

**2013 CONSOLIDATED
FINANCIAL STATEMENTS**

CITY OF TORONTO FINANCIAL REPORT

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 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. While it is important to recognize that the external audit is an independent process, the Auditor General's role is to ensure that all significant audit issues are appropriately addressed and resolved. In this context, the Auditor General participates in all significant meetings held between the external auditors and management.

The 2013 consolidated financial statements have been examined by the City of Toronto's external auditors, PricewaterhouseCoopers LLP, and their report precedes the consolidated financial statements.

Toronto, Canada
July 8, 2014



Giuliana Carbone
Treasurer



Roberto Rossini
Deputy City Manager & Chief Financial Officer



Joseph P. Pennachetti
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, 2013 and the Consolidated Statements of Operations and Accumulated Surplus, Change in Net Debt, and 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 in our audit 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, 2013 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 8, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2013

(with comparative figures as at December 31, 2012)

(all dollar amounts in thousands of dollars)

	2013	2012 (See Note 24)
FINANCIAL ASSETS		
Cash	591,190	451,938
Accounts receivable (Note 3)	974,415	1,205,424
Property taxes receivable	239,516	224,878
Other assets (Note 4)	243,504	162,098
Investments (Note 5)	4,661,928	4,414,034
Due from Toronto District School Board (Note 13)	22,410	26,371
Investments in government business enterprises (Note 6)	1,836,423	1,775,254
Total financial assets	8,569,386	8,259,997
LIABILITIES		
Bank indebtedness (Note 7)	55,882	49,834
Accounts payable and accrued liabilities (Note 8)	2,934,835	2,690,613
Deferred revenue (Note 9)	1,692,089	1,574,201
Other liabilities (Note 10)	647,071	598,728
Landfill closure and post-closure liabilities (Note 11)	123,773	124,182
Mortgages payable (Note 12)	640,984	732,225
Net long-term debt (Note 13)	3,856,165	3,699,256
Employee benefit liabilities (Note 14)	3,166,482	3,035,993
Total liabilities	13,117,281	12,505,032
NET DEBT	(4,547,895)	(4,245,035)
NON-FINANCIAL ASSETS		
Tangible capital assets, net (Note 15, Schedule 1)	23,386,281	22,110,293
Inventories and prepaid expenses (Note 16)	321,285	299,808
	23,707,566	22,410,101
Commitments and contingencies (Note 17)		
ACCUMULATED SURPLUS (Note 18)	19,159,671	18,165,066

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, 2013

(with comparative figures for the year ended December 31, 2012)

(all dollar amounts in thousands of dollars)

	2013 BUDGET (Note 19)	2013 ACTUAL	2012 (See Note 24)
REVENUE			
Property taxation	3,669,871	3,696,738	3,701,304
Municipal land transfer tax	321,474	360,884	349,798
Taxation from other governments	92,149	111,292	106,600
User charges	2,778,849	2,638,543	2,482,754
Funding transfers from other governments (Note 20)	3,482,798	2,952,158	3,054,218
Gain on sale of Enwave (Note 6)	-	-	96,611
Government business enterprise earnings (Note 6)	-	175,544	180,097
Investment income	185,275	232,244	246,760
Development charges	253,131	164,004	141,133
Rent and concessions	438,096	438,698	395,470
Other	580,563	462,454	720,915
Total revenue	11,802,206	11,232,559	11,475,660
EXPENSES			
General government	797,759	770,411	646,346
Protection to persons and property	1,654,571	1,656,046	1,558,447
Transportation	2,830,866	2,769,289	2,828,174
Environmental services	1,088,538	838,344	810,859
Health services	422,184	422,038	397,210
Social and family services	2,116,663	1,963,092	1,999,896
Social housing	904,446	758,024	850,026
Recreation and cultural services	1,010,912	905,987	861,716
Planning and development	137,454	127,660	96,533
Total expenses (Note 21)	10,963,393	10,210,891	10,049,207
ANNUAL SURPLUS	838,813	1,021,668	1,426,453
ACCUMULATED SURPLUS - BEGINNING OF YEAR	18,165,066	18,165,066	16,641,411
GBE - IFRS adjustment -Toronto Hydro Corp. (Note 6)	-	(27,063)	97,202
ACCUMULATED SURPLUS - END OF YEAR (Note 18)	19,003,879	19,159,671	18,165,066

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, 2013

(with comparative figures for the year ended December 31, 2012)

(all dollar amounts in thousands of dollars)

	2013 BUDGET (Note 19)	2013 ACTUAL	2012 ACTUAL (See Note 24)
ANNUAL SURPLUS	838,813	1,021,668	1,426,453
Acquisition of tangible capital assets	(2,607,983)	(2,204,589)	(2,297,710)
Amortization of tangible capital assets	845,559	847,090	801,845
(Gain) Loss on disposal of tangible capital assets	-	33,559	(6,467)
Reclassification of tangible capital assets as inventories	-	30,824	50,321
Proceeds on disposal of tangible capital assets	2,000	17,128	40,880
Change due to tangible capital assets	(1,760,424)	(1,275,988)	(1,411,131)
Change in inventories and prepaid expenses	-	(21,477)	31,724
GBE - IFRS adjustment - Toronto Hydro Corp. (Note 6)	-	(27,063)	97,202
(Increase) decrease in net debt	(921,611)	(302,860)	144,248
NET DEBT - BEGINNING OF YEAR	(4,245,035)	(4,245,035)	(4,389,283)
NET DEBT - END OF YEAR	(5,166,646)	(4,547,895)	(4,245,035)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2013
 (with comparative figures for the year ended December 31, 2012)
 (all dollar amounts in thousands of dollars)

	2013	2012 (See Note 24)
OPERATING ACTIVITIES		
Annual surplus	1,021,668	1,426,453
Add (deduct) items not involving cash:		
Government business enterprises income from operations	(175,544)	(180,097)
Amortization of tangible capital assets	847,090	801,845
Gain/ (loss) on disposal of tangible capital assets	33,559	(6,467)
Gain on sale on Enwave	-	(96,611)
	1,726,773	1,945,123
Change in non-cash assets and liabilities related to operations:		
Decrease (increase) in accounts receivable	231,009	(36,220)
(Increase) decrease in property taxes receivable	(14,638)	19,331
Increase in accounts payable and accrued liabilities	244,222	74,291
Increase in deferred revenue	117,888	154,022
Increase in other liabilities	48,343	42,982
(Increase) decrease in inventories and prepaid expenses	(21,477)	31,724
Increase in landfill closure and post-closure liabilities	(409)	2,742
Increase in employee benefit liabilities	130,489	259,826
Cash provided by operating activities	2,462,200	2,493,821
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(2,204,589)	(2,297,710)
Proceeds on disposal of tangible capital assets	17,128	40,880
Reclassification of tangible capital assets as inventories	30,824	50,321
Cash applied to capital activities	(2,156,637)	(2,206,509)
INVESTING ACTIVITIES		
Increase in other assets	(81,406)	(10,208)
Purchase of investments, net	(247,894)	(925,653)
Proceeds on repayment of debt due from Toronto District School Board	3,961	3,819
Proceeds from sale of Enwave, net of legal fees	-	167,366
Dividends and distributions from government business enterprises	87,312	147,383
Cash provided by (applied to) investing activities	(238,027)	(617,293)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	6,048	(94,876)
Principal repayments on mortgages payable	(91,241)	(41,365)
Proceeds from long-term debt issued	471,210	801,709
Principal repayments on long-term debt	(235,710)	(291,512)
Interest earned on sinking funds	(74,631)	(71,342)
Principal repayments on debt by Toronto District School Board	(3,960)	(3,819)
Cash provided by (applied to) financing activities	71,716	298,795
Net increase (decrease) in cash during the year	139,252	(31,186)
CASH – BEGINNING OF YEAR	451,938	483,124
CASH – END OF YEAR	591,190	451,938
SUPPLEMENTARY INFORMATION:		
Cash paid for interest on debt	286,922	279,493
Cash received for interest on investments	215,535	222,177

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (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 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") (1/3rd 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

Community Centres:

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

Business Improvement Areas:

- Albion/Islington Square
- Baby Point Gates
- Bloor Annex
- Bloor by the Park
- Bloorcourt Village
- Bloordale Village
- Bloor Street
- Bloor West Village
- Bloor-Yorkville
- Cabbagetown
- Chinatown
- Church-Wellesley Village
- College Dufferin
- College Promenade
- Corso Italia
- Crossroads of the Danforth
- Danforth Mosaic
- Danforth Village
- Dovercourt Village
- Downtown Yonge
- Dufferin Finch
- Dundas West
- 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
- Kingsway
- Korea Town
- Lakeshore Village
- Leslieville
- Liberty Village
- Little Italy
- Little Portugal
- Long Branch
- Mimico by the Lake
- Mimico Village
- Mirvish Village
- Mount Dennis
- Mount Pleasant
- Oakwood Village
- Pape Village
- Parkdale Village
- Queen Street West
- Regal Heights Village
- Riverside
- Roncesvalles Village
- Rosedale Main Street
- Sheppard East Village
- St. Clair Gardens
- St. Lawrence Market Neighbourhood
- The Beach
- The Danforth
- The Dupont Strip
- The Eglinton Way
- ShoptheQueensway.com
- The Waterfront
- Toronto Entertainment District
- Trinity Bellwoods
- Upper Village
- Uptown Yonge
- Village of Islington
- West Queen West
- Weston Village
- Wexford Heights
- Wilson Keele
- 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

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")
Enwave Energy Corporation (Enwave) (divested October 31, 2012)

Trust funds

Trust funds and their related operations administered by the City are not included in the consolidated financial statements, but are reported separately in the Trust Fund Financial Statements (Note 23).

