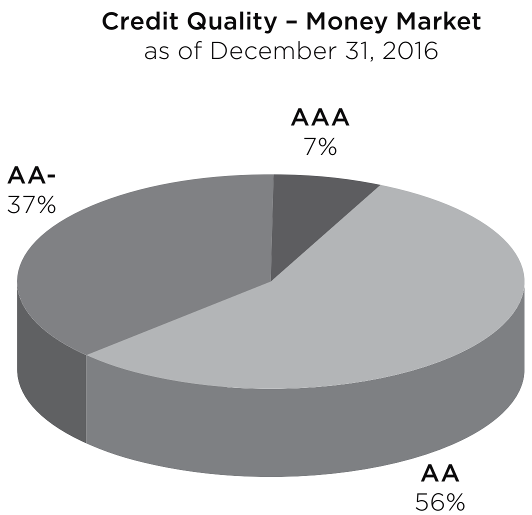
2016 Investment Portfolio Income ($ Millions)

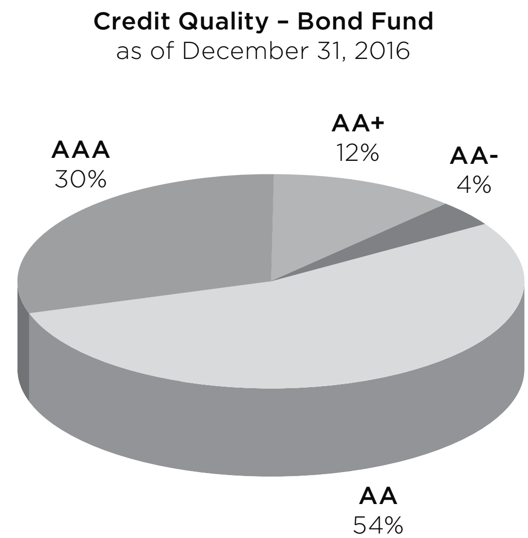
Portfolio ($ million)	Average Capital Balance	Earned Income	Return on Capital
1. Bond Fund	$2,946.7	$109.9	3.7%
2. Money Market	$2,128.9	$20.5	1.0%
Total General Funds	**$5,075.6**	**$130.4**	**2.6%**

The Operating Budget component was under budget in the Non-Program account by $0.4 million. This variance was due to lower than forecasted interest rates offset by a higher than targeted income allocation to the reserve funds which was attributable to slower than forecasted spending of the reserve funds. The $130.4 million in investment revenue generated in 2016 was lower than the $137.5 million generated in 2015. The decline was due to persistent low interest rates. Indeed, interest rates made new historic lows in 2016.

The City's Money Market and Bond Fund continue to exhibit high credit quality (see pie chart below), especially during these extended periods of economic turbulence. The pie chart below shows a breakdown of the City's fund by credit quality (ie. AAA, AA+, AA, AA-).

Credit Quality – Money Market and Bond Funds
As at December 31, 2016





Sinking funds were established by the City and are required by legislation when a municipality issues sinking fund debt. Currently, the City has five separate sinking fund portfolios that accept annual contributions in support of 26 individual debenture issues. Contributions are invested and earn income to accumulate sufficient funds to repay the sinking fund debt on maturity.

Sinking fund assets as at December 31, 2016 were $1.8 billion. These assets are invested in high-quality fixed-income securities issued and guaranteed by the federal, provincial and municipal governments, and corporate bonds, to fund debt of $5.6 billion (2015 – $5.4 billion) maturing in various years between 2017 and 2046. Additional contributions from the City will be received annually during the period from 2017 to 2046.

2016 Capital Markets Review

The Bank of Canada (BoC) held the overnight rate at 50 bps throughout 2016 due to uncertainty surrounding the U.S. Presidential election, continued weakness in the oil markets and sluggish GDP growth. The U.S. Treasury curve sharply steepened as the Trump victory was seen as positive for U.S. economic growth. The Canada Government curve followed the U.S. with the 10-year rate up 35 bps and the 30-year rate up 30 bps by year end.

During 2016, the City issued $700 million of the $900 million in debentures approved for the year. The debentures consisted of $300 million in 10-year debentures, $200 million in 20-year debentures and $200 million in 30-year debentures. For 2017, issuance for tax-supported debt of $850 million was approved by Council.

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:

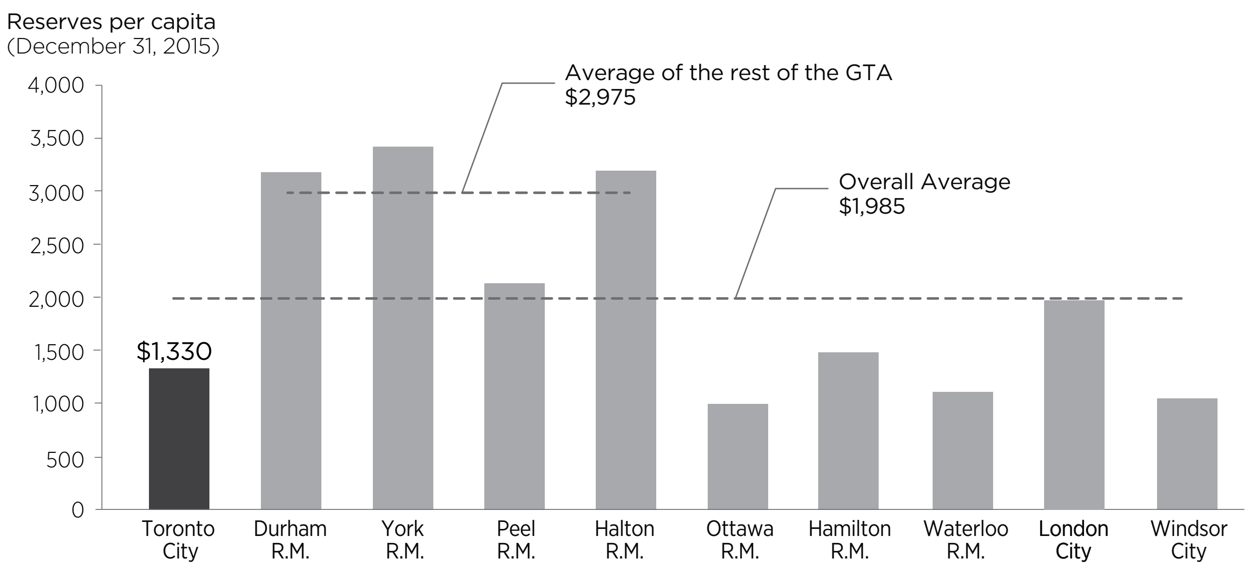
http://www.toronto.ca/legdocs/municode/1184_227.pdf

The City maintains approximately 300 active Reserves and Reserve Funds (including Obligatory Reserve Funds) that are classified into three major categories, namely Council-Direct 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 2015 reserve per capita of $1,330 was considerably less than the rest of the GTA ($2,975) and the average of all of the cities and municipalities shown in the chart below ($1,985). The City has established long-term reserve strategies for major reserves, such as 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.

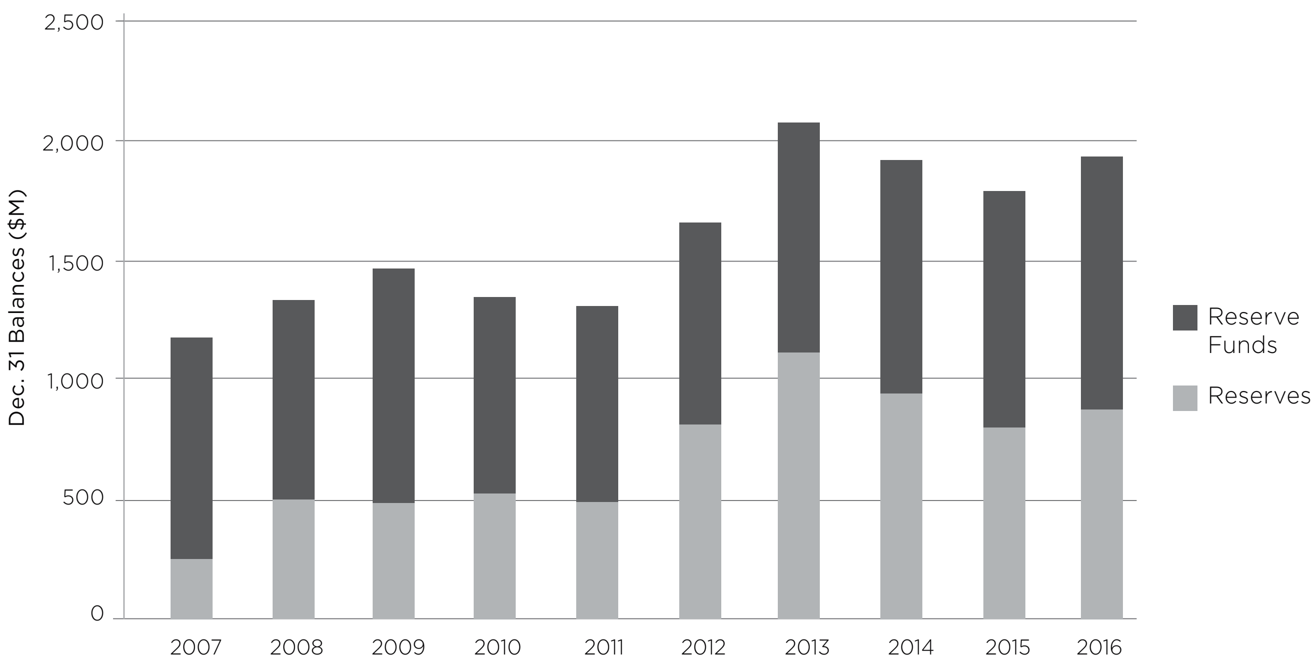
Comparison of Per Capita Reserves and Reserve Fund Balances



Sources: Ontario Ministry of Municipal Affairs & Housing - 2015 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 2007. 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, Development Charges from third parties earmarked for certain purposes, e.g. 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 uses, including funding the City's priority capital needs like transit expansion.

Revenues

Property Tax

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.

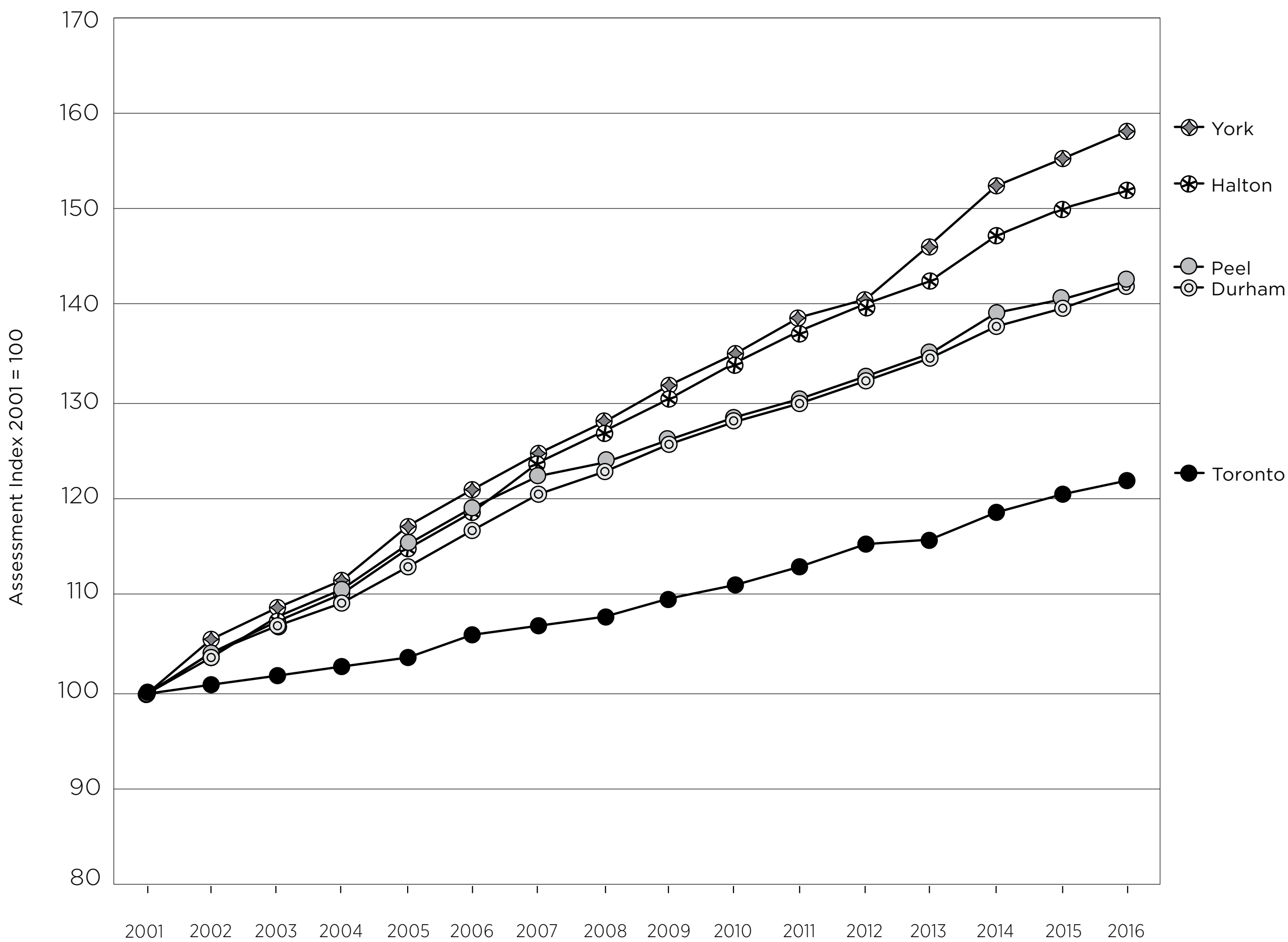
Each year, the City is required by provincial legislation to establish tax rates that raise property tax revenues in the amount of the City's budgetary requirement. In addition, the City is also required to levy and collect property taxes for school purposes at the education tax rates set by the Province.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of a property by the applicable tax rate for that class of property (e.g. 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 Current Value Assessment (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 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 2016 the rest of the GTA had cumulative assessment increases in excess of 40%: York Region – 58%, Halton Region – 52%, Peel Region – 43% and Durham Region – 42%. By contrast, Toronto's property assessment in 2016 is just 22% above its 2001 level, partly due to the conversion of certain industrial properties into residential properties. This trend is illustrated in the chart to follow.

Property Tax Assessment Growth 2001 to 2016

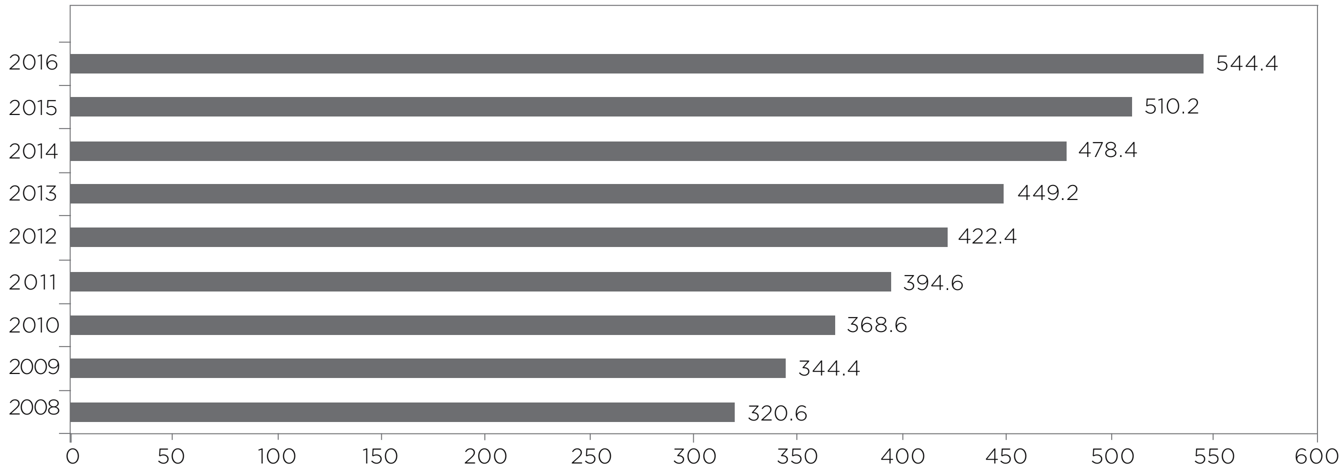


Source: Municipal Property Assessment Corporation

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 2016.

Total Property Assessment Values ($B)
City of Toronto 2008-2016



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

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Provincial Threshold Ratios
Multi-residential	3.546	3.469	3.380	3.316	3.316	3.316	3.224	3.118	3.054	2.904	**2.74**
Commercial	3.584	3.506	3.373	3.267	3.237	3.212	3.160	3.118	3.054	2.904	**1.98**
Commercial Small		3.410	3.265	3.108	3.020	3.070	2.997	2.922	2.836	2.504	**1.98**
Industrial	3.920	3,740	3.547	3.375	3.237	3.212	3.160	3.118	3.054	2.904	**2.63**

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, among other things, allowed tax rate increases on the non-residential classes to be no more than 50% of the tax rate increase for the residential tax class. Although the relaxing of the restriction on non-residential classes is not permanent, it does provide partial relief from the budgetary levy restrictions imposed by Provincial legislation.

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 10 years.

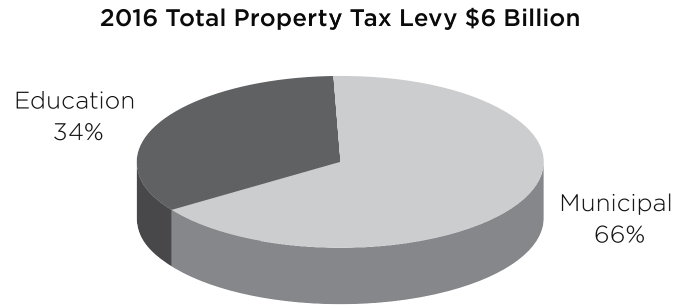
Other City efforts to enhance competitiveness have resulted in a successful agreement with the Provincial government to reduce Business Education Tax (BET) rates (for Toronto businesses) closer to the average of surrounding GTA municipalities, creating a new, fair water rate structure for industrial and manufacturing companies, and relief of development charges for properties with industrial uses, non-profit housing and land, buildings or structures used for a public hospital, a place of worship or a college or university.

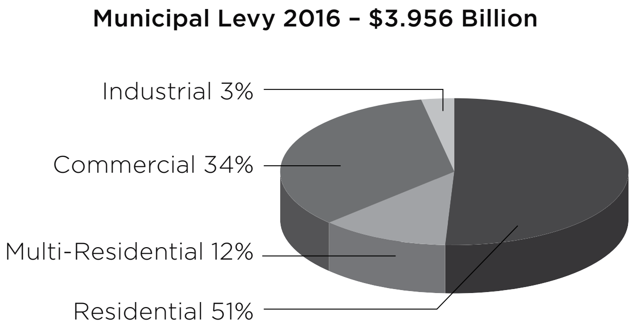
The Municipal Act and the City of Toronto Act mandate limits on re-assessment related tax increases, which were set at 10% for the 2017 year for the commercial, industrial and multi-residential property classes. The tax revenue adjustments as a result of this cap, however, are fully recovered by tax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

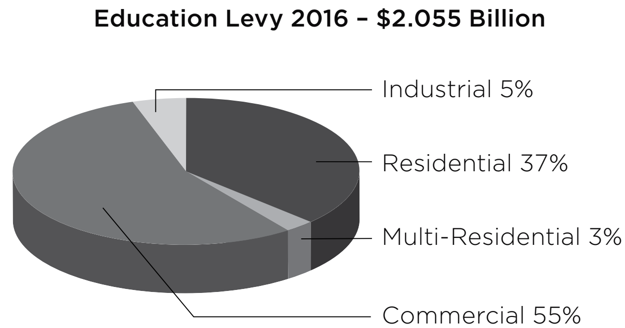
Special provisions to provide tax relief for low-income seniors and disabled persons, as well as charities and similar organizations, are also required. Tax relief policies in effect for 2017 include:

- 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







The chart below illustrates the 2016 taxes payable for the average household in Toronto with an assessed value of $549,586.