Use of estimates and measurement uncertainty

The preparation of 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 *(all dollar amounts in thousands of dollars)*

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

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

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

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

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 5% 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 *(all dollar amounts in thousands of dollars)*

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 by-law, which conforms to the requirements of the Development Charges Act, 1997. Development charges are collected when an above grade building permit is issued, and recognized in revenues when used to fund 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 *(all dollar amounts in thousands of dollars)*

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.

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.

Landfill closure and post-closure liabilities

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

Deferred revenue

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

Derivative financial instruments

A derivative financial instrument (interest rate swap) is used to manage interest rate risk with respect to a certain TCHC term loan. TCHC does not account for its interest rate swap as a hedge, and as such, any realized or unrealized gains or losses are recognized in the Consolidated Statement of Operations and Accumulated Surplus. The City also utilizes derivative financial instruments in the management of its purchase of electricity and natural

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 *(all dollar amounts in thousands of dollars)*

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

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

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

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

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

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

Reserves and reserve funds

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

2. Changes in accounting policies

Tax revenue:

On January 1, 2013, the City adopted Public Sector Accounting Standard PS 3510, *Tax Revenue*. This standard was adopted on a retroactive basis at the date of adoption.

Under this standard, taxes receivable are recognized when they meet the definition of an asset, the tax is authorized and the taxable event has occurred.

Under PS 3510, municipalities recognize property tax revenue using the approved tax rate and the assessment. The standard requires that tax revenue is reported net of tax concessions. Tax transfers are included as an expense and taxes levied on behalf of others in a flow through arrangement, (i.e. education taxes), are not reported in the Consolidated Statement of Operations and Accumulated Surplus.

There were no adjustments required as a result of the adoption of this standard.

Government Transfers:

On January 1, 2013, the City adopted the revised recommendations of Public Sector Accounting Standard PS 3410, *Government Transfers*. This standard was adopted on a prospective basis from the date of adoption.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 *(all dollar amounts in thousands of dollars)*

The revised recommendations clarify the difference between eligibility criteria and stipulations and their roles in the recognition of government transfers by the transferring and recipient government.

Under PS 3410, government transfers received or receivable are recognized in revenue once the transfer is authorized and eligibility criteria if any are met, unless there are stipulations which give rise to an obligation that meets the definition of a liability. Government transfers paid are recognized as a liability and an expense when the transfer is authorized and all eligibility criteria have been met by the recipient.

Adoption of this standard did not have a material effect on the financial results for the current year.

User Charges:

Beginning January 1, 2013, the City recognized rebates relating to solid waste as a reduction to revenue. Previously, the City recognized these rebates in General Government expenses in the Consolidated Statement of Operations and Accumulated Surplus. This change was made to enhance the relevance of the financial statements and has been treated as an accounting policy change and applied on a retroactive basis.

The effect of the change in the financial statements in the current period is a reduction of user charges of \$182,392 (2012 - \$160,637) and a reduction in Environmental Services expenses of \$182,392 (2012 - \$160,637).

Future Changes in Accounting Standards:

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

Liability for Contaminated Sites, PS 3260 is effective for fiscal years beginning on or after April 1, 2014. The standard provides guidance for applying the definition of liabilities set out in PS 1000, and the general recognition and disclosure standards in PS 3200, in accounting for and reporting a liability for contaminated sites. The City has not yet adopted this standard or determined the effect on the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

3. Accounts Receivable

Accounts receivable consist of the following:

	2013	2012
	\$	\$
Government of Canada	170,185	326,193
Government of Ontario	190,679	297,752
Other municipal governments	28,055	44,971
School Boards	394	9,608
Utility fees	155,953	144,468
Other fees and charges	429,149	382,432
	974,415	1,205,424

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

4. Other Assets

Other assets consist of the following:

	2013	2012
	\$	\$
Build Toronto Inc. loan receivable from Pinewood Toronto Studios Inc. (PTSI), due September 2018, bearing interest at 5.61%, to be converted into a 25 year amortizable debenture upon maturity.	33,404	29,038
Build Toronto Inc. loan receivable from Toronto Waterfront Studios Inc., due June 2014, bearing interest at 6%, secured by a pledge of 1,000 shares of PTSI.	3,776	3,776
Build Toronto Inc. Vendor-take-back (VTB) mortgages of \$57,106. The interest rates range from 6% to 7.5% with various maturities from June 30, 2014 to November 16, 2016, secured by charges on the land.	23,184	36,939
TCHC has entered into loan agreements with Dundas and Parliament Development Corporation (DPDC) and Parliament and Gerrard Development Corporation (PGDC) to finance the pre-development and construction of condominium buildings. Advances earn interest at the bank's prime rate plus 0.50%.	3,228	4,598
Provincial affordability housing grants for the development of three TCHC projects are paid monthly and have been set up as grant receivable	13,491	10,145
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 PGDC to finance the pre-development costs of condominium buildings. Additionally, TCHC's wholly owned subsidiaries Railway Lands Development Corporation (RLDC) and Allenbury Garden Development Corporation (AGDC) have entered into an equal interest co-tenancy agreements with a developer, for the construction of certain properties.	15,541	15,486
On November 1, 2013 Infrastructure Ontario (IO) provided a Loan of \$154,703 to TCHC, of which \$60,378 was to repay various maturing mortgages and the remaining \$94,325 (Note 13) along with the resulting investment income of \$123,000 and, 4% of gross rental income generated by the refinanced properties, amounting to \$82,000 should be restricted to be invested for future capital assets purchases.	94,530	-
TCHC Mortgages receivable are to related sales-type leases from 2010 to 2057 for commercial space in a TCHC building. One mortgage has a maturity date of May 11, 2037, and bears interest at 4.88%. The other two mortgages have a term starting from May 11, 2037 to May 11, 2057, and bear interest equal to the debenture coupon rate.	11,966	11,974
Loans receivable from community housing organizations bearing interest at rates from 0% to 5% (2012 – 0% to 5%) per annum, maturing from 2014 to 2044.	36,628	48,167
Other	7,756	1,975
	243,504	162,098

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

5. Investments

Investments consist of the following:

	2013		
	Cost	Market value	Carrying value
	\$	\$	\$
Federal government bonds	539,885	560,263	539,885
Provincial government bonds	1,139,335	1,182,923	1,139,335
Municipal government bonds	668,213	693,363	668,213
Money market instruments	1,916,422	1,916,415	1,916,422
Corporate bonds	330,440	335,357	330,440
Other	67,633	71,182	67,633
	4,661,928	4,759,503	4,661,928

	2012		
	Cost	Market value	Carrying value
	\$	\$	\$
Federal government bonds	645,682	713,877	645,682
Provincial government bonds	1,085,975	1,185,785	1,085,975
Municipal government bonds	482,817	527,841	482,817
Money market instruments	1,787,917	1,793,144	1,787,917
Corporate bonds	355,334	367,781	355,334
Other	56,309	58,106	56,309
	4,414,034	4,646,534	4,414,034

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 \$65,264 (2012 - \$64,281). The weighted average yield on the cost of the bond investment portfolio during the year was 4.82% (2012 - 5.52%). Maturity dates on investments in the portfolio range from 2014 to 2042 (2012 - 2013 to 2042). Included in the City's municipal government bonds portfolio are City of Toronto debentures at coupon rates varying from 4.50% to 8.65% (2012 - 4.50% to 8.65%) with a carrying value of \$198,757 (2012 - \$182,237).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

Other investments held by the City, its agencies and corporations consist of the following:

	2013		
	Cost	Market value	Carrying value
	\$	\$	\$
City investments	306	306	306
BIA	1,110	1,110	1,110
Build Toronto	30,453	30,453	30,453
TAF	17,793	21,342	17,793
TWRC	17,971	17,971	17,971
	67,633	71,182	67,633

	2012		
	Cost	Market value	Carrying value
	\$	\$	\$
City investments	279	279	279
Build Toronto	28,698	28,698	28,698
TAF	17,359	19,156	17,359
TWRC	9,973	9,973	9,973
	56,309	58,106	56,309

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

6. Investments in Government Business Enterprises (GBEs)

Government business enterprises consist of 100% interest in Toronto Hydro Corporation (a hydro-electric local distribution company), Toronto Parking Authority (an operator of public parking for the City of Toronto), Toronto Port Lands Company (a company involved in development of real estate in the Toronto port lands), and an approximate 43% interest in Enwave (a provider of district heating and cooling within the downtown core of Toronto). The City divested their interest in Enwave effective October 31, 2012, recognizing a gain on sale of \$96,611 in 2012.

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

	2013	2012
	\$	\$
Balance - beginning of year	1,775,254	1,716,093
Income from operations (Appendix 1)	173,963	177,667
Adjusted cost of Enwave investment sold	–	(70,755)
IFRS adjustment – Toronto Hydro Corp.	–	97,202
Transition adjustment upon adoption of new revised International Accounting Standard (IAS 19) – Toronto Hydro Corp.	(27,063)	
Dividends received (Appendix 1)	(42,995)	(87,966)
Distribution to City (Appendix 1)	(44,317)	(59,417)
Change in net book value of street-lighting assets eliminated on sale to Toronto Hydro Corporation (Appendix 1)	1,581	1,616
Change in net book value of assets transferred from Enwave (Appendix 1)	–	814
Balance - end of year (Appendix 1)	1,836,423	1,775,254

Toronto Hydro Corp. reports under United States GAAP and has provided a reconciliation to International Financial Reporting Standards (IFRS) to the City. The IFRS adjustment to retained earnings in 2012 for Toronto Hydro Corp. is primarily due to differences in accounting treatment related to regulatory assets and liabilities and property, plant and equipment.

On January 1, 2013, Toronto Hydro Corp. adopted the revised IAS 19 - Employee Benefits which resulted in opening retained earnings adjustment of \$27,063 for 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

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

		2013	2012
		\$	\$
Toronto Hydro Corporation	Equity	1,241,600	1,202,707
Toronto Parking Authority	Equity	227,777	207,293
Toronto Port Lands Company	Equity	367,046	365,254
		1,836,423	1,775,254

- c) Condensed financial results for each government business enterprise are disclosed in Appendix 1 to the notes to these consolidated financial statements. The results presented in Appendix 1 relate to fiscal years ended December 31 for Toronto Hydro Corporation, Toronto Parking Authority, and Toronto Port Lands Company, and October 31 for Enwave.
- d) Government Business Enterprise Earnings on the Consolidated Statement of Operations and Accumulated Surplus consists of the following:

		2013	2012
		\$	\$
Income from Operations		173,963	177,667
Change in net book value of streetlighting assets – Toronto Hydro		1,581	1,616
Change in net book value of water infrastructure assets – Enwave		–	814
Government Business Enterprises Earnings		175,544	180,097

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

		2013	2012
		\$	\$
Purchased by the City:			
Street-lighting, electricity, and maintenance services from Toronto Hydro Corporation		246,894	222,032

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

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

	Due to City	Due to Others	Total
	\$	\$	\$
2014	-	412	412
2015	-	436	436
2016	-	460	460
2017	-	250,485	250,485
2018	-	512	512
Thereafter	-	1,203,369	1,203,369
	-	1,455,674	1,455,674

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

	\$
2014	6,781
2015	6,792
2016	6,161
2017	2,500
2018	377
Thereafter	1,231
	23,842

There are five joint venture agreements between TPA and private developers, which generally provide for the sale of above-grade strata air rights and the acquisition of parking garages. These agreements cover 1,265 parking spaces and will require an outlay of \$13,570.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

7. Bank indebtedness

The City has an unsecured demand revolving credit facility in the amount of \$100,000 (2012 - \$100,000) bearing interest at the bank's prime rate with an effective rate during 2013 of 3% (2012 – 3%) per annum.

In 2011, Build Toronto Inc. (BTI) established a credit facility for a maximum of \$34,500, bearing interest-only for the first three years at 1.99%, to be reset monthly to the lender's borrowing rate. Thereafter, the interest will be fixed and the remaining principal amount will be amortized over 25 years.

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.

Bank indebtedness consists of the following:

	2013	2012
	\$	\$
City, net outstanding cheques	22,315	16,795
TCHC	–	4,000
Build Toronto Inc.	33,407	29,039
TAF	160	–
	55,882	49,834

8. Accounts Payable and Accrued Liabilities

Accounts payable consist of the following:

	2013	2012
	\$	\$
Trade payables and accruals	1,895,246	1,682,158
School boards	416,827	330,762
Provision for assessment appeals on property taxes paid	346,965	389,639
Credit balances on property tax accounts	105,130	66,885
Wages accruals	170,667	221,169
	2,934,835	2,690,613

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

9. Deferred Revenue

(a) Obligatory reserve funds

Revenues received that have been set aside for specific purposes by Provincial legislation, as well as certain City 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:

	2013	2012
	\$	\$
<i>Restricted by Provincial legislation</i>		
Development Charges	383,801	375,071
Recreational Land (Planning Act)	431,990	347,525
Subdividers' Deposits	–	10,808
Building Code Act Service Improvement	27,731	20,821
Provincial Gas Tax	408	–
	<u>843,930</u>	<u>754,225</u>
<i>Restricted by other agreements</i>		
Public Transit Funds	195,371	272,203
Water and Wastewater	236,791	156,017
Community Services	84,119	81,948
Third Party Agreements	12,914	25,959
State of Good Repair	2,244	13,794
Parking Authority	3,298	3,185
	<u>534,737</u>	<u>553,106</u>
Total obligatory reserve funds	<u>1,378,667</u>	<u>1,307,331</u>

(b) Advanced payments and contributions

Revenues received for advance payments for tickets and building permits, program registration fees, contributions from developers according to Section 37 of the Planning Act and revenues deferred for TCHC's capital asset replacements are included in deferred revenue and reported on the Consolidated Statement of Financial Position.

Details of these deferred revenues are as follows:

	2013	2012
	\$	\$
Community Services	1,476	1,217
Building Code Act	54,802	51,218
Long-Term Care – Public Health and Housing	6,017	12,445
Police	1,351	1,730
Parks	15,798	14,042
Union Station	88,510	28,636
Other	50,957	53,257
City's agencies and corporations	94,511	104,325
Total advance payments and contributions	<u>313,422</u>	<u>266,870</u>
(c) Total Deferred Revenue (9 (a) and 9 (b))	<u>1,692,089</u>	<u>1,574,201</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

10. Other Liabilities

Other liabilities consist of the following:

	2013	2012
	\$	\$
Property and liability claims provision (Note 17c)	389,587	326,350
TTC – unsettled accident claims (Note 17c)	156,437	169,821
Build Toronto – environmental liabilities (Note 17j)	17,498	26,845
TTC – environmental liabilities (Note 17i)	14,500	15,275
Other	69,049	60,437
	647,071	598,728

11. Landfill Closure and Post-Closure Liabilities

The Ontario Environmental Protection Act (the “Act”) sets out the regulatory requirements for the closure and maintenance of landfill sites. Under the Act, the City is required to provide for closure and post-closure care of solid waste landfill sites. The costs related to these obligations are provided for all inactive landfill sites and active landfill sites based on usage.

Active Sites

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

The estimated liability for the care of this landfill site is the present value of future cash flows associated with closure and post-closure costs discounted using the City’s average long-term borrowing rate of 4.5% (2012 – 4.5%). The estimated present value of future expenditures for closure and post-closure care as at December 31, 2013 is \$4,706 (2012 - \$4,039), based on the percentage of total approved capacity used of 38.10% (2012 – 34.17%).

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, 2013 was \$14,594 (2012 - \$16,881) and the balance in the Green Lane Perpetual Care account as at December 31, 2013 was \$2,780 (2012 - \$2,174). Total contributions to the Green Lane Perpetual Care account of \$585 (2012 - \$632) were based on a contribution rate of 88¢ (2012 - 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 18).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

Inactive Sites

The City has identified 160 (2012 – 160) inactive landfill sites for which it retains responsibility for all costs relating to closure and post-closure care (Note 17k).

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 4.5% (2012 – 4.5%). The estimated present value of future expenditures for post-closure care as at December 31, 2013 was \$119,067 (2012 – \$120,143).

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, 2013 was \$21,234 (2012 - \$19,944) and is included as part of the State of Good Repair Reserve Fund (Note 18), and the balance in the Keele Valley Site Post-Closure Trust Fund as at December 31, 2013 was \$7,490 (2012 - \$7,467) (Note 22).

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

	2013	2012
	\$	\$
Active landfill site (Green Lane)	4,706	4,039
Inactive landfill sites	119,067	120,143
	123,773	124,182

Landfill closure and post-closure costs totaling \$5,632 (2012 - \$6,707) were expensed during the year.

12. Mortgages Payable

Mortgages payable are as follows:

	2013	2012
	\$	\$
Mortgages issued by TCHC, bearing interest at rates ranging from 2.11% to 12.75% (2012 – 2.11% to 12.75%) per annum, with maturities ranging from 2014 to 2048, and collateralized by housing properties owned by TCHC with a net book value of approximately \$1,562,303 (2012 - \$1,555,623).	640,984	732,225

Principal repayments are due as follows:

	\$
2014	41,373
2015	43,275
2016	43,784
2017	44,018
2018	45,087
Thereafter	423,447
	640,984

Principal payments made in 2013 were \$91,241 (2012 - \$41,365).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

13. Net Long-Term Debt

Provincial legislation restricts the use of long-term debt to finance only capital expenditures. Provincial legislation also allows the City to issue debt on behalf of the Toronto District School Board ("TDSB") at TDSB's request. The responsibility of raising the amounts to service these liabilities lies with TDSB. The debt is a direct, joint and several obligation of the City and TDSB.