	2016 Tax Rate	2016 Property Tax
Municipal Purposes	0.4999731%	$2,748
Educational Purposes	0.1880000%	$1,033
Total	**0.6879731%**	**$3,781**

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 $1.8 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 64% 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 funding system for Solid Waste Management Services, the volume-based rate structure, was implemented November 1, 2008 to fund the service, and reach the objective of 70% waste diversion. This funding plan transforms 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 are now part of the City's Utility Bill, together with the water charges. The entire Solid Waste Management program is now funded from revenue other than property taxes (representing user fees, funding from Waste Diversion Ontario and sales proceeds from recyclable materials).

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, with higher rates – 75% increase in residential rates and 25% for non-residential rates. In order to mitigate the potential adverse effect of the higher development charges on the rate of development in the City, the new bylaw includes a schedule to phase-in the adopted rates over a two-year period.

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, 2017.

Other Taxation

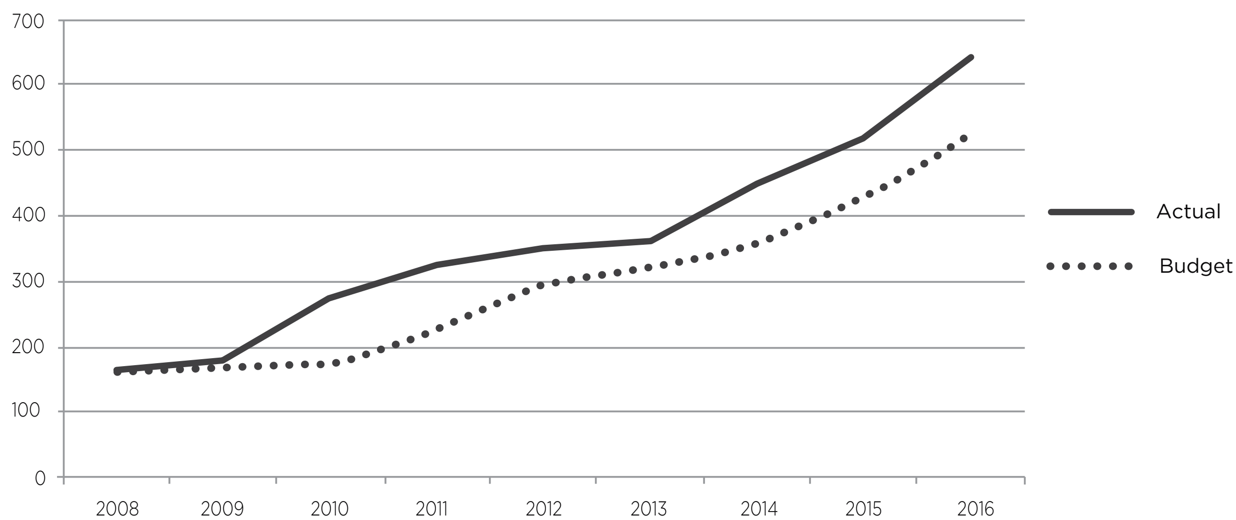
The City of Toronto is the only Ontario municipality with the legislative authority (City of Toronto Act, 2006) to allow it to levy taxes other than property taxes. The Municipal Land Transfer Tax (MLTT) was implemented on February 1, 2008, and the Personal Vehicle Tax (PVT) on September 1, 2008. On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

MLTT revenues continue to exceed expectations. In 2017, budgeted gross MLTT revenues were $716 million (including transaction fees). This represents an increase of $184 million or 35% when compared to the 2016 budget due to:

- Volume increase based on the latest 2016 year-end projections which far exceed the budget, due to a strong and resilient real estate market in Toronto
- Rate impact resulting from the harmonization with the Ontario Land Transfer Tax
- Offset by an estimated cost of increasing maximum Land Transfer rebate to first-time homebuyers ($9 million).

The chart that follows illustrates how actual revenues from 2008-2016 compared with budgeted revenues for the same period.

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



City Council approved the Third Party Sign Tax in 2009. Collection of the tax, however, was delayed by a court challenge from the outdoor advertising industry. After a favourable court ruling in 2012, the City began a retroactive collection of sign tax revenues for the period from 2009 to 2012. The Third Party Sign Tax generates approximately $12 million per year for the City.

Credit Rating

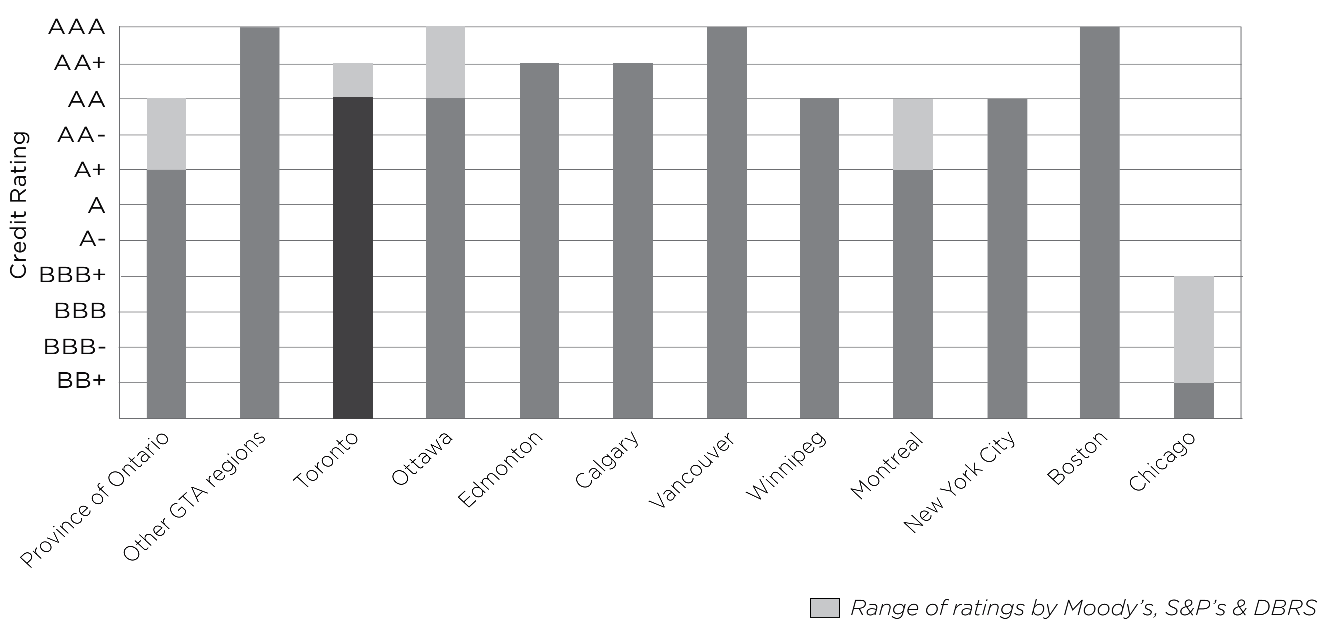
The City of Toronto is recognized as an important participant in global financial markets. The maintenance of a high-quality credit rating is essential to ensure that the City's ability to access the most cost-effective world capital markets will continue as it needs to borrow funds for capital purposes.

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 27, 2016
- AA with a stable trend from the Dominion Bond Rating Service Ltd. (DBRS) – confirmed December 9, 2016
- Aa1 with a stable outlook from Moody's Investor Service – confirmed June 30, 2016

City of Toronto's Credit Rating History	1997 and prior	1998-2001	2002-2016
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 ratings are supported by Toronto's large and dynamic economy, considerable base of liquidity and moderate debt burden."

DBRS, December 9, 2016

"The ratings reflect our view of Toronto's very strong economy which, along with strong financial management, has helped the city to continue to attract residents and investment...The ratings also reflect our positive view of the very predictable and well-balanced institutional framework for Canadian municipalities."

Standard & Poor's, October 27, 2016

"The City of Toronto's Aa1 rating benefits from a low debt burden (46% of operating revenue in 2013), 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."

Moody's Investors Service, June 30, 2016

Long-Term Financial Plan

The City Manager's initial Long-Term Financial Direction report was approved by City Council on June 7-9, 2016. The initial report explored the underlying conditions of City finances by reviewing the expense and revenue patterns of recent budgets. It also provided a basic forecast of future expense pressures and revenue performance. Full implementation of the directions described through the recommendations will require a shift in how the City approaches its annual budget and medium-to-long-term program planning. Changes in both expense and revenue management will be required for the City to balance the annual budget.

Two closely aligned reports were brought forward in December 2016 at the request of Council on a standalone basis, namely:

- Asset Optimization Review – Toronto Hydro and Toronto Parking Authority
- The City of Toronto's Immediate and Longer-Term Revenue Strategy Direction

The Asset Optimization review indicated that quantitative and qualitative analyses conducted do not support the immediate monetization of Toronto Hydro or the Toronto Parking Authority.

The Long-Term Revenue Strategy Direction report found that many funding options open to the City are constrained by factors including administrative complexity and/or costs, the need for additional provincial permissions and/or fairness.

A final Long-Term Financial Plan will be presented to Committee and Council in the third quarter of 2017. The Plan will explore scenarios with respect to:

- Increased efficiency and lower service costs, realized through technology and potential for downward pressure on overall compensation costs
- Reduction in service levels, relative to population growth
- Significant new revenue measures, increasing on an annual basis
- New revenue-sharing arrangements with the province and potentially the federal government, respecting Toronto's unique role and requirements
- Greater emphasis on increases to property tax rates.

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 nine per cent 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. The discussion that follows on Toronto's performance is focused on how Toronto utilizes its nine per cent share of the total tax dollar.

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

- Over 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 Municipal Benchmarking Network of Canada, 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 MBN Canada 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 MBN Canada process, these practices encourage Toronto's service areas to continuously improve. Many of these planned or completed efforts are summarized in the report, including:

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

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 approximately 230 indicators and measures.

Highlights of Toronto's overall results are described below.

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 building permits were issued
- More registered sports and recreation programming were offered
- More transit vehicle hours were provided

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

- Higher number of invoices processed by staff
- Increased commercial/industrial construction values

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 social housing units
- Highest rate of transit vehicle hours provided

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 commercial/industrial construction values
- Highest rate of library uses per capita

For additional information on the City of Toronto's Benchmarking Report, please visit our website at *toronto.ca/progress*.

Other Methods of Assessing Toronto's Progress

Toronto's award-winning initiatives

Throughout 2016 and 2017, the City of Toronto's initiatives received numerous awards from external organizations. A few of these awards are noted below:

- The job search engine Eluta.ca named the City of Toronto as one of Canada's Top Employers in 2017. Eluta.ca also named the City of Toronto as one of the most diverse employers nationally for 2017.
- The City of Toronto was awarded bronze recognition in the 2016 Educational Program Excellence Award category by the Solid Waste Association of North America (SWANA). The City of Toronto's Solid Waste Management Services was a sponsor of Scotiabank Nuit Blanche 2015 and visually communicated the message: "There is No Away…Everything Must Go Somewhere." The 2016 Educational Program Award was given to the City of Toronto for raising awareness about the amount of waste generated and the importance of managing it.
- The City of Toronto won a 2016 Sustainable Communities Award in the Energy Program category from the Federation of Canadian Municipalities (FCM). The City of Toronto's Home Energy Loan Program (HELP) and High-Rise Retrofit Improvement Support Program (Hi-RIS) reduced GHG by 4,900 tonnes eCO2 per year, lowered energy bills for property owners and improved quality of life for residents.
- The City of Toronto won the Transportation Association of Canada (TAC) Road Safety Engineering award in 2016. The award recognizes contribution, development and implementation of roadway safety countermeasures, guidelines and management systems. The award was given specifically for the City of Toronto's Curb Radii Design Guidelines.
- The Toronto Transit Commission (TTC) was awarded "Outstanding public transit system of the year" by the American Public Transportation Association. Toronto Transit Commission is continuing to improve to be a cleaner, friendlier and reliable service to the public.
- The City of Toronto won the 2017 Local Municipal Champions Award from the Ontario Municipal Social Services Association (OMSSA). The Local Municipal Champions Award recognizes the work done to advance human resources integration and service system management. The City of Toronto's initiative "Raising the Village" was recognized for providing planning and support for systems that serve children and families.
- The City of Toronto won the 2017 "Excellence in Operations" award from Parks and Recreation Ontario (PRO). This award was for the City of Toronto's initiative "Ready, Set, PLAY," a program that educated participants about physical literacy and gave children an opportunity to improve on essential movement skills.

The City Manager's Awards for Toronto Public Service Excellence

In addition to various external awards, the City Manager's Office recognizes divisional and cross-corporate initiatives. The award is presented annually to a City division or program that has achieved a high and measurable standard of excellence. The 2015 City Manager's Awards were presented to three initiatives:

- City of Toronto Refugee Resettlement Program won the Human Rights, Access, Equity & Diversity category
- Transmission Operations Optimizer (Toronto Water) won the Divisional Project category
- Tenant Relocation Support Services won the Cross-Corporate Project category.

For more information about current and past City Manager's Awards for Public Service Excellence, please visit the City's website.

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

In addition to the benchmarking and performance initiatives described in the sections above, Toronto also compares its results to other global cities through the World Council on City Data (WCCD). In 2014, in partnership with the International Organization for Standardization, the WCCD released a new International Standard for city indicators (ISO-37120). The availability of reliable and comparable indicator data allows Toronto to compare, share and learn about different approaches to urban issues, including gridlock, adequate city revenue tools, aging infrastructure, air quality, aging populations, youth unemployment, public safety and social inequity. Some of the cities that are now certified with ISO-37120 and have published their results online include:

Amman, Jordan
Amsterdam, Netherlands
Barcelona, Spain
Boston, USA
Bogotá, Colombia
Buenos Aires, Argentina
Dubai, UAE
Guadalajara, México
Haiphong, Vietnam
Helsinki, Finland
Johannesburg, South Africa
León, México
London, UK
Los Angeles, USA
Makkah, Saudi Arabia
Makati, Philippines
Melbourne, Australia
Greater Melbourne, Australia
Minna, Nigeria
Porto, Portugal
Rotterdam, Netherlands
San Diego, USA
Shanghai, China
Shawinigan, Canada
Toronto, Canada
Taipei City, Taiwan
Valencia, Spain
Vaughan, Canada

ISO 37120 indicators cover a total of 100 indicators across a range of themes relating to quality of life and the outcomes or impacts that services have on residents. The responsibility of city governments under these theme areas can vary from one country to another, as well as within a country. Moreover, federal, 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 a vital aspect in ensuring reliable data. It enables a foundation for meaningful comparisons and conversations among global 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 order to become more sustainable and prosperous.

The WCCD data allows Toronto to compare its results to other ISO-certified cities. Results from Toronto and the other participating cities are available at *dataforcities.org.*

Toronto Progress Portal

The Toronto Progress Portal (*toronto.ca/progress*) 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 first phase of the Progress Portal has launched, but it will continue to evolve in the future. 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 (Wellbeing Toronto)
- Awards won by the City
- Customer Service Standards

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 our website at *toronto.ca/progress*.

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 with an overview of the state of the City's finances at the end of the fiscal year, and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Consolidated Financial Statements and all other information included in the financial report are the responsibility of management.

As required under Section 231 of the *City of Toronto Act*, the financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as set by the Chartered Professional Accountants of Canada (CPA Canada) Public Sector Accounting Board (PSAB).

These Consolidated Financial Statements have been audited by 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 year end. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities, and provides the calculation of the City's accumulated surplus at year end.
Consolidated Statement of Change in Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.
Consolidated Statement of Cash Flows	Summarizes the City's cash position and changes during the year by outlining the City's sources and uses of cash.

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies and corporations, and government business enterprises that the City effectively controls. There are 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 17 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 8(a) to the Consolidated Financial Statements.

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

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

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

The 2016 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified "cash requirements" basis and amounts recorded in these financial statements on a "full accrual" basis. Note 18 outlines the adjustments to the approved budget, particularly exclusion of debt proceeds, principal payments, and tangible capital asset purchases, and inclusion of estimated amortization expense. These adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The accrual-based budget typically results in a surplus, as the City must fund reinvestment in assets at amounts greater than their historical cost.

Consolidated Statement of Change in Net Debt
The Consolidated Statement of Net Debt is unique to governments. This statement focuses on the debt of the City, adjusting the annual surplus for the impact of tangible capital assets: mainly deducting the costs to acquire assets and adding back amortization (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 12 of the Consolidated Statements.

Financial Condition

An important measure of any government's financial condition is its Net Debt (also referred to as net liabilities): calculated as liabilities (e.g. trade and employment payables, mortgages and debentures) less financial assets (e.g. cash, receivables and investments).

The City's Net Debt as at December 31, 2016 increased by $0.4B to $6.5B (2015 – $6.1B). This increase is due primarily to the City's financing of tangible capital assets, offset by its considerable accounting surplus during 2016. For more information on the change in Net Debt, please refer to the Consolidated Statement of Change in Net Debt in the Consolidated Financial Statements.

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

Net Debt	**4 Year Average Annual Increase**	**2016**	**2015**	**2014**	**2013**	**2012**
Liabilities	6.01%	15,791,731	15,151,299	13,828,081	13,117,281	12,505,032
Financial assets	2.99%	9,293,459	9,071,480	8,533,390	8,554,867	8,259,997
Net Debt	**11.23%**	**6,498,272**	**6,079,819**	**5,294,691**	**4,562,414**	**4,245,035**
Percentage Increase (decrease)		**6.9%**	**14.8%**	**16.1%**	**7.5%**	

The City's Net Debt has increased by a compound annual rate of 11.23% over the last four years, attributable mainly to increases in long-term debt to third parties and in long-term net employee benefit liabilities. Both of these items are dealt with in more detail later in this report.

In order to improve the City's financial position, the City is developing an updated framework that will include strategies and processes to strengthen the City's multi-year financial and budget processes, including a multi-year expense management plan, a multi-year revenue strategy and asset optimization plans.

Debt financing has grown and will continue to grow due to state of good repair funding requirements and increased focus on expanding public transit infrastructure to meet the demands of a growing population. The City will be reviewing its capital budget and related financing strategies, including debt policies.

Another key indicator of a government's financial condition is the amount that must be recovered from future revenues as included in Note 17 of the Consolidated Financial Statements. These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities, contaminated sites liabilities and environmental liabilities. In 2016, the total amount that must be recovered from future property taxes and other revenues grew by $345M to $9.7B (2015 – $9.4B).

This increase mainly consists of:

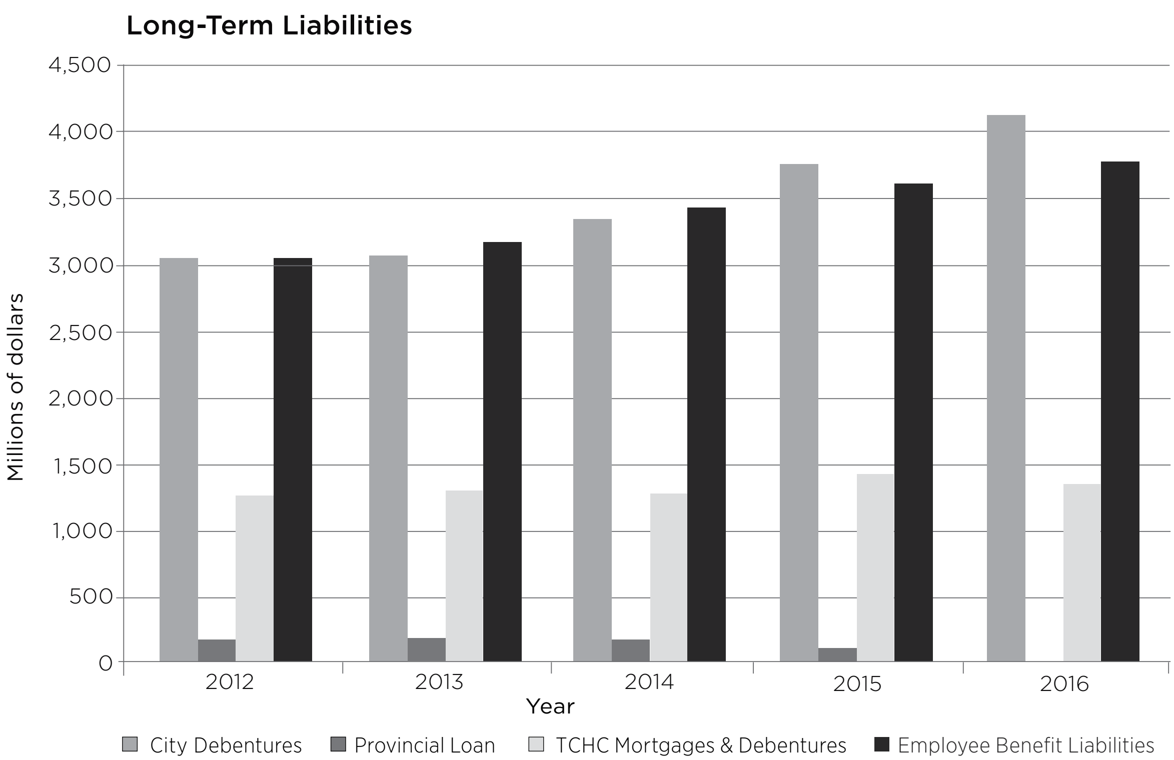
- an increase of $158M in the net employee benefits liabilities (gross employee benefit liabilities increased by $99M, an increase in unamortized gain of $59M); and
- a net increase of $179M in mortgages and net long-term debt.