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

	2013	2012
	\$	\$
Debentures issued by the City, bearing interest at various rates ranging from 3.50% to 8.65% (2012 - 3.50% to 8.65%) per annum, maturing from 2014 to 2042.	4,896,579	4,756,468
Debentures issued include issuing costs and interest and are amortized over the terms of the debt. These issues consists of series A bonds of \$250,000 at 4.877% (2007 to 2037) and series B bonds of \$200,000 at 5.395% (2014 and 2048).	445,078	444,979
The Infrastructure Ontario (IO) Loan received on November 1, 2013 (Note 4) is a secured loan that is funded by various floating rates as well as fixed rates of 4.37% and 4.53% and are also subject to financial covenants.	154,170	-
Long-Term Loans include a bridge-loan of \$35,440 that was converted to a 12-year interest rate swap facility with a fixed interest rate of 4.55% and with an unrealized loss of approximately \$3,278 matures on February 15, 2018. Additionally, a sale and lease liability started in August 2007 for 96 months has a remaining liability of \$4,611.	40,278	57,909
Debentures issued by the City on behalf of the TDSB, bearing interest at 6.10% (2012 - 6.10%) per annum, maturing from 2014 to 2037.	75,846	75,846
Loans payable to the Province, bearing interest at 2.76% (2012 - 2.76%) per annum. On June 13, 2013, the Provincial Minister of Finance advised the City that the \$170,171 loan payable to the province will be remitted over a three-year period, from 2014 to 2016. The remission of principal and interest will be equal to reductions in the Toronto Pooling Compensation of \$42,500, \$85,600, and \$103,200 in 2014, 2015 and 2016 respectively.	170,171	170,171
Loan payable, bearing interest at 8.05% (2012 - 8.05%) per annum, maturing in 2018.	816	952
Debt issued by Lakeshore Arena Corporation ranging from 1.60% to 5.23%. Included in this debt is a fixed rate loan with interest at 5.23% with principal payable monthly and a lump sum payment due October 31, 2017, as well as these floating rate loans with interest rates from 1.60% to 4.25% with full settlement due September 30, 2014.	38,937	39,234
Sinking fund deposits bearing interest at rates between 3.5% and 6% (2012 - 3.5% to 6%) per annum	(1,912,275)	(1,796,828)
Sinking fund deposits - TDSB, bearing interest at 5% (2012 - 5%) per annum.	(53,435)	(49,475)
	3,856,165	3,699,256

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

Principal repayments are due as follows:

	\$
2014	547,331
2015	372,908
2016	324,166
2017	299,225
2018	256,520
Thereafter	2,056,015
	3,856,165

Principal payments made in 2013 were \$314,301 (2012 - \$366,673).

Included in net long-term debt are outstanding debentures of \$4,628,000 (2012 - \$4,448,000) for which there are sinking fund assets with a carrying value of \$1,965,667 (2012 - \$1,817,432) and a market value of \$2,054,615 (2012 - \$1,969,478).

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 \$182,181 (2012 - \$172,971) and a market value of \$198,078 (2012 - \$195,268).

The City's net long-term debt is to be recovered from the following sources:

	2013	2012
	\$	\$
Property taxes	3,154,240	3,130,763
TCHC	639,526	502,888
Lakeshore Arena	38,937	39,234
Leaside Arena	1,052	-
TDSB	22,410	26,371
	3,856,165	3,699,256

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

14. Employee Benefit Liabilities

Employee benefit liabilities as at December 31 are as follows:

	2013	2012
	\$	\$
Future payments required for:		
Sick leave benefits (a)(i)	489,170	471,472
WSIB obligations (a)(ii)	432,533	428,767
Other employment and post-employment benefits (a)(iii)	2,102,038	2,076,852
Pension liabilities (b)	7,969	26,694
Total employee accrued benefit obligation	3,031,710	3,003,785
Unamortized actuarial gain	134,772	32,208
Employee benefit liabilities	3,166,482	3,035,993

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

	2013			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	\$	\$	\$	\$
Balance – beginning of year	3,035,993	3,009,299	–	26,694
Current service costs	312,010	247,684	64,326	–
Interest cost	95,531	106,007	(8,339)	(2,137)
Amortization of actuarial (gain)/loss	(101,142)	8,954	(80,167)	(29,929)
Employer contributions	(115,938)	–	(102,077)	(13,861)
Benefits paid	(200,079)	(200,079)	–	–
Plan amendments	47,500	(13,352)	60,852	–
Change in valuation allowance	92,607	–	65,405	27,202
Balance – end of year	3,166,482	3,158,513	–	7,969

	2012			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	\$	\$	\$	\$
Balance – beginning of year	2,776,167	2,839,707	(187,520)	123,980
Current service costs	303,834	239,349	64,485	–
Interest cost	109,270	103,842	1,153	4,275
Amortization of actuarial (gain)/ loss	(75,516)	30,907	(3,866)	(102,557)
Employer contributions	(112,456)	–	(97,950)	(14,506)
Benefits paid	(200,860)	(200,860)	–	–
Plan amendments	27,634	(3,646)	31,280	–
Change in valuation allowance	207,920	–	192,418	15,502
Balance – end of year	3,035,993	3,009,299	–	26,694

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

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

	2013			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	\$	\$	\$	\$
Balance – beginning of year	6,540,078	3,009,299	1,916,632	1,614,147
Current service cost	312,010	247,684	64,326	–
Interest cost	307,945	106,007	114,533	87,405
Amortization of actuarial loss/(gain)	53,937	30,907	(57,973)	81,003
Benefits paid	(461,403)	(200,079)	(99,873)	(161,451)
Plan amendments	47,500	(13,352)	60,852	–
Balance – end of year	6,800,067	3,180,466	1,998,497	1,621,104

	2012			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	\$	\$	\$	\$
Balance – beginning of year	6,485,853	2,839,707	1,885,744	1,760,402
Current service cost	303,834	239,349	64,485	–
Interest cost	310,643	103,842	111,230	95,571
Amortization of actuarial loss/(gain)	(125,424)	30,907	(81,947)	(74,384)
Benefits paid	(462,462)	(200,860)	(94,160)	(167,442)
Plan amendments	27,634	(3,646)	31,280	–
Balance – end of year	6,540,078	3,009,299	1,916,632	1,614,147

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

	2013			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	\$	\$	\$	\$
Balance – beginning of year	3,780,482	–	2,135,795	1,644,687
Contributions	115,938	–	102,077	13,861
Actual return on assets	514,535	–	314,061	200,474
Benefits paid	(261,324)	–	(99,873)	(161,451)
Balance – end of year	4,149,631	–	2,452,060	1,697,571

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

	2012			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	\$	\$	\$	\$
Balance – beginning of year	3,590,643	–	1,912,489	1,678,154
Contributions	112,456	–	97,950	14,506
Actual return on assets	338,985	–	219,516	119,469
Benefits paid	(261,602)	–	(94,160)	(167,442)
Balance – end of year	3,780,482	–	2,135,795	1,644,687

The reconciliation of the plan assets and accrued benefit obligation to the amounts in the statement of financial position is as follows:

	2013			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	\$	\$	\$	\$
Accrued benefit obligation	6,643,342	3,023,741	1,998,497	1,621,104
Plan assets	4,149,631	–	2,452,060	1,697,571
Funding deficit (surplus)	2,493,711	3,023,741	(453,563)	(76,467)
Unamortized actuarial gains	303,767	134,772	168,995	–
Valuation allowance	369,004	–	284,568	84,436
Employee benefit liability	3,166,482	3,158,513	–	7,969

	2012			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	\$	\$	\$	\$
Accrued benefit obligation	6,507,870	2,977,091	1,916,632	1,614,147
Plan assets	3,780,482	–	2,135,795	1,644,687
Funding deficit (surplus)	2,727,388	2,977,091	(219,163)	(30,540)
Unamortized actuarial gains	32,208	32,208	–	–
Valuation allowance	276,397	–	219,163	57,234
Employee benefit liability	3,035,993	3,009,299	–	26,694

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2013			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	\$	\$	\$	\$
Current service costs	312,010	247,684	64,326	–
Interest cost	95,531	106,007	(8,339)	(2,137)
Amortization of actuarial loss/(gain)	(79,189)	30,907	(80,167)	(29,929)
Plan amendments	47,500	(13,352)	60,852	–
Change in valuation allowance	92,607	–	65,405	27,202
Total expense	468,459	371,246	102,077	(4,864)

	2012			
	Total	Employment and post-employment	TTC Pension Plan	City Pension Plans
	\$	\$	\$	\$
Current service costs	303,834	239,349	64,485	–
Interest cost/(revenue)	109,270	103,842	1,153	4,275
Amortization of actuarial loss/(gain)	(75,516)	30,907	(3,866)	(102,557)
Plan amendments	27,634	(3,646)	31,280	–
Change in valuation allowance	207,920	–	192,418	15,502
Total expense	573,142	370,452	285,470	(82,780)