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

Gross employee benefit liabilities grew 2.8% in 2016 primarily due to an 8.5% increase in WSIB obligations. 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 that will reduce the net liability in future years.

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

Chart A



Information on the mortgage liabilities of TCHC is provided in Note 11, the provincial loan and debenture debt is outlined in Note 12 and further detail about employee benefit liabilities is provided in Note 13 of the Consolidated Financial Statements.

To put the City's net liability (i.e. Net Debt) into a different context, Chart B expresses the Net Debt as a percentage of the City's own source revenues (excluding government transfers and earnings from government business enterprises). The net liability as a percentage of own source revenues has gone from 52.1% to 69.9% over the last five years.

Chart B

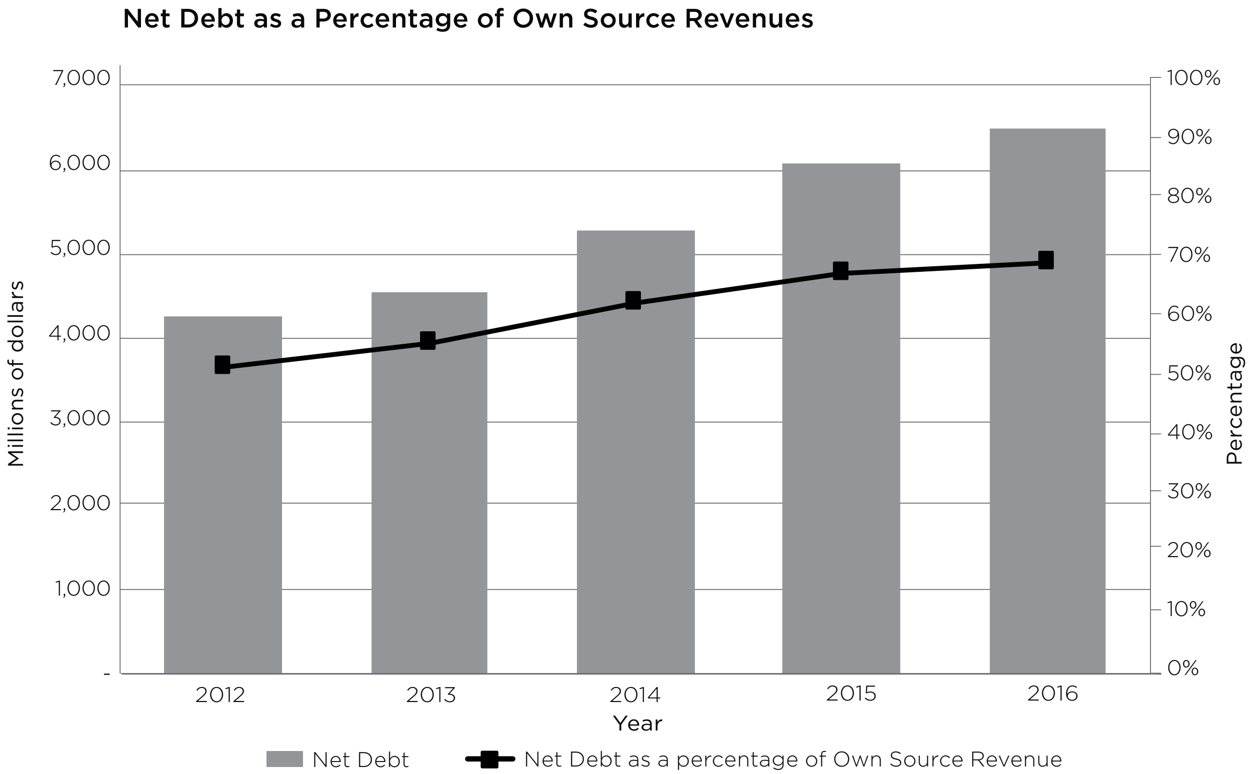
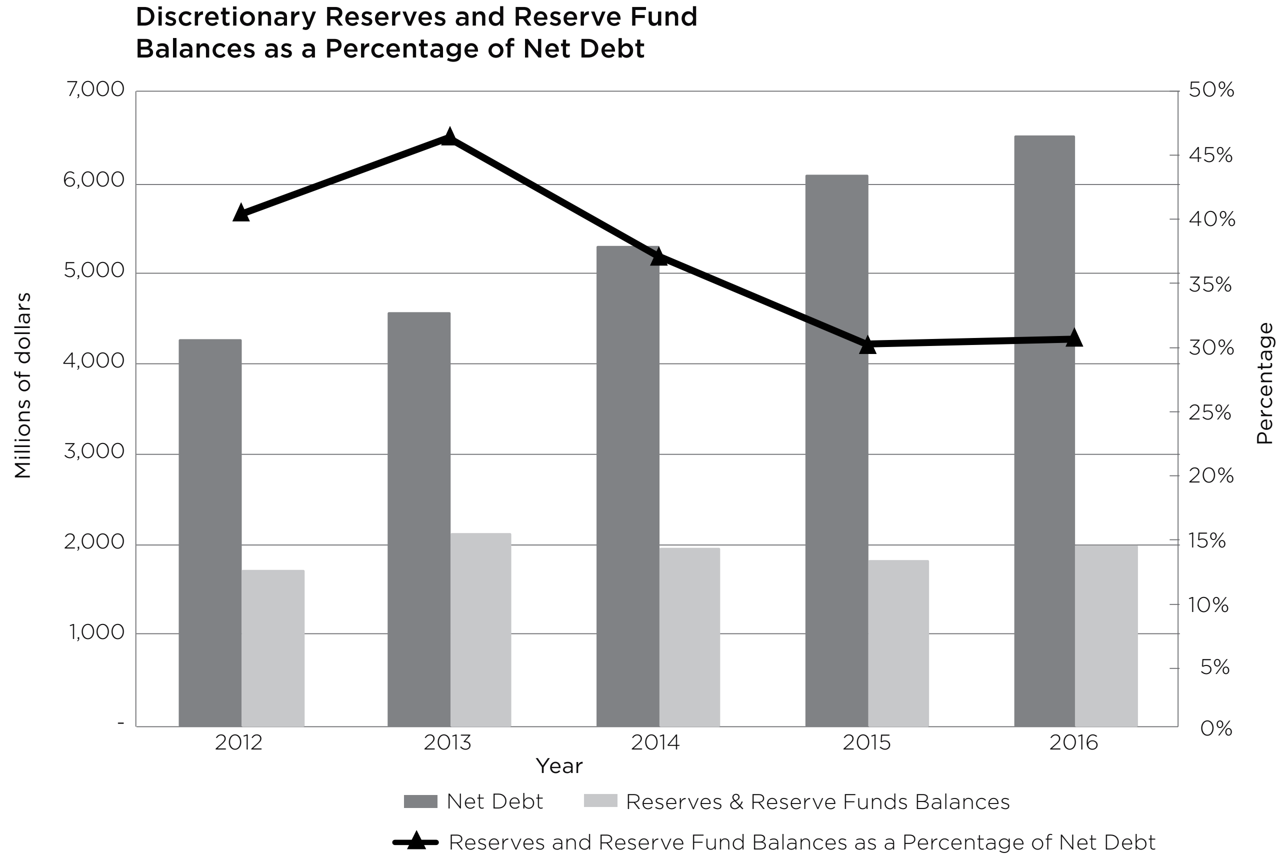


Chart C



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

The City's Net Debt substantially exceeds the City's reserve and reserve fund balances as shown in Chart C. Reserves and Reserve Fund balances increased in 2016 by $157M mainly due to the transfer of the 2016 surplus from Water and Wastewater operations ($91M) to the Water and Wastewater Stabilization Reserve, as well as receipt of additional contributions and transfers of $66M to various Reserve Funds. The vast majority of the reserve and reserve funds are committed to fund capital projects identified in the ten (10) year capital plan and future known liabilities, leaving only a small portion available for discretionary spending. Also, the current balances of some reserve funds (e.g. Employee Benefits) provide only a small portion of the funding required to pay the relevant future obligations.

The balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements, and all capital reserves/reserve funds are required to replace and maintain capital assets.

If the Obligatory Reserve Funds were included in Chart C, then the Reserve and Reserve Fund Balances would be 61.9% of Net Debt (2015 – 60.9%).

For financial statement purposes, PSAB requires that Obligatory Reserve Fund balances (such as development charges and unspent provincial public transit funding) be classified as deferred revenue (Note 8(a) of the Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements (Note 17), are lower than those included in staff reports to the Budget Committee.

Analysis of Key Asset and Liability Accounts

Accounts Receivable (Note 2)
The breakdown of accounts receivable at December 31, 2016, with 2015 comparatives, is as follows:

(in $'000s)

Accounts Receivable	2016	2015
Government of Canada	161,336	153,554
Government of Ontario	194,477	335,282
Other municipal governments	24,817	32,884
School board	1,323	2,809
Utility fees	200,896	159,951
Other fees and charges	421,426	512,145
Total	**1,004,275**	**1,196,625**

Accounts receivable balances decreased by $192M in 2016. The decrease consists primarily of the following:

- decrease in receivable from Government of Ontario ($141M) due primarily to:

	($ millions) **Increase (Decrease)**
Receipt of payment in 2016 from Move Ontario Trust (MTO) which was accrued in 2015	(56.5)
Receipt of payment in 2016 ($10.7M) from Metrolinx for Union Station offset by accrual in 2016 of $4.8M	(5.9)
Ice-storm receivable from the Province fully paid in 2016	(41.2)
Receipt of payment for Pan Am Games in 2016	(38.0)
Other increases and decreases	0.6
Total	**(141.0)**

- increase in Utility fees receivable ($41M) primarily attributable to increase in 2016 water billings.
- decrease in other fees and charges ($91M) due primarily to

	($ millions) **Increase (Decrease)**
Receipt of funds from TPA in 2016 for 2015 accrual for City's share of air rights revenues	(65.0)
Decrease in receivable for Court Services as compared to 2015	(6.4)
Decrease in interest receivable due to lower interest rates	(10.5)
Other increases and decreases	(9.1)
Total	**(91.0)**

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	2016	2015
Current year	176,368	164,662
Prior year	49,452	48,956
Previous years	35,481	32,498
Interest/penalty	56,014	50,399
Less: allowance for doubtful accounts	(56,244)	(55,815)
Net Receivables	**261,071**	**240,700**

Other Assets (Note 3)

Other Assets increased by $17M to $213M (2015 – $196M) due primarily to:

- increase in Build Toronto Inc.'s (BTI) Vendor-take-back (VTB) mortgage receivable and a promissory note in total amounting to $20.6M;
- increase in TCHC's other assets by $11.4M; offset by
- decrease in Provincial affordability housing grants $2.1M for four TCHC projects;
- decrease in market value of $6.1M for Real Estate inventory at Build Toronto; and
- decrease in TWRC construction deposit of $5.9M.

Investments (Note 4)

Investments decreased by $905M to $4.2B (2015 – $5.2B) 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 5)

Investment in government business enterprises increased by $44M to $2.1B (2015 – $2.0B). This is primarily due to the Toronto Hydro surplus of $29.5M (net of IFRS adjustment and dividends), an increase in Toronto Parking Authority, net of distributions, of $7M, and an increase in Toronto Portlands Company, net of distribution, of $7.4M.

Additional information regarding the City's GBEs as at December 31, 2016, including 2016 transactions for all GBEs with the City and condensed financial results, are provided in Note 5 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable and Accrued Liabilities (Note 7)

The breakdown of accounts payable and accrued liabilities at December 31, 2016, with 2015 comparatives, is as follows:

(in $'000s)

Accounts Payable	2016	2015
Agencies & corporations trade payables	976,638	983,745
City trade payables and accruals	1,341,451	1,243,329
Payable to school boards	452,427	454,349
Provision for tax appeals & rebates	265,796	253,893
Credit balances on property tax accounts	125,594	94,129
Wages accruals	128,346	113,214
Total	**3,290,252**	**3,142,659**

- City trade payables and accruals are higher ($98M) primarily due to:

	($ millions) **Increase (Decrease)**
Increase in Municipal Services Damage Guarantee (MSDG) deposits	12.4
Higher accruals at year end	70.9
Increase in Holdbacks for Toronto Water Construction	13.6
Other increases and decreases	1.1
Total	**98.0**

The provision for tax assessment appeals increased by $12M as there were higher number of pending appeals as at December 31, 2016.

The $31M increase in credit balances on property tax accounts is primarily due to the timing of processing refunds for re-assessments.

Wages accruals increased by $15M primarily due to an extra day of accrual in 2016 and increase in vacation accrual.

Deferred Revenue (Note 8)
Deferred Revenue increased by $178M to $2.4B (2015 – $2.2B) primarily as a result of:

- increase in net funds received for Development Charges, Building Code and Planning Act of $87M;
- increase in Obligatory Reserve Funds for Water and Wastewater of $71M due to higher contributions as compared to withdrawals for capital purchases;
- increase in funds for Building Code Act of $15M; and
- increase in funds received for park levy payments of $5M.

Other Liabilities (Note 9)
Other Liabilities decreased by $17M to $689M (2015 – $706M) mainly as a result of:

- a decrease in Toronto Transit Commission (TTC) unsettled accident claims of $5.8M;
- a decrease in tree planting donations liability of $7.7M;
- Fuel Hedging liability for TTC outstanding in 2015 of $2.6M paid in 2016;
- Funds held in deposit for Exhibition Place paid in 2016 $1.3M;
- Alternate Park Levy Clearing account – cleared in 2016 $3.3M; and
- a decrease in outstanding legal liabilities for Toronto Police Services for $2.9M; offset by
- an increase in property and liability claims provision of $5.8M.

Net Long-Term Debt, including TCHC Mortgages (Notes 11 and 12)
Net long-term debt increased by $179M to $5.4B (2015 – $5.2B) as follows:

	($ millions) **Increase (Decrease)**
Issuance of Debt – City	700.0
– TCHC	53.9
– TAF	0.7
Debt Repayment – City	(360.8)
– TCHC	(2.5)
Interest earned on sinking funds	(64.9)
Mortgage repayments	(147.7)
Total	**178.7**

Table 2 below lists all consolidated debt issued in 2016.

Table 2

Debt Issued – 2016 ($'000s)

Summary by Service	Total	City & TAF 10 years	City 20 years	City & TCHC 30 years
Children's Services	2,100	2,100	-	-
Emergency Medical Services	3,069	3,069	-	-
Exhibition Place	2,525	2,525	-	-
Facilities & Real Estate	40,548	12,865	27,683	-
FCM-TAF	679	679	-	-
Finance	3,200	3,200	-	-
Fire Services	40,148	5,500	34,648	-
Long-Term Care	49,500	-	49,500	-
Pan Am Games	41,357	7,330	34,027	-
Police	38,700	38,700	-	-
Public Health	4,500	4,500	-	-
Social Housing	53,895	-	115	53,780
Toronto Public Library	6,075	6,075	-	-
Transportation	25,910	25,910	-	-
Transit	388,226	188,226	-	200,000
Waterfront Secretariat	54,142	-	54,142	-
Total	**754,574**	**300,679**	**200,115**	**253,780**

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)

	2016	2015	2014	2013	2012
Property taxes and user charges	3,792,248	3,490,977	3,201,340	2,880,269	2,841,620
Solid Waste	264,365	266,478	237,969	252,098	265,667
FCM Energy Retrofit	1,300	2,029	2,758	3,488	4,217
TCHC	1,319,074	1,431,940	1,277,914	1,298,895	1,254,372
Build Toronto Inc.	33,407	33,407	-	-	-
Lakeshore Arena Corporation	19,259	19,602	19,932	38,937	39,234
Leaside Arena	915	956	991	1,052	-
Sony Centre	340	425	-	-	-
TDSB	4,600	10,974	17,013	22,410	26,371
Net long-term debt	**5,435,508**	**5,256,788**	**4,757,917**	**4,497,149**	**4,431,481**

Employee Benefit Liabilities (Note 13)

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 13 of the Consolidated Financial Statements) increased by $99M to $3.6B (2015 – $3.5B) primarily due to the following:

- increase in post-employment benefits ($52M) primarily due to the change in discount rate which increased, creating an actuarial gain resulting in higher liability; and
- increase in workers' compensation benefits ($47M) primarily due to more coverage of additional cancers presumed to be work-related for Toronto Firefighters and changes in administration fees.

Table 4

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

	2016	2015	2014	2013	2012
Sick Leave	522,742	522,834	552,420	489,170	471,472
WSIB	601,062	553,983	548,985	432,533	428,767
Post Retirement and LTD	2,473,792	2,421,622	2,436,744	2,102,038	2,076,852
Pension	-	-	-	7,969	26,694
Gross Liabilities	**3,597,596**	**3,498,439**	**3,538,149**	**3,031,710**	**3,003,785**
Unamortized Gain/(Loss)	159,248	100,409	(127,902)	134,772	32,208
Net Liabilities	**3,756,844**	**3,598,848**	**3,410,247**	**3,166,482**	**3,035,993**

The gross employee benefit liabilities increased by $99M and the unamortized actuarial gain also increased by $59M, thus resulting in an overall increase in net employee benefit liabilities of $158M (from $3.6B in 2015 to $3.8B in 2016).

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

The $59M change in unamortized gains and losses is primarily related to:

- an increase in the discount rate of approximately 0.1% to 0.3% for the various benefits; and
- difference between actual and expected benefits payments in 2016 which created actuarial gains.

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)

	2016	**2015**	**2014**	**2013**	**2012**
City	2,117,734	2,069,029	2,033,942	1,703,964	1,720,870
City Legacy Pensions	-	-	-	7,969	26,694
Police	596,387	573,943	695,038	599,325	568,949
Other Entities	883,475	855,467	809,169	720,452	687,272
Gross Liabilities	**3,597,596**	**3,498,439**	**3,538,149**	**3,031,710**	**3,003,785**
Unamortized Gain/(Loss)	159,248	100,409	(127,902)	134,772	32,208
Net Liabilities	**3,756,844**	**3,598,848**	**3,410,247**	**3,166,482**	**3,035,993**

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 have been offset in recent years by increases in WSIB costs due to expansion of Ontario Government regulations to include additional cancers that are presumed to be work-related for firefighters.

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

Tangible Capital Assets (Note 14)

Note 1 to the consolidated financial statements outlines the significant accounting policies including an overview of the policy for recording tangible capital assets. In short, tangible capital assets are recorded at cost and amortized over their useful lives.

The breakdown of tangible capital assets, as well as accumulated amortization, as at December 31, 2016 with 2015 comparatives, is presented in Note 14 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

During the year, consolidated asset additions totalled $2.6B, with the most significant portion being:

- Building and Building Improvements of $662M (consisting of $284.2M at the TTC, $258M at the TCHC, $6M at the Library and $113.8M at the City)
- Transit Infrastructure of $431.4M
- Vehicles additions of $180M, primarily: $125M for TTC, $48M for City and $7M for the Toronto Police Services
- Machinery and Equipment purchases of $749M, primarily:
  - Infrastructure equipment of $489.4M for Water and Wastewater treatment plant equipment, pumping stations and Road Traffic Signals; and
  - General equipment of $259.6M, primarily: Green Lane Landfill gas and leachate collection systems, computer hardware, water meters, security systems, police and transit equipment.
- Linear assets of $504.7M: $388.2M for Water & Wastewater and $116.5M for Roads
- Land Improvement of $60.5M: $26.6M represents Corktown Common Park project developed by Toronto Waterfront and handed over to the City

During the year, amortization of tangible capital assets increased by $122M to $974M (2015 – $851M), mainly as a result of an increase in TTC amortization of $78M and $33M for the City.

Consolidated Annual Accounting Surplus

Table 6

Consolidated Accounting Surplus

(in thousands of dollars)

	2016 Budget	2016 Actual	Difference: Positive / (Negative) Variance	Change	2015 Actual
Revenues					
Property Taxation	3,927,000	3,938,802	11,802	0.3%	3,879,877
Municipal Land Transfer Tax	526,528	644,590	118,062	22.4%	524,000
Taxation from other governments	102,830	112,211	9,381	9.1%	86,302
User Charges	3,211,865	3,083,725	(128,140)	(4.0%)	2,780,791
Funding transfers from other governments	2,984,886	2,738,317	(246,569)	(8.3%)	2,862,220
Government Business Enterprise Earnings	-	165,810	165,810	-	294,189
Investment Income	197,941	197,231	(710)	(0.4%)	259,679
Development Charges	290,867	184,125	(106,742)	(36.7%)	221,192
Rent and Concessions	439,271	450,740	11,469	2.6%	451,776
Other	629,203	686,412	57,209	9.1%	737,497
Total	**12,310,391**	**12,201,963**	**(108,428)**	**(0.9%)**	**12,097,523**
Expenses					
General Government	895,164	760,339	134,825	15.1%	824,196
Protection to persons and property	1,816,682	1,808,310	8,372	0.5%	1,807,909
Transportation	3,361,487	3,067,408	294,079	8.7%	2,943,786
Environmental services	1,190,346	933,176	257,170	21.6%	940,017
Health services	446,868	449,621	(2,753)	(0.6%)	452,389
Social and family services	2,141,477	2,038,215	103,262	4.8%	2,023,910
Social housing	829,429	779,499	49,930	6.0%	775,450
Recreational and cultural services	1,084,888	1,001,753	83,135	7.7%	989,349
Planning and development	135,355	115,549	19,806	14.6%	146,102
Total	**11,901,696**	**10,953,870**	**947,826**	**8.0%**	**10,903,108**
CONSOLIDATED ANNUAL ACCOUNTING SURPLUS	**408,695**	**1,248,093**	**839,398**	**205.4%**	**1,194,415**

Table 6 provides a comparison of 2016 Consolidated Revenues and Expenses versus budget, and also shows 2015 actuals. The table also provides a comparison of expense by type or category of service.

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements (see Note 18 in the Consolidated Financial Statements). The budget is, however, adjusted to exclude purchases of tangible capital assets from expenses, to also exclude debt principal from revenues and expenses and to allow for amortization of tangible capital assets.

Consolidated Revenues

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of the City's many revenue sources. In 2016, property taxes made up 32.5% (2015 – 32.3%) of the City's consolidated operating revenue.

Property Taxation revenue exceeded budget by $12M primarily due to supplementary/omitted rolls being higher than forecast.

Municipal Land Transfer Tax (MLTT) exceeded budget by $118M primarily due to stronger than expected average home prices and sales volumes.

Taxation from other governments (Payment in Lieu (PIL) of Taxes) revenue exceeded budget by $9M primarily due to lower than budgeted appeals and adjustments.

User Charges were under budget by $128M due primarily to:

- delayed capital expenditures resulting in lower than budgeted spending of $162M on Capital projects funded from obligatory reserve funds for Water/Wastewater, resulting in lower revenue being recognized in 2016 than budgeted;
- lower revenues at TTC of $49M primarily due to lower than budgeted ridership; offset by
- higher than budgeted revenues at Toronto Water of $58M primarily from stronger than anticipated volume of water sold due to a dry, hot summer, increase in new water and sewer service connections and industrial waste agreements;
- higher than budgeted revenues at Parking Tags Enforcement & Operations of $6.4M due to increased volume in plate-denial fees;
- higher than budgeted revenues at Toronto Parking Authority of $9M due primarily to higher off-street parking revenues in downtown garages and surface carparks as a result of stronger than anticipated customer volume; and
- higher than budgeted revenues of $7M at City Planning due to higher development application review fees and robust application volumes in Committee of Adjustment Units.

Funding Transfers from other governments were under budget by $246M primarily due to:

- Lower than budget spending on the Toronto-York Spadina Subway Extension by $200M; and
- Ontario Works operating subsidies lower by $45M due primarily to lower subsidies for the Ontario Works Financial Assistance Program.

Government Business Enterprise Earnings ($166M) represent the earnings from Toronto Hydro Corporation, Toronto Parking Authority and Toronto Port Lands Company. Details are available in Note 5 and Appendix 1 of the Consolidated Financial Statements.

Development Charges applied to capital spending were under budget by $106M due to lower than budget spending on capital projects. As an obligatory reserve fund, development charge revenues are not recognized until the funds are spent for the intended purposes.

Rent and Concessions were higher than budget by $11M due primarily to higher rental income at the City's agencies and corporations.

Other Income was higher than budget by $57M due primarily to the Provincial Loan write-off of $93M offset by lower than expected revenue from recoveries from third parties for damages due to utility cuts of $36M.

Five-Year Summary of Consolidated Revenues

The five year summary of revenues outlined in Table 7 demonstrates that property taxes continue to be one of 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 – 5-Year Summary

(in thousands of dollars)

Revenues	Avg. Annual Increase	2016	2015	2014	2013	2012
Property taxes	1.6%	4,051,013	3,966,179	3,879,607	3,808,030	3,807,904
Municipal land transfer tax (MLTT)	16.5%	644,590	524,000	449,604	360,884	349,798
User charges	5.6%	3,083,725	2,780,791	2,753,273	2,638,543	2,482,754
Government transfers	(2.7%)	2,738,317	2,862,220	2,752,112	2,952,158	3,054,218
Gain on sale of Enwave	N/A	-	-	-	-	96,611
GBE earnings	(2.1%)	165,810	294,189	174,326	175,544	180,097
Investment income	(5.4%)	197,231	259,679	270,603	232,244	246,760
Development charges	6.9%	184,125	221,192	132,523	164,004	141,133
Rent and concessions	3.3%	450,740	451,776	426,929	438,698	395,470
Other	(1.2%)	686,412	737,497	511,685	462,454	720,915
Total	**1.6%**	**12,201,963**	**12,097,523**	**11,350,662**	**11,232,559**	**11,475,660**
Percentage Increase		0.9%	6.6%	1.1%	(2.1%)	

Consolidated Expenses

Gross consolidated expenses for 2016 totalled $11B (2015 – $10.9B).

Expense variance explanations by major program areas are as follows:

- Costs for General Government were lower than budget by $135M primarily due to:
  - Lower spending of $121M in Facilities due to various State of Goods Repair (SOGR) maintenance projects and lower spending in Finance and Information & Technology due to delaying system upgrades and maintenance of various projects; and
  - Lower than budgeted spending of $14M at I&T primarily due to operating vacancies.
- Costs for Protection to persons and property were $8M lower than budget primarily due to:
  - Lower than budgeted spending at the Toronto Police Services due to the hiring moratorium and expenditure reduction efforts.
- Costs for Transportation were $294M lower than budget primarily due to:
  - Lower than budgeted net spending of $36M in Transportation Services due to lower costs in the winter maintenance program due to mild winter conditions and under-spending in road/bridge repair contracts due to lower than expected utility cut repair volumes, partially offset by higher than budgeted expenditures for traffic signal operations;
  - Lower spending in TTC of $53M primarily due to savings in salaries and employee benefits ($41.7M), diesel fuel consumption ($7.5M) and leasing expense for bus storage ($4M); and
  - Lower spending at Transportation of $156M due to delay in State of Good Repair projects such as neighbourhood improvements, side walk repairs and other road maintenance work.
- Environmental services spending was lower than budget by $257M due primarily to:
  - Lower spending at Toronto Water of $198M related to $165M from 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; and
  - Lower spending at Solid Waste of $37M with $25M attributable to various maintenance projects and $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.
- Social and Family Services spending was lower than budget by $103M, primarily due to:
  - Ontario Works (OW) financial benefits were underspent by $48M due to a lower than budgeted OW caseload;
  - Children's Services was under budget by $18M primarily due to case mix differences from planned, delays in hiring staff and in opening two Toronto Early Learning Child Care Services (TELCCS) centres;
  - Long-Term Care Homes and Services was under budget by $18M primarily due to underspending in salary and benefits and other non-salary accounts primarily attributable to the delay in re-opening of Kipling Acres facility; and
  - Social Development, Finance & Administration was underspent by $11M primarily due to lower than expected spending for the Tower Renewal, Hi-RIS Retrofit Improvement program; the Provincially funded Healthy Kids Community Challenge initiative; and underspending in salary and benefits.
- Social housing spending was lower than budget by $50M primarily due to:
  - Lower than planned expenditures at TCHC. Underspending resulted from savings in salaries and benefits due to vacant positions, savings in social housing provider subsidies and project delays in the implementation of the Social Infrastructure Fund (SIF) and Social Housing Apartment Retrofit Program (SHARP).
- Recreational and cultural services was lower than budget by $83M due primarily to:
  - Lower spending of $38M on repairs and maintenance for Recreation and State of Good repair projects at arenas, community centres, special facilities, pools and water-play areas; and

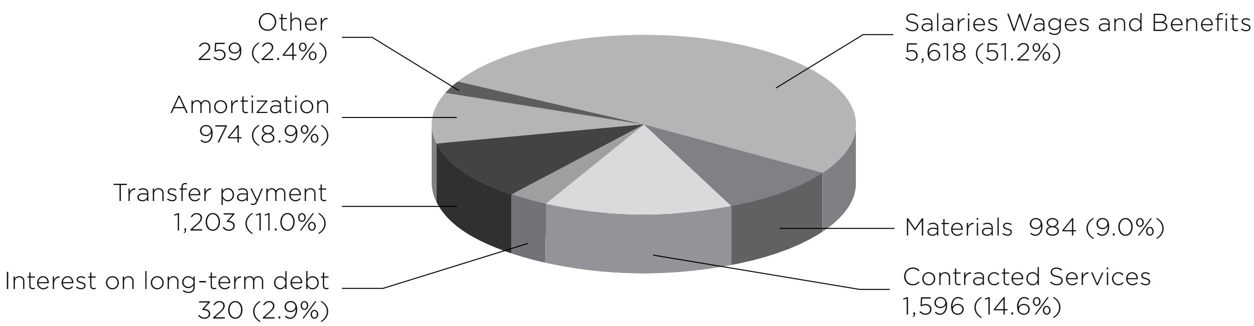
- Lower spending of $45M on various Parks maintenance projects such as trail and path maintenance, camp sites maintenance, tree maintenance and other preventative maintenance projects.
- Planning and development was lower than budget by $20M due primarily to:
  - Lower than planned expenditures at Build Toronto of $11M; and
  - Lower spending of $4.2M on various streetscape and façade improvement projects.

Consolidated Expenses by Object

Chart D breaks down gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 51.2% of the total amount. Principal re-payments on debt are not included in accounting analyses as they are considered financing transactions for accounting purposes and are not considered expenses.

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;
- lack of long-term dedicated funding to assist the City in addressing its infrastructure deficit, including building and expanding the transit system to meet the City's growth;
- accessing non-property tax revenue sources that grow with the economy to ensure long-term sustainable funding; and
- inadequate funding of Provincial cost-shared programs and reduced funding for Social Housing has resulted in significant financial pressure to the City.

In 2016, the City continued to make progress to address these risks by continuing to implement its Long-Term Financial Plan. Appendix B lists eight (8) specific financial issues/risks and the actions taken in 2016 to help address them.

Highlights include:

- The City continued to adopt strict budget guidelines for City divisions, agencies and corporations, resulting in a 0.9% increase in net expenditures for the 2016 Approved Operating Budget;
- 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;
- The 2016 Operating Budget included efficiency savings, base budget reductions and line-by-line savings totalling $158.6 million;
- In 2016, the City successfully reached collective bargaining agreements with CUPE Local 416 and Local 79 with modest 5% cumulative base pay increases over the four-year term and a one-time non-base, non-pensionable lump sum payment of 0.25% in 2019;
- During 2015, City Council directed the Deputy City Manager & Chief Financial Officer to implement shared services in the following areas: Learning, Insurance, Procurement and Information & Technology, and to report annually to City Council on the status of Shared Services projects and benefits delivered. By the end of 2016, work was expected to be completed on 17 of the 22 Shared Services projects recommended. Cumulative efficiencies have been estimated to be $37 million with the majority being realized in the areas of Fleet Services and I&T;
- The Province, Metrolinx and the City continued to jointly plan for new transit lines with Provincial contributions of $8.4B towards the plan. Metrolinx is responsible for delivering the Eglinton Scarborough Crosstown, Finch West and Sheppard Ave East Light Rail Transit (LRT) projects and the Province/ Metrolinx have agreed to contribute to the City's Scarborough RT replacement (subway) project;
- During 2016, City Council considered the report Transit Network Plan Update and Transit Strategy and approved a recommendation to advance the development of the capital funding and financing strategy for SmartTrack;
- Council referred a number of new revenue options to Budget Committee for consideration as part of the 2017 budget process, and endorsed other revenue measures that will require legislation reform from the Province;
- 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 other Capital Replacement Reserve Funds; and
- For 2016, the City continued to reduce tax rate ratios for business/non-residential properties. Council is on track to meet its objectives of reducing the tax ratio for commercial, industrial and multi-residential properties to 2.5 times the residential tax rate by 2020, with 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, Council agreed to slow the tax ratio reduction that would see the target ratio of 2.5 reached in 2023, as opposed to 2020.

Mike St. Amant
Treasurer

Toronto, Canada
July 4, 2017

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

Issues / Risks	Actions Taken with Impacts in 2016	Actions planned for 2017 and beyond
The City continues to be challenged by growing demand for services and lack of a fully diversified, predictable and sustainable set of revenue sources. Additionally, the City has a higher cost structure than other municipalities in the Greater Toronto Area (GTA).	• City Council continued to adopt strict budget guidelines for City divisions, agencies and corporations: -1% of 2015 Net Budget set as overall target for 2016 Operating Budget; achieved a 0.9% increase in net expenditures after assessment growth for 2016 Approved Operating Budget. • 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. • The City's Manager's initial Long-Term Financial Direction report was approved by Council in June, followed by two closely aligned reports: - Asset Optimization Review - The City of Toronto's Immediate and Longer-Term Revenue Strategy Direction • Council referred a number of new revenue options to Budget Committee for consideration as part of the 2017 budget process, and endorsed other revenue measures that will require legislation reform from the Province. • The City successfully reached collective bargaining agreements with Locals 416 and 79 with modest 5% cumulative base pay increase over the four-year term and a one-time non-base, non-pensionable lump sum payment of 0.25% in 2019. • Improvements, program reviews and cost containment initiatives continued to be undertaken, and the service-based, multi-year Financial Planning, Analysis and Reporting System (FPARS) was developed. • The City continued to benchmark operations with other Ontario municipalities. • The 2016 Operating Budget included efficiency savings, base budget reductions and line-by-line savings totalling $158.6 million. • By the end of 2016, work was expected to be completed on 17 of 22 of the Shared Services projects recommended. Cumulative efficiencies have been estimated to be $37 million with the majority being realized in the areas of Fleet Services and I&T.	• Continue strict budget targets for 2017 and future years. • Continue development of the updated Long-Term Financial Plan 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. • In January 2017, the Province announced that it would not facilitate a regulation to allow the City to toll roads. As an alternative funding source, the Province announced that the Provincial Gas Tax Program would double by 2021-2022. • Continue dialogue with Provincial Government regarding legislative/ regulatory reforms necessary to implement new taxes for 2017 and future years. • Maintain continuous improvement initiatives, including enhanced performance measures and benchmarking. • Continue to develop the Financial Planning, Analysis and Reporting system (FPARS) to improve budget analysis and performance reporting. • Internal Audit and Auditor General continue to conduct audit reviews with a view to maintain and improve internal controls and identify opportunities for further efficiencies. • Continue to benchmark operations with other Canadian municipalities. • Continue to develop/evolve Toronto's Progress Portal and related Dashboard. • 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. • Continue to evaluate and review business cases for possible merger of each of the City's five pre-OMERS pension plans with OMERS, including the development of an updated Business Case.

Issues / Risks	Actions Taken with Impacts in 2016	Actions planned for 2017 and beyond
	• In late 2015, the Province filed regulations which now allow the possible merger of the City's five pre-OMERS pension plans with OMERS. City staff have been working with the plans and OMERS to further investigate the viability of merging the five pension plans. • The City Manager's Office continued work on Council's direction for expanded gaming at Woodbine Racetrack.	• In February 2017, Council approved a number of modest new revenue measures in the 2017 Budget, including harmonizing the Municipal Land Transfer Tax with Ontario Land Transfer Tax rates, a hotel levy and a levy on vacant homes. The latter are subject to provincial regulatory change.
Demands for growth as laid out in the City's Official Plan or other Sectoral and Program plans are not adequately funded.	• The Province, Metrolinx and the City continued to jointly plan for new transit lines with the Province contributing $8.4 billion towards the plan. Metrolinx is responsible for delivering the Eglinton Scarborough Crosstown, Finch West and Sheppard Ave East Light Rail Transit (LRT) projects, and the Province/Metrolinx have agreed to contribute to the Scarborough Subway project. • During 2016, City Council considered the report "Transit Network Plan Update and Transit Strategy" and approved a recommendation to advance the development of the capital funding and financing strategy for SmartTrack, consisting of a combination of incremental property tax revenue from new development (Tax Increment Financing), development charges, tax-supported debt financing and other potential revenues sources such as asset sales. • As part of recent changes in the Development Charges Bylaw, 2016 represents the third year of a three-year (2014-2016) phase-in of the Council-adopted development charge rate increases. • Council referred a number of new revenue options to Budget Committee for consideration as part of the 2017 budget process, and endorsed other revenue measures that will require legislation reform from the Province.	• Continue to refine cost estimates related to growth plans. • Continue to work with the Province and Metrolinx to plan new transit lines. • Update the Development Charges Bylaw to reflect updates to the City's growth-related capital plans and changes to Provincial legislation. • Continue to direct funding to the infrastructure backlog. • Develop an updated Long-Term Financial Plan 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.