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, 2013. 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:

	2013	2012
Discount rate for accrued benefit obligation:		
Post-employment	3.6%	3.1%
Post-retirement	4.4%	3.8%
Sick leave	4.1%	3.5%
WSIB	3.6%	3.1%
Rate of compensation increase	2.0% to 4.5%	2.0% to 3.25%
Health care inflation – LTD, hospital and other medical	6.4% to 10.0%	6.8% to 10.0%
Health care inflation – Dental care	3.2% to 10.0%	3.4% to 10.0%
Health care inflation – Drugs	6.4% to 14.4%	6.8% to 14.4%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

	2013	2012
Discount rate for benefit costs:		
Post-employment	3.1%	3.1%
Post-retirement	3.8%	3.8%
Sick leave	3.5%	3.5%
WSIB	3.1%	3.1%
Rate of compensation increase	2.0% to 3.25%	3.0% to 3.75%
Health care inflation – LTD, hospital and other medical	6.8% to 10.0%	7.57% to 10.1%
Health care inflation – Dental care	3.4% to 10.0%	3.8% to 10.1%
Health care inflation – Drugs	6.8% to 14.4%	7.8% to 10.1%

For 2013 benefit costs and year end 2013 benefit obligation, 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 2015.

i. Vested Sick Leave Benefit Liability

Under the sick leave benefit plan, employees are 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 new 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 be 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, 2013, the balance in the Sick Leave Reserve Fund is \$43,096 (2012 - \$26,518) and is included in the Employee Benefits Reserve Fund grouping (Note 18). Payments during the year amounted to \$40,567 (2012 - \$43,390).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

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, 2013, the balance in the Workers' Compensation Reserve Fund is \$7,477 (2012 - \$8,481) and is included as part of the Employee Benefits Reserve Fund (Note 18). Payments during the year by the City to the WSIB amounted to \$33,849 (2012 - \$35,210).

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, 2013, the balance in the Employee Benefits Reserve Fund was \$161,532 (2012 - \$138,628) and is included as part of Employee Benefits Reserve Fund (Note 18). Payments during the year amounted to \$58,513 (2012 - \$51,618).

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 \$8,300 (2012 - \$8,603) 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 \$185,389 (2012 - \$159,316) and were matched by employee contributions in a similar amount.

The amount contributed for past service to OMERS for the year ended December 31, 2013 was \$684 (2012 - \$499). 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

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, 2013. 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, 2013 is comprised solely of unamortized actuarial losses.

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

	2013	2012
Discount rate	5.75%	5.75%
Expected rate of return on plan assets	5.75%	5.75%
Rate of increase in salaries	3.50%	3.75%
Inflation rate	2.00%	2.25%
Assumptions for disclosure:		
Discount rate	6.25%	5.75%
Expected rate of return on plan assets	6.25%	5.75%
Rate of increase in salaries	3.25%	3.50%
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 by-laws. As at December 31, 2013, there were 3 (2012 – 5) active members with an average age of 68 (2012 – 67.8). There were also 3,845 (2012 – 4,099) pensioners and 2,650 (2012 – 2,724) spousal beneficiaries in receipt of a pension, with an average age of 79.8 (2012 – 79). Pension payments and refunds during the year were approximately \$161,451 (2012 - \$167,442).

Given that all remaining members in the Plans have over 35 years of service, there are no contributions being made into the Plans. The City made special payments of \$13.9 million into two of the Plans (Police and York) on account of solvency deficiencies.

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, 2013. The accrued benefit obligation as at December 31, 2013 is based on actuarial valuations for accounting purposes as at December 31, 2013. The actuarial gains or losses in each of the five plans are accounted for in 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

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 2.50% per annum (2012 –2.50%) and the rate of compensation increase is estimated at 3.50% per annum (2012 – 3.50%) for determining the accrued benefit obligation. The discount rates used to determine the December 31, 2013 accrued benefit obligation is 5.80% (2012 – 5.70%) and the discount rate used to determine the fiscal year 2013 benefit cost is 5.70% (2012 – 5.70%).

Pension plan assets are valued at market values. The expected rate of return on plan assets is 5.80% (2012 – 5.70%) per annum, net of all administrative expenses. The actual return on the market value of plan assets during the year was a gain of 12.80% (2012 – 7.50%). The pension plans hold the following mix of assets: Cash and equivalents 2.8%, Bonds and Fixed Income 39.3%, Canadian equities 26.7%, and foreign equities 31.2%.

As at December 31, 2013 four plans (2012 – three plans), the Toronto Civic Employees Pension Plan, the Metropolitan Toronto Pension Plan, the Toronto Firefighters Pension Plan, and the City of York Employees 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.

One plan (2012 – two plans), Metropolitan Toronto Police Pension Plan, is in a deficit position. The net actuarial deficit of this plan is included in the employee benefit liabilities on the Consolidated Statement of Financial Position as at December 31 and includes the following components:

	2013	2013	2013	2012
	Pension assets – market value – end of year	Actuarial pension obligation – end of year	Net actuarial surplus (deficit)	Net actuarial surplus (deficit)
	\$	\$	\$	\$
Toronto Civic Employees Pension Plan	341,136	281,843	59,293	53,662
Metropolitan Toronto Pension Plan	520,406	503,989	16,417	443
Toronto Firefighters Pension Plan	246,234	238,080	8,154	3,129
City of York Employee Pension Plan	47,131	46,559	572	(1,548)
Metropolitan Toronto Police Pension Plan	542,664	550,633	(7,969)	(25,146)
Total of plans in deficit			(7,969)	(26,694)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

15. Tangible capital assets

Tangible capital assets consist of the following:

	2013			2012
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
General				
Land	3,547,683	–	3,547,683	3,517,960
Land Improvements	674,069	346,546	327,523	342,798
Buildings and building improvements	6,693,410	2,552,869	4,140,541	4,056,516
Machinery and equipment	1,829,304	1,116,940	712,364	671,244
Motor vehicles	2,048,110	1,363,712	684,398	729,338
Total General	14,792,576	5,380,067	9,412,509	9,317,856
Infrastructure				
Land	137,914	–	137,914	138,118
Buildings and building improvements	516,977	137,896	379,081	341,683
Machinery and equipment	1,678,290	920,606	757,684	782,316
Water and wastewater linear	5,385,075	2,003,267	3,381,808	3,241,225
Roads linear	4,054,471	1,941,563	2,112,908	2,126,332
Transit	5,974,839	3,441,307	2,533,532	2,265,871
Total Infrastructure	17,747,566	8,444,639	9,302,927	8,895,545
Assets under construction	4,670,845	–	4,670,845	3,896,892
Total	37,210,987	13,824,706	23,386,281	22,110,293

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 Emergency Medical 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 include 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 totaling \$11,334 (2012 - \$12,239).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

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 \$2,903 (2012 - \$6,611) for land, and nil (2012 - \$28,595) of land improvements.

Tangible Capital Assets Recognized at Nominal Value

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

Works of Art and Historical Treasures

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

Impairment of Tangible Capital Assets

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

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

16. Inventories and Prepaid Expenses

	2013	2012
Prepaid Expenses	79,665	93,669
Inventories	144,728	138,327
Inventories of Surplus Property	96,892	67,812
	321,285	299,808

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 *(all dollar amounts in thousands of dollars)*

17. Commitments and contingencies

a) The City is subject to various litigation and claims arising in the normal course of its operations. The final outcome of the outstanding claims cannot be determined at this time. However, management believes that the ultimate disposition of these matters will not materially exceed the amounts recorded in the accounts. Any amendment to amounts accrued will be recorded once new information becomes available.

b) On October 8, 2013 the City reconfirmed its support for a Scarborough subway extension and directed staff to negotiate an agreement with the Province and Metrolinx regarding repayment of any costs undertaken by Metrolinx on the Scarborough LRT project under the Master Agreement, (including any potential costs associated with the LRT vehicle supply contract), prior to the July decision. Costs of \$80,000 have been accrued, while costs, if any, attributable to the LRT vehicle supply contract are not determinable and subject to negotiations.

c) Exposures on property, liability, and accident claims are covered by a combination of self-insurance and coverage with insurance carriers. Provisions for property, liability and accident claims are recorded in other liabilities (Note 10) on the Consolidated Statement of Financial Position in the aggregate amount of \$546,024 (2012 - \$496,171).

d) In February 2005, December 2007, December 2008 and October 2009, contracts were awarded by the TTC for purchase of low-floor buses which comprised 694 diesel-electric hybrid buses and 395 diesel buses at a total purchase price of \$718,200. At December 31, 2013, 694 hybrid and 395 diesel buses had been delivered at a cost of \$717,300. The outstanding commitment as at December 31, 2013 of \$900 is expected to be extinguished by the end of 2014.

e) 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 trainsets for the Toronto-York Spadina Subway line extension and 21 replacement trainsets for the total contract cost of \$1,198,300. At December 31, 2013, 46 trainsets had been delivered at a cost of \$1,015,000, which is included in assets under construction. The outstanding commitment as at December 31, 2013 is \$183,300.

f) On June 26, 2009, a contract was awarded by the TTC for the design and supply of 204 Light Rail Vehicles ("LRVs") at a total contract cost of \$1,000,800. As at December 31, 2013, the TTC had incurred costs of \$460,400, which is included in assets under construction. The delivery of LRV's has been rescheduled to 2014 with all 204 cars to be delivered by 2018. At December 31, 2013, the outstanding commitment is \$540,400.

g) 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 additional 126 60-foot Articulated Low Floor Clean Diesel Buses bringing the total delivery requirement to 153 buses for a total contract cost of \$138,900. At December 31, 2013, 11 buses had been delivered including 1 prototype at a cost of \$7,300. The balance of deliveries is scheduled for 2014. At December 31, 2013, the outstanding commitment is \$131,600.