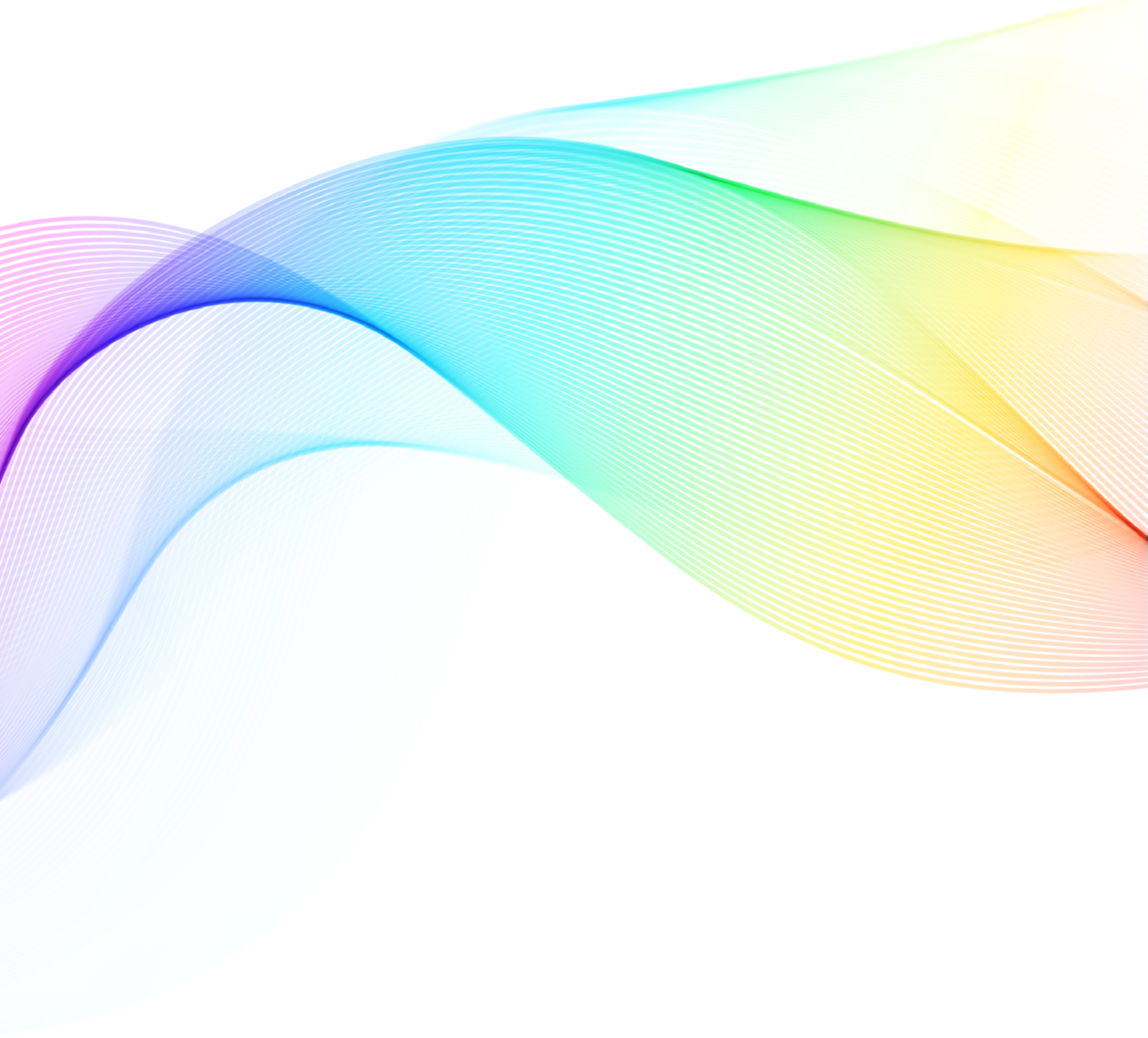
Issues / Risks	Actions Taken with Impacts in 2016	Actions planned for 2017 and beyond
There is a variability in certain program expenditures from year to year, some of which are vulnerable to economic down turns and interest rate fluctuations.	• Continued to work with the Province on a Toronto-Ontario partnership agreement on 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 - 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 2015 Operating Surplus funds to accommodate fluctuations in demands.	• Continue to work with the Province to operationalize the upload and refine the relationship regarding social and related services – Ontario Works (OW) benefit costs upload, which began in 2010 and will be completed by 2018. • 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 work with the Province on the agreed upload of court security costs by 2018. • 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.
Business property taxes are not competitive with the surrounding urban area (905 area code).	• 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 (a 15-year plan); 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. Council approved a modest property tax increase for residents and businesses for 2016.	• Council approved a modest property tax increase for residents and businesses in February 2017. • Continue the implementation of the "Enhancing Toronto's Business Climate" initiative. • Due to Provincial legislation to freeze multi-residential tax burdens in 2017 and the Council decision to apply one-half of the residential tax rate increase on commercial properties (instead of one-third), the target date of achieving 2.5 ratio for commercial properties has been revised to 2023 instead of 2020.

Issues / Risks	Actions Taken with Impacts in 2016	Actions planned for 2017 and beyond
The City lacks adequate revenue sources to fund its municipal responsibilities.	• Funding for capital projects from other orders of government has been secured over the years. These include: Share of federal and provincial gas taxes ($300 million per year); Transit Plan ($9 billion); Economic Stimulus Project funding ($460 million 2009 to 2011); and funding for the construction of sports facilities for the 2015 Pan Am/Parapan Am Games ($1 billion). • Municipal Land Transfer Tax (MLTT) continued to attract a record level of revenue in 2016 ($541 million).	• Update the analysis of the City of Toronto Act revenue potential to include the impact of obtaining permission and collecting a municipal sales tax, and a range of best practice municipal funding models from North American cities that utilize diversified revenue models. • Through the Long-Term Financial Plan process, report back to Council on ways to maximize existing and new revenues. • Continue to work with the Provincial and Federal governments to secure long-term permanent funding solutions for such items as social housing and transit. • Continue to budget cautiously for MLTT to avoid negative budget impacts and contribute to any surplus to fund the capital shortfall.
Improper funding of Provincial cost-shared programs and reduced funding for Social Housing has resulted in significant financial pressures to the City.	• The Province continued to honour its cost- sharing formulas for Ontario Works. • The City of Toronto and Toronto Community Housing (TCHC) continued to urge the Federal and Provincial governments to help maintain traditional social housing funding and contribute an equal 1/3 share for Toronto Community Housing's anticipated $2.6 billion in capital repair needs over 10 years. In addition, the City is urging equity on rent subsidies, as private landlords currently receive higher rent subsidies than TCHC. • Social services programs engaging provincial counterparts regarding existing funding formulas to urge removal of funding caps and to provide funding for inflation and other program cost increases.	• Province to continue honouring its planned cost-sharing formulas for Ontario Works and Court Security. • Continue to highlight costs and funding requirements in areas of joint City/Provincial responsibility, such as social housing, long-term care, shelters and child care. • Continue to implement additional mortgage refinancing of Toronto Community Housing mortgages to free up equity for State of Good Repair capital. • Advocate for a fairer and larger allocation of the Federal/Provincial Investment in Affordable Housing funding. • Seek Council approval of a "Made-in-Toronto" child care funding model that will direct Provincial and City of Toronto funding in a more effective and targeted manner.

Issues / Risks	Actions Taken with Impacts in 2016	Actions planned for 2017 and beyond
City's investment in ageing infrastructure has been lagging.	• The City continued to plan for capital on a 10-year basis. • Continued to set aside surplus operating funds in the Capital Financing Reserve and other Capital Replacement Reserve Funds. • 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. • Complete transition to a multi-year, service-based operating budget and plan. • 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 seek funding for transit projects from Provincial and Federal governments. • Continue advocacy campaigns to restore Provincial and Federal funding for social housing and the development of a National Housing Strategy. • Continue development of an updated Long-Term Financial Plan 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.
Employee benefits and other long-term liabilities are not adequately funded.	• The City updated the actuarial reviews of its employee benefit plans. • The City has continued its objective of implementing cost containment changes to benefit plans, including the retiree plans that have helped reduce the post-retirement liabilities. • In 2012 and 2013, changes to the benefit plans, including limits to paramedicals, a dispensing fee cap, one-year lag for dental fee guide, limitation for physiotherapy, limitation for orthopaedic shoes. • In 2013, the post-65 lifetime retiree benefit plan for former Toronto and North York firefighters was eliminated and replaced with a 10-year Health Care Spending Account. • The sick bank payout for new firefighters hired after June 26, 2013 was reduced from 100% of the available sick credits to 50%, to a maximum of six months' salary. • Funding contributions were made to employee benefits reserve funds from the 2011-2015 operating budget surpluses. • Successfully reached collective bargaining agreements with Locals 416 and 79 with modest wage increases over the four-year term.	• Implementation of approved strategies to reduce the funding gap between employee benefits reserve and the liabilities: - First stage: To require City's agencies and corporations to contribute annual funding to the Sick Leave Reserve Fund to match budgeted withdrawals (pay as you go); and - Second stage: To revise the annual benefit charges to Divisions and applicable City agencies and corporations to reflect additional funding requirements for retired employees, employees on long-term disability, workplace safety (pre-amalgamation) and sick leave gratuity payouts. This is scheduled for implementation in advance of the 2017 budget. • Negotiate the merger of some or all of the five legacy pension plans with OMERS, and begin the transfer-approval process.

2016 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.

Toronto, Canada
July 4, 2017

Mike St. Amant
Treasurer

Roberto Rossini
Deputy City Manager & Chief Financial Officer

Peter Wallace
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, 2016 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, 2016 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 4, 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2016
(with comparative figures as at December 31, 2015)
(all dollar amounts in thousands of dollars)

	2016	2015
FINANCIAL ASSETS		
Cash	1,492,647	248,560
Accounts receivable (Note 2)	1,004,275	1,196,625
Property taxes receivable	261,071	240,700
Other assets (Note 3)	213,329	195,835
Investments (Note 4)	4,248,189	5,153,137
Due from Toronto District School Board (Note 12)	4,600	10,974
Investments in government business enterprises (Note 5)	2,069,348	2,025,649
Total financial assets	**9,293,459**	**9,071,480**
LIABILITIES		
Bank indebtedness (Note 6)	65,856	66,301
Accounts payable and accrued liabilities (Note 7)	3,290,252	3,142,659
Deferred revenue (Note 8)	2,416,642	2,239,106
Other liabilities (Note 9)	688,528	706,027
Landfill closure and post-closure liabilities (Note 10)	138,101	141,570
Mortgages payable (Note 11)	363,098	510,834
Net long-term debt (Note 12)	5,072,410	4,745,954
Employee benefit liabilities (Note 13)	3,756,844	3,598,848
Total liabilities	**15,791,731**	**15,151,299**
NET DEBT	**(6,498,272)**	**(6,079,819)**
NON-FINANCIAL ASSETS		
Tangible capital assets, net (Note 14, Schedule 1)	28,583,669	26,964,779
Inventories and prepaid expenses (Note 15)	405,810	358,154
	28,989,479	**27,322,933**
Commitments and contingencies (Note 16)		
ACCUMULATED SURPLUS (Note 17)	**22,491,207**	**21,243,114**

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, 2016
(with comparative figures for the year ended December 31, 2015)
(all dollar amounts in thousands of dollars)

	2016 BUDGET (Note 18)	2016 ACTUAL	2015 ACTUAL
REVENUE			
Property taxation	3,927,000	3,938,802	3,879,877
Municipal land transfer tax	526,528	644,590	524,000
Taxation from other governments	102,830	112,211	86,302
User charges	3,211,865	3,083,725	2,780,791
Funding transfers from other governments (Note 19)	2,984,886	2,738,317	2,862,220
Government business enterprise earnings (Note 5)	-	165,810	294,189
Investment income	197,941	197,231	259,679
Development charges	290,867	184,125	221,192
Rent and concessions	439,271	450,740	451,776
Other	629,203	686,412	737,497
Total revenue	**12,310,391**	**12,201,963**	**12,097,523**
EXPENSES			
General government	895,164	760,339	824,196
Protection to persons and property	1,816,682	1,808,310	1,807,909
Transportation	3,361,487	3,067,408	2,943,786
Environmental services	1,190,346	933,176	940,017
Health services	446,868	449,621	452,389
Social and family services	2,141,477	2,038,215	2,023,910
Social housing	829,429	779,499	775,450
Recreation and cultural services	1,084,888	1,001,753	989,349
Planning and development	135,355	115,549	146,102
Total expenses (Note 20)	**11,901,696**	**10,953,870**	**10,903,108**
ANNUAL SURPLUS	**408,695**	**1,248,093**	**1,194,415**
ACCUMULATED SURPLUS - BEGINNING OF YEAR	**21,243,114**	**21,243,114**	**20,048,699**
ACCUMULATED SURPLUS - END OF YEAR (Note 17)	**21,651,809**	**22,491,207**	**21,243,114**

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, 2016
(with comparative figures for the year ended December 31, 2015)
(all dollar amounts in thousands of dollars)

	2015 BUDGET (Note 18)	2016 ACTUAL	2015 ACTUAL
Annual Surplus	**408,695**	**1,248,093**	**1,194,415**
Acquisition of tangible capital assets	(3,246,988)	(2,587,762)	(2,884,868)
Amortization of tangible capital assets	973,897	973,897	851,194
(Gain) Loss on disposal of tangible capital assets	-	(39,093)	7,023
Proceeds on disposal of tangible capital assets	-	14,947	12,349
Change due to tangible capital assets	**(2,273,091)**	**(1,638,011)**	**(2,014,302)**
Change in inventories and prepaid expenses	**-**	**(28,535)**	**34,759**
(Increase) in net debt	(1,864,396)	(418,453)	(785,128)
NET DEBT – BEGINNING OF YEAR	(6,079,819)	(6,079,819)	(5,294,691)
NET DEBT – END OF YEAR	**(7,944,215)**	**(6,498,272)**	**(6,079,819)**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2016
(with comparative figures for the year ended December 31, 2015)
(all dollar amounts in thousands of dollars)

	2016	2015
OPERATING ACTIVITIES		
Annual surplus	1,248,093	1,194,415
Add (deduct) items not involving cash:		
Government business enterprise income from operations	(165,810)	(294,189)
Provincial loan forgiveness	(93,171)	(77,000)
Amortization of tangible capital assets	973,897	851,194
Loss (gain) on disposal of tangible capital assets	(39,093)	7,023
	1,923,916	1,681,443
Change in non-cash assets and liabilities related to operations:		
Decrease (increase) in accounts receivable	192,350	(143,027)
(Increase) decrease in property taxes receivable	(20,371)	11,667
Increase in accounts payable and accrued liabilities	147,593	355,546
Increase in deferred revenue	177,536	231,690
(Decrease) increase in other liabilities	(17,499)	56,463
(Increase) decrease in inventories and prepaid expenses	(28,535)	34,759
(Decrease) increase in landfill closure and post-closure liabilities	(3,469)	2,254
Increase in employee benefit liabilities	157,996	188,601
Cash provided by operating activities	**2,529,517**	**2,419,396**
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(2,587,762)	(2,884,868)
Proceeds on disposal of tangible capital asset	14,947	12,349
Cash applied to capital activities	**(2,572,815)**	**(2,872,519)**
INVESTING ACTIVITIES		
Decrease (increase) in other assets	(17,494)	73,331
Purchase of investments, net	904,948	(561,483)
Principal repayments due from Toronto District School Board	6,374	6,039
Dividends and distributions from government business enterprises	122,111	173,942
Cash provided by (applied to) investing activities	**1,015,939**	**(308,171)**
FINANCING ACTIVITIES		
Decrease in bank indebtedness	(445)	(10,207)
Principal repayments on mortgages payable	(147,736)	(68,571)
Proceeds from long-term debt issued	754,574	976,995
Principal repayments on long-term debt	(263,720)	(254,997)
Interest earned on sinking funds	(64,853)	(71,517)
Principal repayments on debt by Toronto District School Board	(6,374)	(6,039)
Cash provided by financing activities	**271,446**	**565,664**
Net Increase (decrease) in cash during the year	1,244,087	(195,630)
CASH – BEGINNING OF YEAR	248,560	444,190
CASH – END OF YEAR	**1,492,647**	**248,560**
SUPPLEMENTARY INFORMATION:		
Cash paid for interest on debt	310,804	298,672
Cash received for interest on investments	241,138	257,235

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 *(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 (CPAC).

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.
- 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
- Toronto Atmospheric Fund ("TAF")
- Toronto Board of Health
- Toronto Community Housing Corporation ("TCHC")
- Toronto Licensing Commission
- Toronto Pan Am Sports Centre Inc. ("TPASC") (50% 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:

- 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
- Dufferin Wingold
- 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
- 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
- Weston Village
- West Queen West
- 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 22).

Use of estimates and measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles 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 (e.g. 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. These changes included limiting allowable annual tax increases on these property classes to a fixed percentage of the previous year's 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 2020.

Beginning 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.

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 senior 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 bylaw, 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 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* and comprises 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.

December 31, 2016 (all dollar amounts in thousands of dollars)

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 utilizes 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.

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.

December 31, 2016 (all dollar amounts in thousands of dollars)

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. Other reserve funds and reserves are balances within the accumulated surplus.

2. Accounts Receivable

Accounts receivable consist of the following:

	2016	**2015**
	$	**$**
Government of Canada	161,336	153,554
Government of Ontario	194,477	335,282
Other municipal governments	24,817	32,884
School boards	1,323	2,809
Utility fees	200,896	159,951
Other fees and charges	421,426	512,145
	1,004,275	**1,196,625**

December 31, 2016 (all dollar amounts in thousands of dollars)

3. Other Assets

Other assets consist of the following:

	2016	2015
	$	$
Build Toronto Inc.'s (BTI) loan receivable of $33,404 from Pinewood Toronto Studio Inc. (PTSI) is at an interest rate of 1.86% (2015 – 1.80%) and is reset monthly at the lending Government Agency's average monthly cost of funds. The loan receivable is secured by a leasehold mortgage, shareholder guarantees and a first charge against the assets of the PTSI.	33,404	33,404
Build Toronto Inc's Vendor-take-back mortgage receivable of $17,118 at an interest rate of 4.75% per annum payable in arrears with a maturity date of September 7, 2017 and a promissory note of $3,512 at an interest rate of 5% per annum. The notes secure obligations of the Purchaser to build the shell portion of the building.	20,630	-
Build Toronto Inc's investment property at the Film Studio $13,159 (2015 – $13,159). 20% interest in Toronto Waterfront Studio Inc. of $3,342 (2015 – $2,588) and joint venture agreement with Build Toronto Holdings (Harbour) Inc. $22,424 (2015 – $22,643) to develop a condominium project.	38,925	38,390
Real estate inventory that was valued at a market value of $141,186 consists of capitalized actual costs, including decommissioning cost, development cost and pre-acquisition cost.	17,542	23,634
Provincial affordability housing grants for the development of four 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.	16,572	18,710
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 to finance the pre-development costs of condominium buildings. Additionally, TCHC's wholly owned subsidiaries Railway Lands Development Corporation and Allenbury Garden Development Corporation have entered into equal interest co-tenancy agreement with a developer, for the construction of certain properties.	16,373	17,055
TCHC Mortgages receivable are 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 coupon rate on the Debenture Series A bonds.	11,699	11,744
Infrastructure Ontario (IO) funds of $69 (2015 – $110) and Developers Fund of $3,310 (2015 – $4,380) that were externally restricted for capital expenditures.	3,379	4,490
TCHC loan agreement with Dundas and Parliament Development Corporation to finance the pre-development and construction of the condominium building. As at December 31, 2016 $2,374 had been advanced. In 2016, TCHC sold two lands to Soul Residence Inc. and Connect Residence Inc. in exchange for promissory notes of $4,854 and $4,946 respectively; TCHC also sold land to a developer with a 3% loan receivable of $3,623 with a maturity date of November 14, 2019.	15,797	4,410
Loans receivable from community housing organizations bearing interest at rates from 0% to 5% (2015 – 0% to 5%) per annum, maturing from 2016 to 2074.	36,202	35,315
Other	2,806	8,683
	213,329	**195,835**

December 31, 2016 (all dollar amounts in thousands of dollars)

4. Investments

Investments consist of the following:

	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**

	2015		
	Cost	**Market value**	**Carrying value**
	$	**$**	**$**
Federal government bonds	253,720	269,275	253,720
Provincial government bonds	1,280,243	1,372,773	1,280,243
Municipal government bonds	1,059,989	1,104,903	1,059,989
Money market instruments	1,670,687	1,670,806	1,670,687
Corporate bonds	808,790	822,378	808,790
Other	79,708	89,750	79,708
	5,153,137	**5,329,885**	**5,153,137**

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 $70,357 (2015 – $70,238). The weighted average yield on the cost of the bond investment portfolio during the year was 2.71% (2015 – 3.00%). Maturity dates on investments in the portfolio range from 2017 to 2045 (2015 – 2016 to 2045). Included in the City's municipal government bonds portfolio are City of Toronto debentures at coupon rates varying from 2.95% to 6.80% (2015 – 2.95% to 8.00%) with a carrying value of $251,430 (2015 – $272,930).

December 31, 2016 (all dollar amounts in thousands of dollars)

Other investments are held by the following entities:

	2016		
	Cost	**Market value**	**Carrying value**
	$	**$**	**$**
City investments	405	405	405
BIA	2,870	2,870	2,870
Build Toronto	45,995	45,995	45,995
Pan Am	3,767	3,767	3,767
Toronto Atmospheric Fund	32,363	42,875	32,363
Toronto Waterfront Revitalization Corporation	3,941	3,941	3,941
	89,341	**99,853**	**89,341**

	2015		
	Cost	**Market value**	**Carrying value**
	$	**$**	**$**
City investments	369	369	369
BIA	3,414	3,414	3,414
Build Toronto	56,385	56,385	56,385
Heritage Toronto	100	100	100
Pan Am	1,970	1,970	1,970
Toronto Atmospheric Fund	14,908	24,950	14,908
Toronto Waterfront Revitalization Corporation	2,562	2,562	2,562
	79,708	**89,750**	**79,708**

December 31, 2016 (all dollar amounts in thousands of dollars)

5. 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:

	2016	2015
	$	$
Balance – beginning of year	2,025,649	1,905,402
Income from operations (Appendix 1)	164,290	292,669
Dividends received (Appendix 1)	(63,399)	(56,311)
Distribution to City (Appendix 1)	(58,712)	(117,631)
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)	**2,069,348**	**2,025,649**

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

		2016	2015
		$	$
Toronto Hydro Corporation	Equity	1,397,196	1,367,726
Toronto Parking Authority	Equity	294,819	287,971
Toronto Port Lands Company	Equity	377,333	369,952
		2,069,348	**2,025,649**

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:

	2016	2015
	$	$
Income from Operations	164,290	292,669
Change in net book value of street-lighting assets – Toronto Hydro	1,520	1,520
Government Business Enterprise Earnings	**165,810**	**294,189**

December 31, 2016 (all dollar amounts in thousands of dollars)

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

	2016	2015
	$	$
Purchased by the City:		
Street-lighting, electricity and maintenance services from Toronto Hydro Corporation	275,300	239,300

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

	Due to City	Due to others	Total
	$	$	$
2017	-	250,485	250,485
2018	-	512	512
2019	-	250,539	250,539
2020	-	567	567
2021	-	300,597	300,597
Thereafter	-	1,037,134	1,037,134
	-	**1,839,834**	**1,839,834**

The City's GBEs are committed to the following minimum annual operating lease payments:

	$
2017	3,195
2018	3,595
2019	433
2020	433
2021	433
Thereafter	1,940
	10,029

December 31, 2016 (all dollar amounts in thousands of dollars)

6. Bank indebtedness

The City has an unsecured demand revolving credit facility in the amount of $100,000 (2015 – $100,000) bearing interest at the bank's prime rate with an effective rate during 2016 of 2.70% (2015 – 2.70%) per annum.

TCHC has a committed revolving credit facility of $200,000 (2015 – $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 Canadian prime rate and bankers' acceptances (BAs) at the bank's BA rate plus 1.10%. Short-term advances of $32,000 (2015 – $15,000) have been used and are repayable at maturity on various dates throughout 2017.

TAF has a revolving line of credit to a maximum of $2,000, repayable on demand, with a Canadian chartered bank at the bank's 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, 2016 was $320 (2015 – nil).

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 $58 was utilized at year-end (2015 – nil).

During 2016, Toronto Waterfront Revitalization Corporation secured a revolving credit facility which provides for a maximum borrowing amount of $40,000. The facility bears interest rate at the Canadian prime less 0.25%. The interest rate was 2.45% as at December 31, 2016. The facility is secured by a first lien interest over several of the Corporation's real 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 receivable. At December 31, 2016, the Corporation had not drawn on the facility and the full $40,000 remained available.

Bank indebtedness consists of the following:

	2016	2015
	$	$
City, net outstanding cheques	33,478	51,301
Toronto Housing Corporation	32,000	15,000
Toronto Atmospheric Fund	320	-
519 Church Street Community Centre	58	-
	65,856	**66,301**

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	2016	2015
	$	$
Trade payables and accruals	2,318,089	2,227,074
School boards	452,427	454,349
Provision for assessment appeals on property taxes paid	265,796	253,893
Credit balances on property tax accounts	125,594	94,129
Wage accruals	128,346	113,214
	3,290,252	**3,142,659**

December 31, 2016 (all dollar amounts in thousands of dollars)

8. Deferred Revenue

(a) Obligatory reserve funds

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

Details of these deferred revenues are as follows:

	2016	2015
	$	$
Restricted by Provincial legislation		
Development Charges	685,906	634,749
Recreational Land (*Planning Act*)	603,944	580,654
Building Code Act Service Improvement	65,321	52,433
Provincial Gas Tax	3,582	-
	1,358,753	1,267,836
Restricted by other agreements		
Public Transit Funds	96,232	102,336
Water and Wastewater	536,003	464,852
Community Services	82,898	81,393
Third Party Agreements	12,479	11,115
State of Good Repair	2,516	2,402
Parking Authority	3,362	3,345
	733,490	665,443
Total obligatory reserve funds	**2,092,243**	**1,933,279**

(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:

	2016	2015
	$	$
Community Services	3,170	3,021
Building Code Act	71,798	56,974
Long-Term Care – Public Health and Housing	2,452	1,761
Police	2,038	2,213
Parks	42,327	37,621
Union Station	83,973	79,397
Other	4,469	13,365
City's agencies and corporations	114,172	111,475
Total advance payments and contributions	**324,399**	**305,827**
(c) Total Deferred Revenue (8(a) and 8(b))	**2,416,642**	**2,239,106**

December 31, 2016 (all dollar amounts in thousands of dollars)

	2016		
	(a) Obligatory Reserve Funds	(b) Advance payments and contributions	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)	(4,602,659)	(5,991,966)
Balance – end of year	**2,092,243**	**324,399**	**2,416,642**

	2015		
	(a) Obligatory Reserve Funds	(b) Advance payments and contributions	Total
	$	$	$
Balance – beginning of year	1,633,136	374,280	2,007,416
Receipts during the year	1,769,910	3,179,799	4,949,709
Transferred to revenue	(1,469,767)	(3,248,252)	(4,718,019)
Balance – end of year	**1,933,279**	**305,827**	**2,239,106**

9. Other Liabilities

Other liabilities consist of the following:

	2016	2015
	$	$
Property and liability claims provision (Note 16b)	393,582	387,784
TTC – unsettled accident claims (Note 16b)	192,253	198,023
Build Toronto – environmental liabilities (Note 16g)	17,729	17,642
TTC – environmental liabilities (Note 16g)	5,332	5,703
Contaminated sites liabilities	6,789	6,549
Other	72,843	90,326
	688,528	**706,027**

10. 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 3.7% (2015 – 3.5%). The estimated present value of future expenditures for closure and post-closure care as at December 31, 2016 is $9,556 (2015 – $9,527), based on the percentage of total approved capacity used of 47.15% (2015 – 44.12%).

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, 2016 was $14,586 (2015 – $15,300) and the balance in the Green Lane Perpetual Care account as at December 31, 2016 was $4,227 (2015 – $3,725). Total contributions to the Green Lane Perpetual Care account of $483 (2015 – $498) were based on a contribution rate of 89¢ (2015 – 88¢) per tonne of waste disposed. Both of these reserve fund accounts are included as part of the State of Good Repair Reserve Fund (Note 17).

Inactive Sites

The City has identified 160 (2015 – 160) inactive landfill sites for which it retains responsibility for all costs relating to closure and post-closure care (Note 16h).

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 3.7% (2015 – 3.5%). The estimated present value of future expenditures for post-closure care as at December 31, 2016 was $128,545 (2015 – $132,043).

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, 2016 was $39,373 (2015 – $29,381) and is included as part of the State of Good Repair Reserve Fund (Note 17), and the balance in the Keele Valley Site Post-Closure Trust Fund as at December 31, 2016 was $7,552 (2015 – $7,534) (Note 22).

December 31, 2016 (all dollar amounts in thousands of dollars)

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

	2016	2015
	$	$
Active landfill site (Green Lane)	9,556	9,527
Inactive landfill sites	128,545	132,043
	138,101	**141,570**

Landfill closure and post-closure costs totalling $7,456 (2015 – $5,930) were expensed during the year.

11. Mortgages Payable

Mortgages payable are as follows:

	2016	2015
	$	$
Mortgages issued by TCHC, bearing interest at rates ranging from 2.11% to 12.75% (2015 – 2.11% to 12.75%) per annum, with maturities ranging from 2017 to 2048, and collateralized by housing properties owned by TCHC with a net book value of approximately $1,576,439 (2015 – $1,561,490).	**363,098**	**510,834**

Principal repayments are due as follows:

	$
2017	45,868
2018	25,447
2019	23,928
2020	25,460
2021	27,463
Thereafter	214,932
	363,098

Principal payments made in 2016 were $147,736 (2015 – $68,571).

December 31, 2016 (all dollar amounts in thousands of dollars)

12. 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.

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

	2016	2015
	$	$
Debentures issued by the City, bearing interest at various rates ranging from 2.40% to 8.00% (2015 – 2.45% to 8.00%) per annum, maturing from 2017 to 2044.	5,824,726	5,617,385
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% (2015 to 2048).	445,404	445,290
During 2013, 2014 and 2015, Infrastructure Ontario 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.	482,395	428,612
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 $1,110 (2015 – $2,244) maturing on February 15, 2018.	28,177	30,674
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% (2015 – 1.80%). The loan is secured by the assets and corporate guarantees of Build Toronto Holdings One Inc. 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.	33,407	33,407
Debentures issued by the City on behalf of the TDSB, bearing interest at 6.10% (2015 – 6.10%) per annum, maturing from 2017 to 2037.	75,846	75,846
Loans payable to the Province of $93,171, bearing interest at 2.76% (2015 – 2.76%) were written off by the Province in 2016.	-	93,171
Loan payable, bearing interest at 8.05% (2015 – 8.05%) per annum, maturing in 2018.	336	509
Debt issued by Lakeshore Arena Corporation with interest at 5.23% with principal payable monthly and a lump sum payment due October 31, 2017.	19,259	19,602
Sony Centre loan payable for the purchase of equipment with an interest rate of 0% maturing in 2020, payable at $85 per year.	340	425
City sinking fund deposits bearing interest at rates between 2% and 5% (2015 – 2% to 6%) per annum.	(1,766,234)	(1,934,095)
TDSB sinking fund deposits bearing interest at 5% (2015 – 5%) per annum.	(71,246)	(64,872)
	5,072,410	**4,745,954**

December 31, 2016 (all dollar amounts in thousands of dollars)

Principal repayments are due as follows:

	$
2017	427,302
2018	386,510
2019	318,122
2020	293,888
2021	298,982
Thereafter	3,347,606
	5,072,410

Principal payments made in 2016 were $511,007 (2015 – $409,553).

Included in net long-term debt are outstanding debentures of $5,625,000 (2015 – $5,400,000) for which there are sinking fund assets with a carrying value of $1,926,667 (2015 – $2,132,514) and a market value of $1,854,635 (2015 – $2,121,930).

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 $118,285 (2015 – $132,496) and a market value of $133,662 (2015 – $150,975).

December 31, 2016 (all dollar amounts in thousands of dollars)

13. Employee Benefit Liabilities

Employee benefit liabilities as at December 31 are as follows:

	2016	2015
	$	$
Future payments required for:		
Sick leave benefits (a)(i)	522,742	522,834
WSIB obligations (a)(ii)	601,062	553,983
Other employment and post-employment benefits (a)(iii)	2,473,792	2,421,622
Total employee accrued benefit obligation	3,597,596	3,498,439
Unamortized actuarial gain	159,248	100,409
Employee benefit liabilities	**3,756,844**	**3,598,848**

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

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

December 31, 2016 (all dollar amounts in thousands of dollars)

	2015			
	Total	**Employment and post-employment**	**TTC Pension Plan**	**City Pension Plans**
	$	**$**	**$**	**$**
Balance – beginning of year	3,410,247	3,410,247	-	-
Current service cost	359,715	286,305	73,410	-
Interest cost (revenue)	72,452	105,594	(22,111)	(11,031)
Amortization of actuarial loss (gain)	2,557	20,523	(15,914)	(2,052)
Employer contributions	(333,369)	(224,973)	(108,396)	-
Plan amendments	48,705	1,152	47,553	-
Change in valuation allowance	38,541	-	25,458	13,083
Balance – end of year	**3,598,848**	**3,598,848**	**-**	**-**

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

	2016			
	Total	**Employment and post-employment**	**TTC Pension Plan**	**City Pension Plans**
	$	**$**	**$**	**$**
Balance – beginning of year	7,484,240	3,498,439	2,512,295	1,473,506
Current service cost	355,232	271,155	84,077	-
Interest cost	322,383	108,070	141,490	72,823
Amortization of actuarial (gain) loss	(59,396)	(62,218)	11,297	(8,475)
Benefits paid	(512,506)	(236,942)	(129,486)	(146,078)
Plan amendments	60,007	19,091	40,916	-
Balance – end of year	**7,649,960**	**3,597,595**	**2,660,589**	**1,391,776**

	2015			
	Total	**Employment and post-employment**	**TTC Pension Plan**	**City Pension Plans**
	$	**$**	**$**	**$**
Balance – beginning of year	7,379,980	3,538,149	2,297,967	1,543,864
Current service cost	359,715	286,305	73,410	-
Interest cost	322,002	105,594	135,651	80,757
Amortization of actuarial (gain) loss	(130,487)	(207,788)	77,267	34
Benefits paid	(495,675)	(224,973)	(119,553)	(151,149)
Plan amendments	48,705	1,152	47,553	-
Balance – end of year	**7,484,240**	**3,498,439**	**2,512,295**	**1,473,506**

December 31, 2016 (all dollar amounts in thousands of dollars)

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

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

	2015			
	Total	**Employment and post-employment**	**TTC Pension Plan**	**City Pension Plans**
	$	**$**	**$**	**$**
Balance – beginning of year	4,493,695	-	2,749,268	1,744,427
Contributions	333,369	224,973	108,396	-
Actual return on assets	260,720	-	166,846	93,874
Benefits paid	(495,675)	(224,973)	(119,553)	(151,149)
Balance – end of year	**4,592,109**	**-**	**2,904,957**	**1,687,152**

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

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

December 31, 2016 (all dollar amounts in thousands of dollars)

	2015			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	$	$	$	$
Accrued benefit obligation	7,484,240	3,498,439	2,512,295	1,473,506
Plan assets	4,592,109	-	2,904,957	1,687,152
Funding deficit (surplus)	2,892,131	3,498,439	(392,662)	(213,646)
Unamortized actuarial gain	100,409	100,409	-	-
Valuation allowance	606,308	-	392,662	213,646
Employee benefit liability	**3,598,848**	**3,598,848**	**-**	**-**

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

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

	2015			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	$	$	$	$
Current service cost	359,715	286,305	73,410	-
Interest cost (revenue)	72,452	105,594	(22,111)	(11,031)
Amortization of actuarial loss (gain)	2,557	20,523	(15,914)	(2,052)
Plan amendments	48,705	1,152	47,553	-
Change in valuation allowance	38,541	-	25,458	13,083
Total expense	**521,970**	**413,574**	**108,396**	**-**

December 31, 2016 (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 Services and the City's Agencies and Corporations as at December 31, 2016. 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:

	2016	**2015**
Discount rate for accrued benefit obligation:		
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%

	2016	**2015**
Discount rate for benefit costs:		
Post-employment	2.5%	2.8%
Post-retirement	3.4%	3.4%
Sick leave	2.9%	3.2%
WSIB	2.9%	2.8%
Rate of compensation increase	1.18% to 3.5%	1.18% to 4.5%
Health care inflation – LTD, hospital and other medical	3.0% to 7.0%	4.5% 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 2016 benefit costs and year-end 2016 benefit obligations, the health care inflation rate for Long-Term Disability (LTD), hospital, other medical and drugs is assumed to reduce to 4.0% by 2020. The health care inflation rate for dental care is assumed to reduce to 3.0% by 2016.

(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, 2016, the balance in the Sick Leave Reserve Fund is $41,040 (2015 – $39,962) and is included in the Employee Benefits Reserve Fund grouping (Note 17). Payments during the year amounted to $47,651 (2015 – $51,850).

(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, 2016, the balance in the Workers' Compensation Reserve Fund is $12,496 (2015 – $13,098) and is included as part of the Employee Benefits Reserve Fund (Note 17). Payments during the year by the City to the WSIB amounted to $46,481 (2015 – $34,060).

(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, 2016, the balance in the Employee Benefits Reserve Fund was $203,730 (2015 – $186,146) and is included as part of the Employee Benefits Reserve Fund (Note 17). Payments during the year amounted to $59,241 (2015 – $55,757).

(b) Pension benefits

(i) OMERS Pension Plan

The City makes contributions to the Ontario Municipal Employees' Retirement System plan (OMERS), 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 deficit of $2,341 (2015 – $5,259) 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 $194,049 (2015 – $191,401) and were matched by employee contributions in a similar amount.

The amount contributed for past service to OMERS for the year ended December 31, 2016 was $696 (2015 – $898). 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, 2016. 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, 2016 is comprised solely of unamortized actuarial losses.

December 31, 2016 (all dollar amounts in thousands of dollars)

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

	2016	**2015**
Discount rate	5.50%	5.75%
Expected rate of return on plan assets	5.50%	5.75%
Rate of increase in salaries	3.25%	3.25%
Inflation rate	2.00%	2.00%
Assumptions for disclosure:		
Discount rate	5.50%	5.50%
Expected rate of return on plan assets	5.50%	5.50%
Rate of increase in salaries	3.25%	3.25%
Inflation rate	2.00%	2.00%

(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 bylaws. As at December 31, 2016, there was 1 (2015 – 1) active member with an age of 71 (2015 – 70). There were also 3,188 (2015 – 3,407) pensioners with an average age of 80.3 (2015 – 80) and 2,449 (2015 – 2,503) spousal beneficiaries in receipt of a pension, with an average age of 82.5 (2015 – 82.3). Pension payments and refunds during the year were approximately $146,078 (2015 – $151,149).

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, 2016. The accrued benefit obligation as at December 31, 2016 is based on actuarial valuations for accounting purposes as at December 31, 2016. The actuarial gains or losses in each of the five plans are accounted for in 2016. 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, 2016, employer special payment of $20,933 was covered by an irrevocable Letter of Credit (2015 – $14,703) that had been mandated to fund solvency-deficiency position. As a result of the 2016 actuarial valuation, this letter of credit is being 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 2.30% per annum (2015 – 2.50%) and the rate of compensation increase is estimated at 3.50% per annum (2015 – 3.50%) for determining the accrued benefit obligation. The discount rate used to determine the December 31, 2016 accrued benefit obligation is 5.10% (2015 – 5.20%) and the discount rate used to determine the fiscal year 2016 benefit cost is 5.20% (2015 – 5.50%).

December 31, 2016 (all dollar amounts in thousands of dollars)

Pension plan assets are valued at market values. The expected rate of return on plan assets is 5.10% (2015 – 5.20%) per annum, net of all administrative expenses. The actual return on the market value of plan assets during the year was a gain of 6.81% (2015 – 5.63%). The pension plans hold the following mix of assets: Cash and equivalents 4.1%, bonds and fixed income 52.1%, Canadian equities 17.1% and foreign equities 26.7%.

As at December 31, 2016, all plans (2015 – 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 the Metropolitan Toronto Police Pension Plan, are in a surplus position (shaded in the table below). Since there is uncertainty about the City's right to this accrued benefit asset, these amounts have not been reflected in the Consolidated Statement of Financial Position historically.

Merger discussions are underway during 2017 between the City, the pension funds and OMERS. 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). It is likely that some or all of these funds will be merged into OMERS and there will be a sharing of surpluses; however, as the basis for determining the valuations, and the extent of sharing of surpluses, is uncertain at this time, no estimate of the City's portion of surpluses has been recorded in these financial statements. An estimate will be available once an agreement with OMERS has been reached, the pension funds and the City have approved the agreement and the regulatory process is underway.