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h) At December 31, 2013, the TTC has other various capital project contractual commitments of \$1,122,800 (2012 - \$1,375,600). Of this amount, contractual commitments of \$676,400 (2012 - \$924,900) relate to the Toronto York Spadina Subway Extension project, \$43,800 (2012 - \$51,800) relate to the Toronto Water Front projects and \$402,600 (2012 - \$398,900) relate to various TTC construction projects.

i) The TTC has a provision for environmental costs of \$14,500 (2012 - \$15,275) to cover estimated costs of remediating sites with known contamination for which the TTC is responsible. Given that the estimate of environmental liabilities is based on a number of assumptions, actual costs may vary. The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation. Provisions for environmental costs are recorded in other liabilities (Note 10) on the Consolidated Statement of Financial Position.

j) Build Toronto has an environmental provision costs of \$17,498 (2012 - \$26,845) to cover estimated costs based on third-party engineering reports of the likely cost to remediate or mitigate current known site conditions. Costs are assessed on a site by site basis and range from full removal of historical fills to risk assessment and management measures to reduce remedial requirements. Provisions for environmental costs are recorded in other liabilities (Note 10) on the Consolidated Statement of Financial Position.

k) The Ministry of the Environment has issued Certificates of Approval for 29 (2012 – 29) of the identified 160 (2012 – 160) inactive landfill sites. Applications for Certificates of Approval at other inactive sites may be required prior to the commencement of any remediation work. It is not possible to quantify the effect, if any, of this request on these consolidated financial statements beyond those amounts recorded as landfill closure and post-closure liabilities (Note 11).

l) 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 line of credits provided by the City under the policy for operating line of credit guarantees is limited to \$10 million 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 million in the aggregate, with individual loan guarantees being limited to a maximum of \$10 million. The total amount of all direct loans provided by the City under the policy for direct City loans is limited to \$125 million in the aggregate. At December 31, 2013 the City had provided capital loan guarantees to certain third parties amounting to \$61,716 (2012 - \$75,174), and operating loan and line of credit guarantees of \$4,000 (2012 - \$4,000), primarily related to several cultural non-profit organizations:

	<u>\$</u>
2014	55,150
2015	44,346
2016	35,299
2017	22,671
2018	15,301
Thereafter	64,751
	<u>237,518</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

18. Accumulated Surplus

Accumulated surplus is comprised of the following:

	2013	2012
	\$	\$
Invested in tangible capital assets (Note 15)	23,386,281	22,110,293
Operating fund	2,692,681	2,919,253
Capital fund	(867,042)	(672,698)
Reserves and reserve funds	2,117,607	1,715,128
	27,329,527	26,071,976
Amounts to be recovered from future revenues:		
Mortgages (Note 12)	(640,984)	(732,225)
Net long-term debt (Note 13)	(3,856,165)	(3,699,256)
Recoverable from TDSB (Note 13)	22,410	26,371
Landfill closure and post-closure liabilities (Note 11)	(123,773)	(124,182)
Employee benefits (Note 14)	(3,166,482)	(3,035,993)
Other	(404,862)	(341,625)
	(8,169,856)	(7,906,910)
	19,159,671	18,165,066

Reserves and reserve funds consist of the following:

	2013	2012
	\$	\$
Reserves:		
Corporate	789,277	614,422
Stabilization	194,939	127,615
Water and Wastewater	135,350	80,816
Donations	1,274	1,079
Community Initiatives	-	23
	1,120,840	823,955
Reserve Funds:		
Employee Benefits (Note 14)	212,105	173,627
Corporate	500,584	451,898
Community Initiatives	92,570	97,034
State of Good Repair	191,508	168,614
	996,767	891,173
Total Reserves and Reserve Funds	2,117,607	1,715,128

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

19. Budget Data

Budget data presented in these consolidated financial statements are based upon the 2013 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 statements.

	Budget Amount
	\$
Revenue	
Approved budgets:	
Operating	9,529,384
Capital	3,167,458
Reserve	37,944
	<u>12,734,786</u>
Adjustments:	
Proceeds on debt issue	(932,580)
Total revenue	<u>11,802,206</u>
Expenses	
Approved budgets:	
Operating	9,367,724
Capital	3,551,256
	<u>12,918,980</u>
Adjustments:	
Tangible Capital Assets (TCA)	(2,607,983)
Amortization	845,559
Debt principal repayments	(193,163)
Total expenses	<u>10,963,393</u>
Annual surplus	<u>838,813</u>

20. Funding Transfers from Other Governments

(a) By Function

	2013	2012
	\$	\$
General government	147,399	120,314
Protection to persons & property	36,472	35,843
Transportation	629,639	763,065
Environmental services	40,282	43,357
Health services	274,687	268,791
Social and family services	1,478,053	1,480,970
Social Housing	277,356	315,578
Recreation and cultural services	48,439	12,622
Planning and development	19,831	13,678
Total	<u>2,952,158</u>	<u>3,054,218</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

(b) By Government Entity	2013	2012
	\$	\$
Operating Transfers		
Federal	218,799	186,538
Provincial	2,058,548	2,044,041
Other	34,833	7,350
	2,312,180	2,237,929
Capital Transfers		
Federal	271,140	255,539
Provincial	303,959	522,330
Other	64,879	38,420
	639,978	816,289
Total	2,952,158	3,054,218

21. Expenses by Object

Expenses by object comprise the following:

	2013	2012
	\$	\$
Salaries, wages and benefits	4,972,018	5,069,438
Materials	918,231	762,249
Contracted services	1,627,179	1,411,269
Interest on long-term debt	298,800	287,990
Transfer payments	1,368,597	1,414,398
Amortization (Schedule 1)	847,090	801,845
Other	178,976	302,018
	10,210,891	10,049,207

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 *(all dollar amounts in thousands of dollars)*

22. Segmented Information

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

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

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

Appendix 2 includes the following segments:

- **General government** is comprised of Council, administration and amounts paid to the Municipal Property Assessment Corporation. These groups are responsible for bylaws and administrative policies, levying taxes, acquiring and managing City assets, ensuring effective financial management, planning and budgeting, monitoring financial and operating performance, and ensuring that high quality City service standards are met.
- **Protection to persons and property** is comprised of police, fire and other protective services such as By-law Enforcement, Animal Control, Vehicle and Business Licensing, Security and Provincial Offences. These groups maintain the safety and security of all citizens by reducing or eliminating loss of life and property, maintaining law enforcements, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 (all dollar amounts in thousands of dollars)

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.

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

23. Trust Funds

Trust funds administered by the City amounting to \$24,462 (2012 - \$27,549) 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. Trust fund balances as at December 31 are as follows:

	2013	2012
	\$	\$
Keele Valley Site Post-Closure Trust Fund (Note 11)	7,490	7,467
Homes for the Aged Trust Fund – Residents	6,113	6,178
Community Centre Development Levy Trust Fund – Railway Lands	4,774	4,792
Community Services Levies Trust Fund	1,209	1,193
Contract Aftercare Trust Fund	1,082	1,074
Waterpark Place Trust Fund	1,076	1,064
Music Garden Trust Fund	614	611
Development Charges Trust Fund – Queen’s Quay	541	533
Heritage and Culture Trust Funds	402	397
Library Development Levy Trust Fund – Railway Lands	386	3,416
Lakeshore Pedestrian Bridge Trust Fund	248	245
Children’s Greenhouse Trust Fund – Allan Gardens	112	111
Green Lane Small Claims Trust Fund	108	107
Preservation Trust Fund	51	50
Hugh Clydesdale Trust Fund	45	45
Michael Sansone Trust Fund	43	43
Candidates’ Municipal Election Surpluses Trust Fund	28	28
Tenant Displacement Trust Fund	28	27
Ontario Home Renewal Project	22	22
90 Lisgar Street Trust Fund	20	20
Eastview Neighbourhood Trust Fund	18	42
Police Trust Funds	(9)	23
Other trust funds	61	61
	24,462	27,549

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 *(all dollar amounts in thousands of dollars)*

24. Comparative Consolidated Financial Statements

The comparative consolidated financial statements have been regrouped from statements previously presented to conform with the presentation adopted in 2013.

CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS – SCHEDULE 1

As at and for the year ended December 31, 2013
(all dollar amounts in thousands of dollars)

2013

	Cost 2013				Accumulated Amortization 2013				Net Book Value 2013	
	Beginning	Additions	Disposals / Transfers	Donated	Ending	Beginning	Amortization	Disposals		Ending
General										
Land	3,517,960	29,350	(2,530)	2,903	3,547,683	-	-	-	-	3,547,683
Land Improvements	668,115	7,823	(1,869)	-	674,069	325,317	21,436	(207)	346,546	327,523
Buildings and building improvements	6,406,635	289,350	(2,575)	-	6,693,410	2,350,119	205,356	(2,606)	2,552,869	4,140,541
Machinery and equipment	1,676,436	191,765	(38,897)	-	1,829,304	1,005,192	149,112	(37,364)	1,116,940	712,364
Vehicles	1,997,567	69,802	(19,259)	-	2,048,110	1,268,229	114,292	(18,809)	1,363,712	684,398
Total General	14,266,713	588,090	(65,130)	2,903	14,792,576	4,948,857	490,196	(58,986)	5,380,067	9,412,509
Infrastructure										
Land	138,118	-	(204)	-	137,914	-	-	-	-	137,914
Buildings and building improvements	473,056	43,921	-	-	516,977	131,373	6,523	-	137,896	379,081
Machinery and equipment	1,657,824	20,466	-	-	1,678,290	875,508	45,098	-	920,606	757,684
Water and wastewater linear	5,182,606	207,818	(5,349)	-	5,385,075	1,941,381	64,613	(2,727)	2,003,267	3,381,808
Roads linear	4,005,866	83,554	(34,949)	-	4,054,471	1,879,534	88,337	(26,308)	1,941,563	2,112,908
Transit	5,665,468	435,346	(125,975)	-	5,974,839	3,399,597	152,323	(110,613)	3,441,307	2,533,532
Total infrastructure	17,122,938	791,105	(166,477)	-	17,747,566	8,227,393	356,894	(139,648)	8,444,639	9,302,927
Assets under construction	3,896,892	1,139,084	(365,131)	-	4,670,845	-	-	-	-	4,670,845
TOTAL	35,286,543	2,518,279	(596,738)	2,903	37,210,987	13,176,250	847,090	(198,634)	13,824,706	23,386,281

CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS – SCHEDULE 1

As at and for the year ended December 31, 2012
(all dollar amounts in thousands of dollars)

2012

	Cost 2012				Accumulated Amortization 2012				Net Book Value 2012
	Beginning	Additions	Disposals / Transfers	Donated	Ending	Beginning	Amortization	Disposals	
General									
Land	3,495,721	39,380	(23,752)	6,611	3,517,960	-	-	-	3,517,960
Land Improvements	627,924	23,207	(11,611)	28,595	668,115	305,736	20,346	(765)	325,317
Buildings and building improvements	6,169,364	256,873	(19,602)	-	6,406,635	2,160,676	195,951	(6,508)	2,350,119
Machinery and equipment	1,578,586	150,215	(52,365)	-	1,676,436	914,389	140,957	(50,154)	1,005,192
vehicles	1,956,927	94,683	(54,043)	-	1,997,567	1,209,100	110,989	(51,860)	1,268,229
Total General	13,828,522	564,358	(161,373)	35,206	14,266,713	4,589,901	468,243	(109,287)	4,948,857
Infrastructure									
Land	137,676	442	-	-	138,118	-	-	-	138,118
Buildings and building improvements	384,794	88,262	-	-	473,056	125,825	5,548	-	131,373
Machinery and equipment	1,493,362	164,462	-	-	1,657,824	832,963	42,545	-	875,508
Water and wastewater linear	5,110,148	74,071	(1,613)	-	5,182,606	1,880,570	61,974	(1,163)	1,941,381
Roads linear	3,929,635	97,152	(20,921)	-	4,005,866	1,809,276	88,072	(17,814)	1,879,534
Transit	5,388,230	319,000	(41,762)	-	5,665,468	3,305,897	135,463	(41,763)	3,399,597
Total infrastructure	16,443,845	743,389	(64,296)	-	17,122,938	7,954,531	333,602	(60,740)	8,227,393
Assets under construction	2,971,227	1,251,962	(326,297)	-	3,896,892	-	-	-	-
TOTAL	33,243,594	2,559,709	(551,966)	35,206	35,286,543	12,544,432	801,845	(170,027)	13,176,250

SCHEDULE OF GOVERNMENT BUSINESS ENTERPRISES – APPENDIX 1

As at and for the year ended December 31, 2013
(all dollar amounts in thousands of dollars)

Condensed Financial Results (\$) Fiscal Year Ended	Toronto Hydro Corporation December 31		Toronto Parking Authority December 31		Enwave October 31		Toronto Port Lands Company December 31		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Financial Position										
Assets										
Current	547,984	549,875	35,397	29,903	-	-	31,890	44,676	615,271	624,454
Capital	3,049,212	2,738,609	136,782	138,321	-	-	343,385	337,584	3,529,379	3,214,514
Other	144,965	165,190	80,403	81,874	-	-	7,980	-	233,348	247,064
	3,742,161	3,453,674	252,582	250,098	-	-	383,255	382,260	4,377,998	4,086,032
Liabilities										
Current	688,565	950,442	11,289	32,773	-	-	7,845	8,468	707,699	991,683
Long-term	1,787,128	1,274,076	13,516	10,032	-	-	8,364	8,538	1,809,008	1,292,646
	2,475,693	2,224,518	24,805	42,805	-	-	16,209	17,006	2,516,707	2,284,329
Net equity	1,266,468	1,229,156	227,777	207,293	-	-	367,046	365,254	1,861,291	1,801,703
City's share (Note 6)	1,241,600	1,202,707	227,777	207,293	-	-	367,046	365,254	1,836,423	1,775,254
Results of Operations										
Revenues	3,178,725	2,866,323	138,409	132,168	-	76,981	7,047	46,203	3,324,181	3,121,675
Expenses	3,085,273	2,788,651	73,729	73,983	-	71,899	5,134	6,579	3,164,136	2,941,112
Actuarial gain from Other	13,918	-	-	-	-	-	-	-	13,918	-
Comprehensive Income (OCI)	107,370	77,672	64,680	58,185	-	5,082	1,913	39,624	173,963	180,563
City's share (Note 6)	107,370	77,672	64,680	58,185	-	2,186	1,913	39,624	173,963	177,667
Distribution to City (Note 6)	-	-	44,196	55,613	-	-	121	3,804	44,317	59,417
Dividends paid to City (Note 6)	42,995	47,966	-	-	-	-	-	40,000	42,995	87,966
Net book value of assets sold from the City to Toronto Hydro Corporation (Note 6)	24,868	26,449	-	-	-	-	-	-	24,868	26,449

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE – SERVICE – 2013 – APPENDIX 2*

for the year ended December 31, 2013

(all dollar amounts in thousands of dollars)

2013

	General Government	Protection	Transportation	Environmental	Health	Social and Family	Social Housing	Recreation and Cultural	Planning and Development	Consolidated
Taxation	4,168,914	-	-	-	-	-	-	-	-	4,168,914
User charges	44,878	164,769	1,203,380	970,995	2,077	52,567	16,792	158,641	24,444	2,638,543
Government transfers	147,399	36,472	629,639	40,282	274,687	1,478,053	277,356	48,439	19,831	2,952,158
Net GBE income	175,544	-	-	-	-	-	-	-	-	175,544
Other	354,042	37,633	326,173	33,961	3,389	16,255	364,002	152,929	9,016	1,297,400
TOTAL REVENUES	4,890,777	238,874	2,159,192	1,045,238	280,153	1,546,875	658,150	360,009	53,291	11,232,559
Salaries, wages and benefits	355,846	1,503,525	1,311,319	244,952	330,918	550,871	124,741	505,501	44,345	4,972,018
Materials	226,660	23,818	322,018	122,555	20,151	76,134	9,814	106,150	10,931	918,231
Contracted services	183,564	22,584	475,529	224,299	39,241	318,826	222,414	128,650	12,072	1,627,179
Interest on long-term debt	13,602	11,928	160,525	13,312	781	4,018	65,787	21,087	7,760	298,800
Transfer payments	(161,177)	42,341	68,223	107,377	21,902	997,053	191,322	75,457	26,099	1,368,597
Other	80,204	13,289	19,603	(5,052)	2,502	16,012	15,071	13,169	24,178	178,976
Amortization	71,712	38,561	412,072	130,901	6,543	178	128,875	55,973	2,275	847,090
TOTAL EXPENSES	770,411	1,656,046	2,769,289	838,344	422,038	1,963,092	758,024	905,987	127,660	10,210,891
ANNUAL SURPLUS/(DEFICIENCY)	4,120,366	(1,417,172)	(610,097)	206,894	(141,885)	(416,217)	(99,874)	(545,978)	(74,369)	1,021,668

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

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE – SERVICE – 2012 – APPENDIX 2*

for the year ended December 31, 2012

(all dollar amounts in thousands of dollars)