	2016	**2016**	**2016**	**2015**
	Pension assets – market value – end of year	**Actuarial pension obligation – end of year**	**Net actuarial surplus**	**Net actuarial surplus**
	$	**$**	**$**	**$**
Toronto Civic Employee Pension Plan	331,935	233,153	98,782	86,559
Metropolitan Toronto Pension Plan	507,088	435,787	71,301	63,620
Toronto Firefighters Pension Plan	227,104	201,461	25,643	20,882
City of York Employee Pension Plan	41,730	39,234	2,496	1,569
Metropolitan Toronto Police Pension Plan	543,102	482,141	60,961	41,016

December 31, 2016 (all dollar amounts in thousands of dollars)

14. Tangible capital assets

Tangible capital assets consist of the following:

	2016			2015
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
General				
Land	3,615,218	-	3,615,218	3,603,549
Land improvements	971,802	410,644	561,158	528,212
Buildings and building improvements	8,657,493	3,250,567	5,406,926	4,949,235
Machinery and equipment	2,292,385	1,330,247	962,138	809,848
Motor vehicles	2,379,829	1,514,228	865,601	811,765
Total General	**17,916,727**	**6,505,686**	**11,411,041**	**10,702,609**
Infrastructure				
Land	140,046	-	140,046	139,146
Buildings and building improvements	706,437	165,187	541,250	453,872
Machinery and equipment	2,269,289	1,070,776	1,198,513	730,001
Water and wastewater linear	6,251,376	2,210,903	4,040,473	3,723,088
Roads linear	4,398,771	2,118,233	2,280,538	2,264,984
Transit	7,221,966	3,828,915	3,393,051	3,148,514
Total Infrastructure	**20,987,885**	**9,394,014**	**11,593,871**	**10,459,605**
Assets under construction	**5,578,757**	**-**	**5,578,757**	**5,802,565**
Total	**44,483,369**	**15,899,700**	**28,583,669**	**26,964,779**

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 $7,040 (2015 – $8,320).

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 $3,047 (2015 – $9,872) for land, $15,579 (2015 – $4,077) for land improvements, $10,104 (2015 – $0) for buildings and building improvements, $1,291 (2015 – $267) for machinery and equipment and $8,500 (2015 – $0) 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 that 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. No tangible capital assets were written down during the year.

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

December 31, 2016 (all dollar amounts in thousands of dollars)

15. Inventories and Prepaid Expenses

	2016	2015
	$	$
Prepaid Expenses	135,448	105,128
Inventories	157,053	158,838
Inventories of Surplus Property	113,309	94,188
	405,810	**358,154**

16. 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 9) on the Consolidated Statement of Financial Position in the aggregate amount of $585,835 (2015 – $585,807).

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 Extension (TYSSE) project 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 six-car train sets into six four-car train sets to support the conversion to ATC-equipped train sets. This brought the total delivery requirements to 82 train sets, with the total contract value of $1,507,200. At December 31, 2016, 80 train sets had been delivered at a cost of $1,413,300. The outstanding commitment as at December 31, 2016 is $93,900.

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, 2016, the total contract cost was $1,011,300. As at December 31, 2016, 31 LRVs had been delivered and TTC had incurred costs of $573,000. The balance of the deliveries will continue in 2017 with all 204 cars scheduled for delivery by 2019. As at December 31, 2016, the outstanding commitment is $438,300

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, bringing the total delivery requirement to 748 buses for a total contract cost of $497,500. At December 31, 2016, 366 buses had been delivered at a cost of $269,900. As at December 31, 2016, the outstanding commitment is $227,600.

December 31, 2016 (all dollar amounts in thousands of dollars)

f) As at December 31, 2016, the TTC has other various capital project contractual commitments of $593,900 (2015 – $555,300). Of this amount, $130,500 (2015 – $176,500) relate to multi-component shared projects for Toronto Waterfront, Toronto York Spadina Subway Extension (TYSSE) project and TTC; contractual commitments of $119,800 (2015 - $239,000) relate to the TYSSE project and $343,600 (2015 – $139,800) relate to various TTC construction projects.

g) The TTC and Build Toronto have provisions for environmental costs of $5,332 (2015 – $5,703); and $17,729 (2015 – $17,642) 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 9) on the Consolidated Statement of Financial Position.

h) The Ministry of the Environment has issued Certificates of Approval for 30 (2015 – 29) of the identified 160 (2015 – 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 10).

i) 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, 2016, the City had provided capital loan guarantees to certain third parties amounting to $38,066 (2015 – $40,318), and operating loan and line of credit guarantees of $5,905 (2015 – $3,905), primarily related to several cultural non-profit organizations, and direct City loans amounting to $70,100 (2015 – $80,331), primarily to City agencies.

j) At December 31, 2016, the City is committed to future minimum annual operating lease payments for premises and equipment as follows:

	$
2017	64,221
2018	41,876
2019	33,848
2020	27,765
2021	16,016
Thereafter	84,907
	268,633

December 31, 2016 (all dollar amounts in thousands of dollars)

17. Accumulated Surplus

Accumulated surplus is comprised of the following:

	2016	2015
	$	$
Invested in tangible capital assets (Note 14)	28,583,669	26,964,779
Operating fund	2,455,147	2,768,155
Capital fund	(798,940)	(929,783)
Reserves and reserve funds	1,982,887	1,826,231
	32,222,763	**30,629,382**
Amounts expected to be recovered from future revenues*:		
Mortgages (Note 11)	(363,098)	(510,834)
Net long-term debt (Note 12)	(5,072,410)	(4,745,954)
Recoverable from TDSB (Note 12)	4,600	10,974
Landfill closure and post-closure liabilities (Note 10)	(138,101)	(141,570)
Employee benefits (Note 13)	(3,756,844)	(3,598,848)
Contaminated sites (Note 9)	(6,789)	(6,549)
Property and liability claims provision (Note 9)	(393,582)	(387,784)
TTC – environmental liabilities (Note 9)	(5,332)	(5,703)
	(9,731,556)	(9,386,268)
	22,491,207	**21,243,114**

*Amounts expected to be recovered from future revenues are gross of any reserves or reserve funds set aside for these purposes of $261,916 (2015 – $234,552).

December 31, 2016 (all dollar amounts in thousands of dollars)

Reserves and reserve funds consist of the following:

	2016	2015
	$	**$**
Reserves:		
Corporate	535,705	520,809
Stabilization	185,667	209,299
Water and Wastewater	168,155	77,861
Donations	1,462	1,186
	890,989	**809,155**
Reserve Funds:		
Employee Benefits (Note 13)	257,266	239,206
Corporate	446,777	451,809
Community Initiatives	106,331	102,815
State of Good Repair	281,524	223,246
	1,091,898	1,017,076
Total Reserves and Reserve Funds	**1,982,887**	**1,826,231**

December 31, 2016 (all dollar amounts in thousands of dollars)

18. Budget Data

Budget data presented in these consolidated financial statements is based upon the 2016 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	10,216,264
Capital	3,361,148
Reserve	41,846
	13,619,258
Adjustments:	
Proceeds on debt issue	(1,308,867)
Total revenue	**12,310,391**
Expenses	
Approved budgets:	
Operating	10,174,385
Capital	4,240,368
	14,414,753
Adjustments:	
Tangible Capital Assets	(3,246,988)
Amortization	973,897
Debt principal repayments	(239,966)
Total expenses	**11,901,696**
Annual surplus	**408,695**

December 31, 2016 (all dollar amounts in thousands of dollars)

19. Funding Transfers from Other Governments

	2016	2015
By Function	**$**	**$**
General government	113,841	107,343
Protection to persons and property	50,206	49,540
Transportation	545,218	630,875
Environmental services	25,448	29,126
Health services	295,630	296,548
Social and family services	1,547,748	1,531,999
Social housing	131,079	178,171
Recreation and cultural services	25,025	20,364
Planning and development	4,122	18,254
	2,738,317	**2,862,220**

	2016	2015
By Source	**$**	**$**
Operating Transfers		
Federal	153,160	160,786
Provincial	1,997,983	2,032,351
Other	26,969	30,004
	2,178,112	2,223,141
Capital Transfers		
Federal	269,331	279,674
Provincial	247,995	304,474
Other	42,879	54,931
	560,205	639,079
Total	**2,738,317**	**2,862,220**

December 31, 2016 (all dollar amounts in thousands of dollars)

20. Expenses by Object

Expenses by object comprise the following:

	2016	2015
	$	$
Salaries, wages and benefits	5,618,259	5,565,309
Materials	983,862	1,015,054
Contracted services	1,596,096	1,674,201
Interest on long-term debt	320,250	314,827
Transfer payments	1,202,720	1,268,651
Amortization (Schedule 1)	973,897	851,194
Other	258,786	213,872
	10,953,870	**10,903,108**

21. Segmented Information

The City provides a wide range of services to its residents. Certain services are delivered on behalf of another order 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 bylaw 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, 2016 (all dollar amounts in thousands of dollars)

22. Trust Funds

Trust funds administered by the City amounting to $24,374 (2015 – $24,180) 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:

	2016	**2015**
	$	**$**
Keele Valley Site Post-Closure Trust Fund (Note 10)	7,552	7,534
Homes for the Aged Trust Fund – Residents	6,279	6,208
Community Centre Development Levy Trust Fund – Railway Lands	4,941	4,891
Waterpark Place Trust Fund	1,105	1,095
Contract Aftercare Trust Fund	1,102	1,095
Community Services Levies Trust Fund	767	759
Regent Park Legacy Trust	713	300
Music Garden Trust Fund	615	615
Development Charges Trust Fund – Queen's Quay	340	337
Lakeshore Pedestrian Bridge Trust Fund	254	252
Public Art Maintenance Trust Funds	221	412
Children's Greenhouse Trust Fund – Allan Gardens	116	115
Green Lane Small Claims Trust Fund	111	110
Preservation Trust Fund	54	53
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
Toronto Police Trust Funds	3	2
Candidates' Municipal Election Surpluses Trust Fund	-	178
Ontario Home Renewal Project	-	22
Other trust funds	64	65
	24,374	**24,180**

23. Comparative Amounts

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

24. Subsequent Events

On February 10, 2017, TCHC finalized the following financing transaction with Infrastructure Ontario (IO):

$310,000 of non-revolving loans on 32 refinanced properties for a term of 30 years from the time of receiving each of the three advances in 2017 at a fixed interest rate. On February 16, 2017, TCHC received loan proceeds of $100,000 at a fixed interest rate of 3.66%, of which $93,910 was used to pay out the maturing mortgages of 10 refinanced properties and $6,090 was restricted for investment in future capital assets. TCHC received the remainder of the loan proceeds of $210,000 in an account held in trust by IO on behalf of TCHC on June 9, 2017. These funds are to be restricted for investment in future capital assets.

In May 2017, Toronto City Council authorized the City of Toronto's purchase of 200 shares of Toronto Hydro Corporation for an aggregate subscription price of $250,000 and the purchase was completed by June 30, 2017.

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**

Consolidated Schedule of Tangible Capital Assets – SCHEDULE 1

As at and for the year ended December 31, 2015
(all dollar amounts in thousands of dollars)

2015

	Cost 2015					Accumulated Amortization 2015				
	Beginning	Additions	Disposals / Transfers	Donated	Ending	Beginning	Amortization	Disposals	Ending	**Net Book Value 2015**
General										
Land	3,561,516	38,386	(6,225)	9,872	3,603,549	-	-	-	-	3,603,549
Land improvements	682,597	228,332	(2,826)	4,077	912,180	363,434	23,363	(2,829)	383,968	528,212
Buildings and building improvements	7,241,321	706,585	(1,523)	-	7,946,383	2,766,822	231,099	(773)	2,997,148	4,949,235
Machinery and equipment	1,937,890	187,521	(72,575)	267	2,053,103	1,194,179	121,297	(72,221)	1,243,255	809,848
Vehicles	2,179,234	153,658	(74,291)	-	2,258,601	1,416,785	103,365	(73,314)	1,446,836	811,765
Total General	**15,602,558**	**1,314,482**	**(157,440)**	**14,216**	**16,773,816**	**5,741,220**	**479,124**	**(149,137)**	**6,071,207**	**10,702,609**
Infrastructure										
Land	137,910	1,236	-	-	139,146	-	-	-	-	139,146
Buildings and building improvements	594,881	13,116	-	-	607,997	145,463	8,662	-	154,125	453,872
Machinery and equipment	1,727,640	15,293	-	-	1,742,933	966,622	46,310	-	1,012,932	730,001
Water and wastewater linear	5,536,813	332,791	(9,368)	-	5,860,236	2,070,630	71,737	(5,219)	2,137,148	3,723,088
Roads linear	4,155,446	213,445	(44,538)	-	4,324,353	2,007,156	91,299	(39,086)	2,059,369	2,264,984
Transit	6,190,149	607,974	(7,593)	-	6,790,530	3,495,548	154,062	(7,594)	3,642,016	3,148,514
Total infrastructure	**18,342,839**	**1,183,855**	**(61,499)**	**-**	**19,465,195**	**8,685,419**	**372,070**	**(51,899)**	**9,005,590**	**10,459,605**
Assets under construction	**5,451,183**	**820,186**	**(468,804)**	**-**	**5,802,565**	**-**	**-**	**-**	**-**	**5,802,565**
TOTAL	**39,396,580**	**3,318,523**	**(687,743)**	**14,216**	**42,041,576**	**14,426,639**	**851,194**	**(201,036)**	**15,076,797**	**26,964,779**

Schedule of Government Business Enterprises – APPENDIX 1

As at and for the year ended December 31, 2016
(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**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Financial Position								
Assets								
Current	573,500	541,700	88,414	161,337	32,357	27,020	694,271	730,057
Capital	4,125,000	3,788,000	160,730	144,092	359,060	359,067	4,644,790	4,291,159
Other	244,503	405,853	78,957	79,986	-	-	323,460	485,839
	4,943,003	**4,735,553**	**328,101**	**385,415**	**391,417**	**386,087**	**5,662,521**	**5,507,055**
Liabilities								
Current	1,083,200	875,900	28,733	92,409	6,116	8,004	1,118,049	976,313
Long-term	2,442,300	2,470,100	4,549	5,035	7,968	8,131	2,454,817	2,483,266
	3,525,500	**3,346,000**	**33,282**	**97,444**	**14,084**	**16,135**	**3,572,866**	**3,459,579**
Net equity	**1,417,503**	**1,389,553**	**294,819**	**287,971**	**377,333**	**369,952**	**2,089,655**	**2,047,476**
City's share (Note 5)	**1,397,196**	**1,367,726**	**294,819**	**287,971**	**377,333**	**369,952**	**2,069,348**	**2,025,649**
Results of Operations								
Revenues	3,938,850	3,596,000	145,798	244,280	20,336	7,444	4,104,984	3,847,724
Expenses	3,847,501	3,469,300	87,129	80,296	6,064	5,459	3,940,694	3,555,055
Net income (loss)	**91,349**	**126,700**	**58,669**	**163,984**	**14,272**	**1,985**	**164,290**	**292,669**
City's share (Note 5)	**91,349**	**126,700**	**58,669**	**163,984**	**14,272**	**1,985**	**164,290**	**292,669**
Distribution to City (Note 5)	-	-	51,821	117,457	6,891	174	58,712	117,631
Dividends paid to City (Note 5)	63,399	56,311	-	-	-	-	63,399	56,311
Net book value of assets sold from the City to Toronto Hydro Corporation (Note 5)	20,308	21,828	-	-	-	-	20,308	21,828

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	160,420	33,370	3,083,725
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	215,051	62,022	1,518,508
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	13,664	983,862
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	(2,481)	81,558	32,564	989,971	154,890	72,575	(3,349)	1,202,720
Other	63,856	13,119	46,963	29,120	2,422	18,061	18,984	37,564	28,697	258,786
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 21 – Segmented Information.

Consolidated Schedule of Segment Disclosure – Service – 2015 – APPENDIX 2*

for the year ended December 31, 2015
(all dollar amounts in thousands of dollars)

2015

	General Government	Protection	Transportation	Environmental	Health	Social and Family	Social Housing	Recreation and Cultural	Planning and Development	Consolidated
Taxation	4,490,179	-	-	-	-	-	-	-	-	4,490,179
User charges	49,634	189,934	1,253,766	1,033,819	2,372	55,627	16,773	148,578	30,288	2,780,791
Government transfers	107,343	49,540	630,875	29,126	296,548	1,531,999	178,171	20,364	18,254	2,862,220
Net GBE income	294,189	-	-	-	-	-	-	-	-	294,189
Other	419,998	78,807	381,620	73,342	4,343	19,927	369,089	187,171	135,847	1,670,144
TOTAL REVENUES	**5,361,343**	**318,281**	**2,266,261**	**1,136,287**	**303,263**	**1,607,553**	**564,033**	**356,113**	**184,389**	**12,097,523**
Salaries, wages and benefits	465,693	1,640,762	1,545,036	261,137	362,006	563,676	135,503	546,316	45,180	5,565,309
Materials	190,929	31,297	375,350	99,980	17,438	35,866	138,302	110,282	15,610	1,015,054
Contracted services	193,720	19,903	436,114	308,360	45,121	380,273	113,889	150,014	26,807	1,674,201
Interest on long-term debt	5,838	9,932	185,793	13,089	856	2,553	71,734	17,428	7,604	314,827
Transfer payments	(170,234)	55,363	(10,581)	87,109	23,488	1,023,470	159,565	82,496	17,975	1,268,651
Other	65,310	17,761	12,859	30,959	2,349	17,429	13,913	24,105	29,187	213,872
Amortization	72,940	32,891	399,215	139,383	1,131	643	142,544	58,708	3,739	851,194
TOTAL EXPENSES	**824,196**	**1,807,909**	**2,943,786**	**940,017**	**452,389**	**2,023,910**	**775,450**	**989,349**	**146,102**	**10,903,108**
ANNUAL SURPLUS/ (DEFICIENCY)	**4,537,147**	**(1,489,628)**	**(677,525)**	**196,270**	**(149,126)**	**(416,357)**	**(211,417)**	**(633,236)**	**38,287**	**1,194,415**

**Definition of Segments by Service provided in Note 21 – Segmented Information.*

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	77,367	3,083,725
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	136,265	1,518,508
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	73,979	983,862
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	(597,594)	(184,813)	(247,724)	(16,906)	1,202,720
Other	174,153	4,601	10,264	2,697	18,984	48,087	258,786
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 – Entity – APPENDIX 3

for the year ended December 31, 2015
(all dollar amounts in thousands of dollars)

2015

	City	Police Services	Toronto Transit Commission	Toronto Public Library	Toronto Community Housing Corporation	Other Agencies and Corporations	TOTAL
Taxation	4,490,179	-	-	-	-	-	4,490,179
User charges	1,532,968	32,319	1,126,401	4,509	16,773	67,821	2,780,791
Government transfers	2,153,833	48,901	630,731	6,127	-	22,628	2,862,220
Net GBE income	294,189	-	-	-	-	-	294,189
Other	932,504	54,585	179,094	8,252	367,256	128,453	1,670,144
TOTAL REVENUES	**9,403,673**	**135,805**	**1,936,226**	**18,888**	**384,029**	**218,902**	**12,097,523**
Salaries, wages and benefits	2,715,444	1,111,776	1,370,081	143,287	135,504	89,217	5,565,309
Materials	547,486	12,600	244,503	9,423	138,302	62,740	1,015,054
Contracted services	1,275,112	12,597	219,154	17,162	113,889	36,287	1,674,201
Interest on long-term debt **	231,724	9,152	-	-	71,629	2,322	314,827
Transfer payments	2,412,355	10,767	(749,790)	(174,937)	(246,857)	17,113	1,268,651
Other	152,749	11,061	5,568	2,532	13,913	28,049	213,872
Amortization	338,063	27,522	301,565	31,477	142,544	10,023	851,194
TOTAL EXPENSES	**7,672,933**	**1,195,475**	**1,391,081**	**28,944**	**368,924**	**245,751**	**10,903,108**
ANNUAL SURPLUS/ (DEFICIENCY)	**1,730,740**	**(1,059,670)**	**545,145**	**(10,056)**	**15,105**	**(26,849)**	**1,194,415**

*** As at December 31, the City has issued $3,265,325 in debentures for capital expenditures made on behalf of the TTC (2014 – $2,859,529). Included in interest on long-term debt is $133,893 related to this debt.*