2012

	General Government	Protection	Transportation	Environmental	Health	Social and Family	Social Housing	Recreation and Cultural	Planning and Development	Consolidated
Taxation	4,157,702	-	-	-	--	-	-	-	-	4,157,702
User charges	46,155	165,433	1,160,143	847,388	1,507	52,136	15,882	173,275	20,835	2,482,754
Government transfers	120,314	35,843	763,065	43,357	268,791	1,480,970	315,578	12,622	13,678	3,054,218
Net GBE income	180,097	-	-	-	-	-	-	-	-	180,097
Gain on sale of Enwave	96,611	-	-	-	-	-	-	-	-	96,611
Other	432,894	44,033	345,413	43,391	3,519	25,068	390,095	121,745	98,120	1,504,278
TOTAL REVENUES	5,033,773	245,309	2,268,621	934,136	273,817	1,558,174	721,555	307,642	132,633	11,475,660
Salaries, wages and benefits	325,437	1,393,591	1,603,217	239,631	314,170	542,964	111,904	495,343	43,181	5,069,438
Materials	210,945	24,858	253,613	111,941	16,449	49,825	17,049	82,369	(4,800)	762,249
Contracted services	169,808	24,948	363,972	191,311	40,295	320,354	169,085	109,850	21,646	1,411,269
Interest on long-term debt	9,755	11,303	151,151	12,462	724	4,817	69,783	20,235	7,760	267,990
Transfer payments	(29,082)	47,843	43,149	(54,965)	19,899	1,065,498	254,099	61,647	6,310	1,414,398
Other	66,799	13,858	31,081	7,408	2,461	16,260	103,430	38,787	21,934	302,018
Amortization	71,206	42,046	381,991	124,549	3,212	178	124,676	53,485	502	801,845
TOTAL EXPENSES	824,868	1,558,447	2,828,174	632,337	397,210	1,999,896	850,026	861,716	96,533	10,049,207
ANNUAL SURPLUS/(DEFICIENCY)	4,208,905	(1,313,138)	(559,553)	301,799	(123,393)	(441,722)	(128,471)	(554,074)	36,100	1,426,453

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

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE – ENTITY – APPENDIX 3

for the year ended December 31, 2013

(all dollar amounts in thousands of dollars)

2013

	City	Police Services	Toronto Transit Commission	Toronto Public Library	Toronto Community Housing Corporation	Other Agencies and Corporations	TOTAL
Taxation	4,168,914	-	-	-	-	-	4,168,914
User charges	1,465,163	7,038	1,067,442	4,548	16,792	77,560	2,638,543
Government transfers	2,678,446	35,952	209,792	6,137	-	21,831	2,952,158
Net GBE income	175,544	-	-	-	-	-	175,544
Other	746,613	20,746	77,707	23,126	362,017	67,191	1,297,400
TOTAL REVENUES	9,234,680	63,736	1,354,941	33,811	378,809	166,582	11,232,559
Salaries, wages and benefits	2,506,185	998,518	1,147,111	138,962	104,223	77,019	4,972,018
Materials	617,982	7,826	211,798	15,683	9,814	55,128	918,231
Contracted services	1,151,095	14,508	202,552	22,259	222,414	14,351	1,627,179
Interest on long-term debt **	221,450	10,057	-	-	65,787	1,506	298,800
Transfer payments	2,212,008	(1,064)	(449,239)	(170,886)	(246,920)	24,698	1,368,597
Other	86,945	4,228	29,447	2,270	15,071	41,015	178,976
Amortization	328,321	32,473	318,793	29,544	128,875	9,084	847,090
TOTAL EXPENSES	7,123,986	1,066,546	1,460,462	37,832	299,264	222,801	10,210,891
ANNUAL SURPLUS/ (DEFICIENCY)	2,110,694	(1,002,810)	(105,521)	(4,021)	79,545	(56,219)	1,021,668

** As at December 31, the City has issued \$2,467,505 in debentures for capital expenditures made on behalf of the TTC (2012: \$2,470,165). Included in interest on long-term debt is \$121,133 related to this debt.

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE – ENTITY – APPENDIX 3

for the year ended December 31, 2012

(all dollar amounts in thousands of dollars)

2012

	City	Police Services	Toronto Transit Commission	Toronto Public Library	Toronto Community Housing Corporation	Other Agencies and Corporations	TOTAL
Taxation	4,157,702	-	-	-	-	-	4,157,702
User charges	1,337,423	6,723	1,023,423	4,832	15,882	94,471	2,482,754
Government transfers	2,236,820	35,155	761,589	3,240	-	17,414	3,054,218
Net GBE income	180,097	-	-	-	-	-	180,097
Gain on sale of Enwave	96,611	-	-	-	-	-	96,611
Other	798,088	21,241	182,344	13,554	379,614	109,437	1,504,278
TOTAL REVENUES	8,806,741	63,119	1,967,356	21,626	395,496	221,322	11,475,660
Salaries, wages and benefits	2,330,000	970,571	1,439,464	133,140	111,904	84,359	5,069,438
Materials	573,332	10,396	129,370	(1,383)	17,049	33,485	762,249
Contracted services	985,296	16,639	179,310	20,046	169,085	40,893	1,411,269
Interest on long-term debt **	208,897	9,310	-	-	69,783	-	287,990
Transfer payments	2,312,956	4,914	(436,263)	(156,422)	(267,511)	(43,276)	1,414,398
Other	108,597	3,790	39,434	2,497	103,430	44,270	302,018
Amortization	315,833	35,614	289,159	29,069	124,676	7,494	801,845
TOTAL EXPENSES	6,834,911	1,051,234	1,640,474	26,947	328,416	167,225	10,049,207
ANNUAL SURPLUS/(DEFICIENCY)	1,971,830	(988,115)	326,882	(5,321)	67,080	54,097	1,426,453

** As at December 31, the City has issued \$2,124,391 in debentures for capital expenditures made on behalf of the TTC (2010: \$1,806,229). Included in interest on long-term debt is \$103,327 related to this debt.

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE – TANGIBLE CAPITAL ASSETS BY ENTITY – APPENDIX 4

for the year ended December 31, 2013

2013 and 2012

	City, including Police Services	Toronto Transit Commission	Toronto Community Housing Corporation	Toronto Public Library	Other Agencies, and Corporations	TOTAL
2013						
General						
Cost	6,845,342	3,818,646	3,543,886	400,889	183,813	14,792,576
Accumulated amortization	1,851,954	2,117,654	1,197,465	153,147	59,847	5,380,067
Net Book Value	4,993,388	1,700,992	2,346,421	247,742	123,966	9,412,509
Infrastructure						
Cost	11,772,725	5,974,841	-	-	-	17,747,566
Accumulated amortization	5,003,333	3,441,306	-	-	-	8,444,639
Net Book Value	6,769,392	2,533,535	-	-	-	9,302,927
Assets under construction	1,481,487	2,953,738	122,110	20,154	93,356	4,670,845
Total	13,244,267	7,188,265	2,468,531	267,896	217,322	23,386,281
2012						
General						
Cost	6,678,860	3,611,118	3,420,935	374,590	181,210	14,266,713
Accumulated amortization	1,719,436	1,957,932	1,069,241	147,484	54,765	4,948,858
Net Book Value	4,959,424	1,653,186	2,351,694	227,106	126,445	9,317,855
Infrastructure						
Cost	11,457,470	5,665,468	-	-	-	17,122,938
Accumulated amortization	4,827,795	3,399,597	-	-	-	8,227,392
Net Book Value	6,629,675	2,265,871	-	-	-	8,895,546
Assets under construction	1,151,060	2,541,161	115,590	16,708	72,373	3,896,892
Total	12,740,159	6,460,218	2,467,284	243,814	198,818	22,110,293

GLOSSARY

Accrued Benefit Obligation: see Employee Benefits Liability – Gross.

Accrued Benefit Liability: see Employee Benefits Liability – Net.

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.

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

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

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

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

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

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

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

BOG: the Board of Governors of Exhibition Place

Budget - 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.

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.

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.

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

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

COLA: Cost of Living Adjustment

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

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

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

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

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

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.

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

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

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

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

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

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.

GAAS: generally accepted auditing standards. Standards established by Canadian Institute of Chartered Accountants (CICA) for use by public accountants when conducting external audits of the financial statements.

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

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

IAS: International Accounting Standards

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

Infrastructure: the facilities, systems and equipment required to provide public services and support private sector economic activity including network infrastructure (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. IFRSs are now available in part I of the CICA Handbook.

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

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

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

LRT: Light Rail Transit.

LRVs: Light Rail Vehicles.

LTD: Long Term Disability.

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

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

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

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.

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.

OW: Ontario Works financial assistance and employment assistance for people who meet provincial eligibility criteria.

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

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

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

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.

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 which ranks after other debts should a company fall into liquidation or bankruptcy.

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

TAF: the Toronto Atmospheric Fund

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

TCHC: the Toronto Community Housing Corporation

TDSB: the Toronto District School Board

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

Total Debt: the City's total borrowings outstanding.

TPA: Toronto Parking Authority

TPASC: Toronto Pan Am Sports Centre

TPLC: see TEDCO

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

TTC: the Toronto Transit Commission

TWRC: the Toronto Waterfront Revitalization Corporation

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.

WSIB: the Workplace Safety and Insurance Board