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

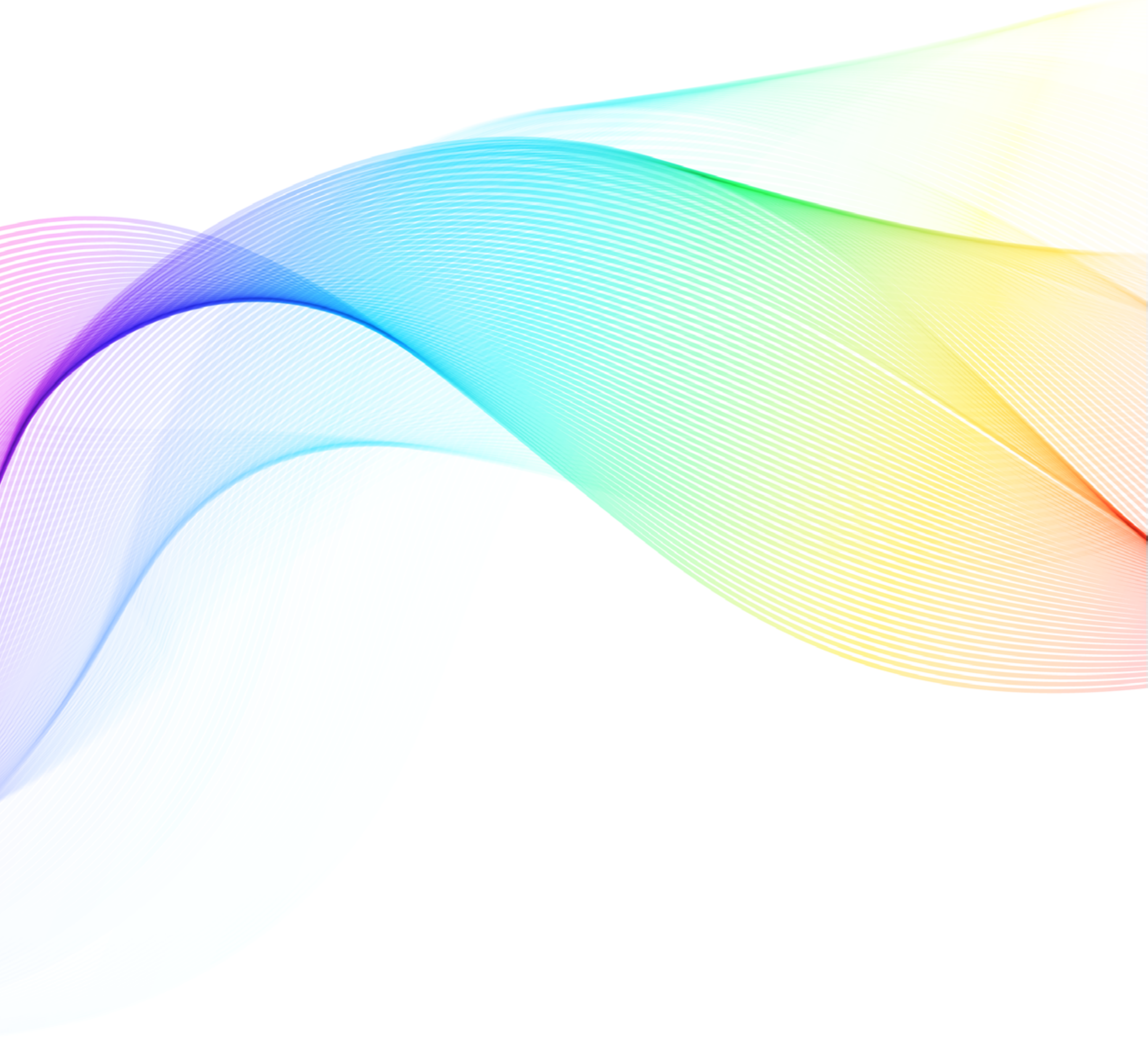
for the years ended December 31, 2016 and 2015
(all dollar amounts in thousands of dollars)

2016 and 2015

	City, including Police Services	Toronto Transit Commission	Toronto Community Housing Corporation	Toronto Public Library	Other Agencies and Corporations	TOTAL
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**
2015						
General						
Cost	7,433,051	4,725,727	3,961,110	454,943	198,985	16,773,816
Accumulated amortization	2,011,923	2,348,895	1,468,819	166,462	75,108	6,071,207
Net Book Value	**5,421,128**	**2,376,832**	**2,492,291**	**288,481**	**123,877**	**10,702,609**
Infrastructure						
Cost	12,674,665	6,790,530	-	-	-	19,465,195
Accumulated amortization	5,363,574	3,642,016	-	-	-	9,005,590
Net Book Value	**7,311,091**	**3,148,514**	**-**	**-**	**-**	**10,459,605**
Assets under construction	**1,873,212**	**3,713,551**	**109,420**	**4,484**	**101,898**	**5,802,565**
Total	**14,605,431**	**9,238,897**	**2,601,711**	**292,965**	**225,775**	**26,964,779**

2016 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: 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 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): Chartered Professional Accountant. 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 bylaws 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 that 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): DBRS is a credit rating agency.

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. The Public Sector Accounting Board 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): Generally accepted auditing standards, as established by the 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 (e.g. roads, bridges, water and wastewater systems, large information technology systems), buildings (e.g. hospitals, schools, courts) and machinery and equipment (e.g. 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: 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: 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): MPAC is a non-profit organization that 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 that 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 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 (i) the historical cost of the asset less the residual value by (ii) the number of years the asset is expected to be used.

Subordinated Debt: Debt that 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: 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: Toronto Community Housing Corporation.

TDSB: 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: Toronto Port Lands Company; 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: Toronto Transit Commission.

TWRC: 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.

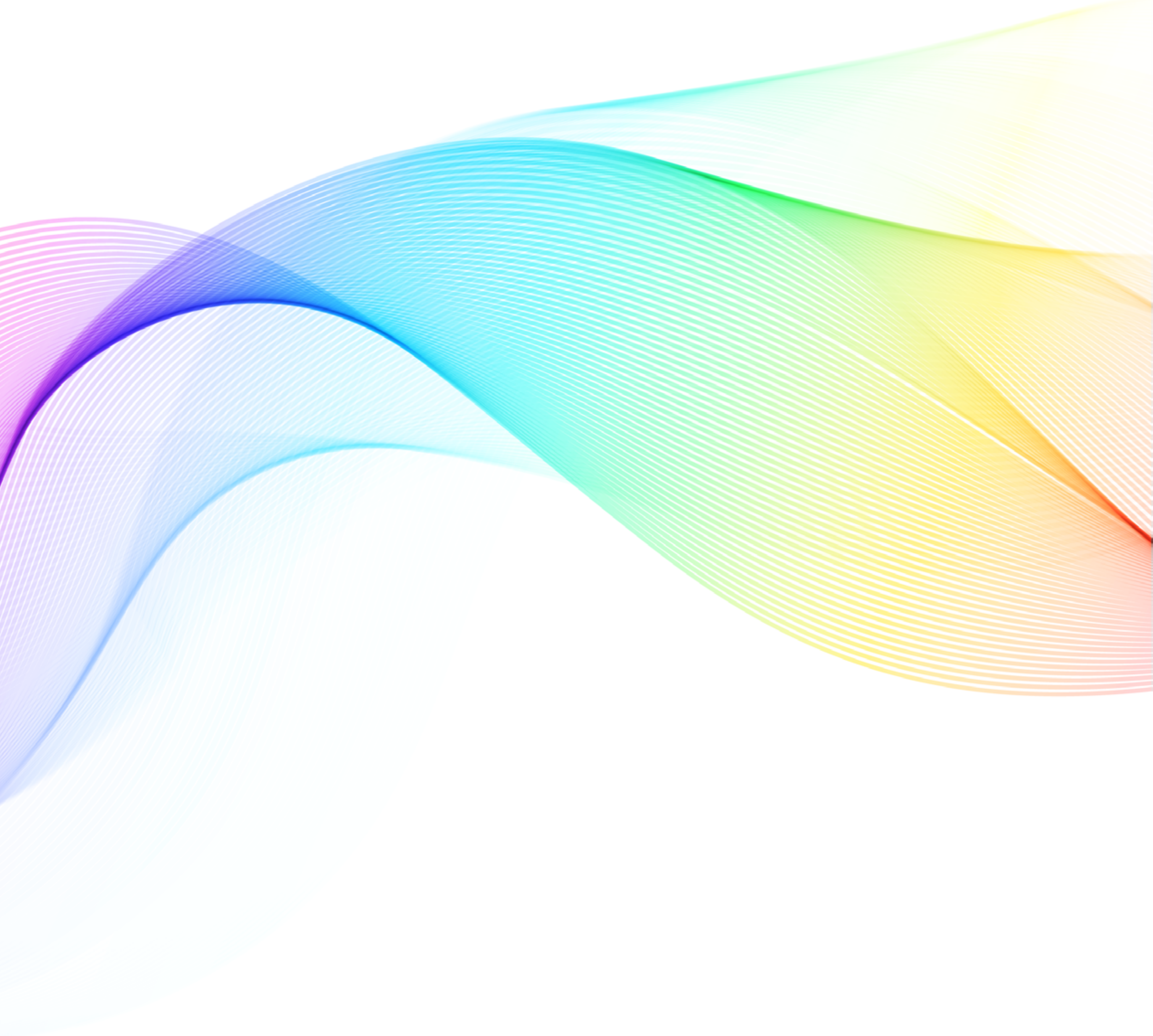
Unrealized Gain or Loss: An increase or decrease in the fair value of an asset accruing to the holder. Once the asset is disposed of or written off, the gain or loss is realized.

WSIA: Workplace Safety and Insurance Act.

WSIB: Workplace Safety and Insurance Board.

2016 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)

	2016	2015	2014	2013	2012
Population (Note 1)	2,876,095	2,826,498	2,808,503	2,771,770	2,741,775
Households (Note 1)	1,171,813	1,132,602	1,125,391	1,110,672	1,098,653
Areas in square kilometres	634	634	634	634	634
Full-time employees	46,609	45,876	44,807	44,506	43,970
Housing Starts	19,617	18,913	11,671	15,618	25,416
Building Permit Values	$10,297,233	$7,134,638	$8,791,779	$8,784,032	$7,286,017
TAXATION ASSESSMENT UPON WHICH TAX RATES WERE SET (Note 2)					
Residential, Multi-residential, New Multi-residential, Farmlands, and Managed Forest	$501,474,086	$410,372,169	$383,083,723	$358,492,808	$336,408,271
Commercial, Industrial and Pipeline	$292,952,996	$99,830,933	$95,292,597	$90,686,368	$86,027,525
TOTAL	**$794,427,082**	**$510,203,102**	**$478,376,320**	**$449,179,176**	**$422,435,796**
Total per capita	$276,217	$180,507	$170,331	$162,055	$154,074
TAX RATES (URBAN AREA) (Note 2)					
Residential, New Multi-Residential, Farmlands and Managed Forest (expressed in %) Note – Full Rate Only					
City purposes	0.4999731%	0.5106037%	0.5200085%	0.5337653%	0.5501981%
School board purposes	0.1880000%	0.1950000%	0.2030000%	0.2120000%	0.2210000%
TOTAL	**0.6879731%**	**0.7056037%**	**0.7230085%**	**0.7457653%**	**0.7711981%**
Multi-Residential (expressed in %)					
City purposes	1.4521427%	1.5315482%	1.5980491%	1.6981011%	1.7950082%
School board purposes	0.1880000%	0.1950000%	0.2030000%	0.2120000%	0.2210000%
TOTAL	**1.6401427%**	**1.7265482%**	**1.8010491%**	**1.9101011%**	**2.0160082%**
Commercial (expressed in %)					
City purposes	1.4598602%	1.5387137%	1.6056690%	1.6716412%	1.7455255%
School board purposes	1.1800000%	1.2278260%	1.2921380%	1.3638850%	1.4360970%
TOTAL	**2.6398602%**	**2.7665397%**	**2.8978070%**	**3.0355262%**	**3.1816225%**
Industrial (expressed in %)					
City purposes	1.4521427%	1.5327263%	1.6006027%	1.6662458%	1.7385006%
School board purposes	1.2536020%	1.2946100%	1.3399890%	1.3888080%	1.4491840%
TOTAL	**2.7057447%**	**2.8273363%**	**2.9405917%**	**3.0550538%**	**3.1876846%**
Pipeline (expressed in %)					
City purposes	0.9617302%	0.9821789%	1.0002695%	1.0267316%	1.0583411%
School board purposes	1.4820840%	1.5065730%	1.5318740%	1.5580410%	1.5875130%
TOTAL	**2.4438142%**	**2.4887519%**	**2.5321435%**	**2.5847726%**	**2.6458541%**

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)

	2016	2015	2014	2013	2012
PROPERTY TAXES RECEIVABLE, END OF YEAR					
Amount	$261,071	$240,700	$252,367	$239,516	$224,878
Per Capita	$91	$85	$90	$86	$82
NET LONG-TERM DEBT, END OF YEAR					
Amount	$5,072,410	$4,745,954	$4,178,512	$3,856,165	$3,699,256
Per Capita	$1,764	$1,679	$1,488	$1,391	$1,349
INTEREST CHARGES FOR NET LONG-TERM DEBT					
Amount	$288,556	$279,403	$275,708	$257,627	$243,682
Per Capita	$100	$99	$98	$93	$89
LONG-TERM DEBT SUPPORTED BY PROPERTY TAXES					
Gross Long-Term Debt	$5,435,508	$5,256,788	$4,757,917	$4,497,149	$4,431,481
Net Long-Term Debt (Net of Sinking Fund deposits)	$5,072,410	$4,745,954	$4,178,512	$3,856,165	$3,699,256
LONG-TERM DEBT AND MORTGAGES CHARGES (includes principal repayments, interest on long-term debt and interest earned on sinking funds)					
Amount	$889,728	$786,912	$669,400	$666,311	$628,241
Percentage of Total Consolidated Expenses	8.12%	7.22%	6.40%	6.53%	6.25%
LEGAL DEBT LIMIT (Note 3) (15% of Property Tax Levy)					
Property Tax Levy Amount	$3,938,802	$3,879,877	$3,768,009	$3,696,738	$3,701,304
Debt Limit	$590,820	$581,982	$565,201	$554,511	$555,196
TAXES COLLECTED					
City Collection	$4,651,471	$4,466,007	$4,201,770	$4,103,183	$4,106,755
Taxes Transferred to the School Board	1,980,096	1,950,585	1,841,707	1,813,572	1,895,139
TOTAL	**$6,631,567**	**$6,416,592**	**$6,043,477**	**$5,916,755**	**$6,001,894**
TRUST FUNDS BALANCE - END OF YEAR	**$66,762**	**$49,558**	**$47,898**	**$46,474**	**$46,514**

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)

	2016	2015	2014	2013	2012
SUMMARY OF CONSOLIDATED REVENUES AND EXPENSES (Note 4)					
CONSOLIDATED OPERATIONS					
REVENUE BY SOURCE					
Residential and commercial property taxation	$3,938,802	$3,879,877	$3,768,009	$3,696,738	$3,701,304
Municipal land transfer tax	644,590	524,000	449,604	360,884	349,798
Taxation from other government	112,211	86,302	111,598	111,292	106,600
User charges	3,083,725	2,780,791	2,753,273	2,638,543	2,482,754
Funding transfers from other governments	2,738,317	2,862,220	2,752,112	2,952,158	3,054,218
Government business enterprise earnings	165,810	294,189	174,326	175,544	180,097
Investment income	197,231	259,679	270,603	232,244	246,760
Development charges	184,125	221,192	132,523	164,004	141,133
Rental and concessions	450,740	451,776	426,929	438,698	395,470
Other	686,412	737,497	511,685	462,454	817,526
TOTAL	**$12,201,963**	**$12,097,523**	**$11,350,662**	**$11,232,559**	**$11,475,660**
CONSOLIDATED EXPENSES BY FUNCTION (Note 4)					
General government	$760,339	$824,196	$798,088	$770,411	$646,346
Protection to persons and property	1,808,310	1,807,909	1,820,074	1,656,046	1,558,447
Transportation	3,067,408	2,943,786	2,819,666	2,769,289	2,828,174
Environment services	933,176	940,017	919,204	838,344	810,859
Health services	449,621	452,389	429,491	422,038	397,210
Social and family services	2,038,215	2,023,910	1,915,780	1,963,092	1,999,896
Social housing	779,499	775,450	727,715	758,024	850,026
Recreation and cultural services	1,001,753	989,349	911,428	905,987	861,716
Planning and development	115,549	146,102	120,188	127,660	96,533
TOTAL	**$10,953,870**	**$10,903,108**	**$10,461,634**	**$10,210,891**	**$10,049,207**
ANNUAL SURPLUS	**$1,248,093**	**$1,194,415**	**$889,028**	**$1,021,668**	**$1,426,453**
ACCUMULATED SURPLUS (Note 4)					
Financial Assets	$9,293,459	$9,071,480	$8,533,390	$8,554,867	$8,259,997
Liabilities	15,791,731	15,151,299	13,828,081	13,117,281	12,505,032
Net Debt	(6,498,272)	(6,079,819)	(5,294,691)	(4,562,414)	(4,245,035)
Non-Financial Assets	28,989,479	27,322,933	25,343,390	23,722,085	22,410,101
Accumulated Surplus	**$22,491,207**	**$21,243,114**	**$20,048,699**	**$19,159,671**	**$18,165,066**

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)

	2016	2015	2014	2013	2012
CONSOLIDATED SUMMARY OF FUNDING TRANSFERS FROM OTHER GOVERNMENTS (Note 4)					
Social Assistance	$898,147	$889,873	$875,200	$896,038	$920,131
Child Care Assistance	345,191	323,214	298,329	277,613	274,771
Health Services	170,435	178,744	171,506	168,727	162,739
Social Housing	287,133	350,273	375,214	445,308	468,977
Other	477,206	481,037	497,863	524,494	411,311
Government of Canada Transfer - TTC	269,331	279,674	245,918	271,140	255,539
Government of Canada Transfer - Capital	247,995	304,474	237,545	303,959	522,330
Province of Ontario Transfer - Capital	42,879	54,931	50,537	64,879	38,420
TOTAL	**$2,738,317**	**$2,862,220**	**$2,752,112**	**$2,952,158**	**$3,054,218**
CONSOLIDATED EXPENSES BY OBJECT (Note 4)					
Salaries, wages and benefits	$5,618,259	$5,565,309	$5,349,900	$4,972,018	$5,069,438
Materials	983,862	1,015,054	918,934	918,231	762,249
Contracted Services	1,596,096	1,674,201	1,793,882	1,627,179	1,411,269
Interest on long-term debt & TCHC mortgage	320,250	314,827	313,318	298,800	287,990
Transfer payments	1,202,720	1,268,651	1,000,937	1,368,597	1,414,398
Amortization	973,897	851,194	871,099	847,090	801,845
Other	258,786	213,872	213,564	178,976	302,018
TOTAL	**$10,953,870**	**$10,903,108**	**$10,461,634**	**$10,210,891**	**$10,049,207**
RESERVE & RESERVE FUND BALANCE – END OF THE YEAR	**$1,982,887**	**$1,826,231**	**$1,963,671**	**$2,117,607**	**$1,715,128**
TANGIBLE CAPITAL ASSETS					
COST					
General Assets	$17,916,727	$16,773,816	$15,602,558	$14,792,576	$14,266,713
Infrastructure	20,987,885	19,465,195	18,342,839	17,747,566	17,122,938
Assets under construction	5,578,757	5,802,565	5,451,183	4,670,845	3,896,892
TOTAL	**44,483,369**	**42,041,576**	**39,396,580**	**37,210,987**	**35,286,543**
ACCUMULATED AMORTIZATION					
General Assets	$6,505,686	$6,071,207	$5,741,220	$5,380,067	$4,948,857
Infrastructure	9,394,014	9,005,590	8,685,419	8,444,639	8,227,393
TOTAL	**15,899,700**	**15,076,797**	**14,426,639**	**13,824,706**	**13,176,250**
NET BOOK VALUE	**28,583,669**	**26,964,779**	**24,969,941**	**23,386,281**	**22,110,293**

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)

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.

TORONTO