

# 2006 Consolidated Financial Statements

December 31, 2006



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## Management's Report

The management of the City of Toronto 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 generally accepted accounting principles established by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board. 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, reviews and approves the 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 2006 consolidated financial statements have been examined by the City of Toronto's external auditors, Ernst & Young LLP, Chartered Accountants, and their report precedes the consolidated financial statements.

Toronto, Canada  
May 2, 2007

Cam Weldon  
Treasurer

Joseph P. Pennachetti  
Deputy City Manager & Chief Financial Officer

Shirley Hoy  
City Manager

## Auditors' Report

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

We have audited the consolidated statement of financial position of the **City of Toronto** as at December 31, 2006 and the consolidated statements of financial activities and cash flows for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2006 and the results of its financial activities and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
May 2, 2007 [except as to note 8  
which is as of May 7, 2007]

Chartered Accountants  
Licensed Public Accountants

## Consolidated Statement of Financial Position

as at December 31, 2006  
(with comparative figures as at December 31, 2005)



	2006	2005
	(\$000)	(\$000)
<b>FINANCIAL ASSETS</b>		
Cash	127,682	54,753
Accounts receivable	714,066	725,258
Property taxes receivable	221,617	254,946
Other assets	5,220	4,397
Investments (Note 2)	2,820,677	2,590,043
Note receivable – Toronto Hydro Corporation (Note 3)	980,231	980,231
Receivable from Toronto District School Board (Note 8)	49,707	58,021
Investments in government business enterprises (Note 4)	1,080,544	1,012,568
<b>Total Financial Assets</b>	<b>5,999,744</b>	<b>5,680,217</b>
<b>FINANCIAL LIABILITIES</b>		
Accounts payable and accrued liabilities	1,842,975	1,800,992
Deferred revenue (Note 5)	867,889	882,968
Other liabilities (Notes 15)	174,602	216,123
Landfill closure and post-closure liabilities (Note 6)	128,724	125,025
Mortgages payable (Note 7)	930,543	965,396
Net long-term debt (Note 8)	2,261,455	1,965,121
Employee benefit liabilities (Note 9)	2,245,511	2,112,288
<b>Total Financial Liabilities</b>	<b>8,451,699</b>	<b>8,067,913</b>
<b>NET FINANCIAL LIABILITIES</b>	<b>(2,451,955)</b>	<b>(2,387,696)</b>
<b>NON-FINANCIAL ASSETS</b>		
Inventories and prepaid expenses	166,790	145,419
<b>NET LIABILITIES</b>	<b>(2,285,165)</b>	<b>(2,242,277)</b>
<b>MUNICIPAL POSITION</b>		
<b>FUND BALANCES</b>		
Operating fund (Schedule 1)	2,484,827	2,381,862
Capital fund (Note 11 and Schedule 2)	(193,683)	(245,159)
Reserves and reserve funds (Schedule 3)	1,057,493	890,897
<b>TOTAL FUND BALANCES</b>	<b>3,348,637</b>	<b>3,027,600</b>
Amounts to be recovered in future years:		
From reserves and reserve funds on hand	(297,633)	(283,287)
From future revenues	(5,336,169)	(4,986,590)
<b>TOTAL AMOUNTS TO BE RECOVERED (Note 10)</b>	<b>(5,633,802)</b>	<b>(5,269,877)</b>
<b>TOTAL MUNICIPAL POSITION</b>	<b>(2,285,165)</b>	<b>(2,242,277)</b>

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

## Consolidated Statement of Financial Activities

for the year ended December 31, 2006

(with comparative figures for the year ended December 31, 2005)



	2006 BUDGET	2006 ACTUALS	2005 ACTUALS
	(\$000) (Note 14)	(\$000)	(\$000)
<b>REVENUES</b>			
Residential and commercial property taxation	3,066,327	3,074,783	2,998,391
Taxation from other governments	83,930	89,667	83,618
User charges	1,929,052	1,850,107	1,766,557
Funding transfers from other governments	2,320,089	2,254,726	1,831,399
Net government business enterprise earnings (Note 4)	-	107,822	102,376
Other	1,203,315	1,134,567	943,337
<b>TOTAL REVENUES</b>	<b>8,602,713</b>	<b>8,511,672</b>	<b>7,725,678</b>
<b>EXPENDITURES</b>			
General government	651,722	546,412	583,129
Protection to persons and property	1,310,802	1,322,819	1,253,880
Transportation	2,383,194	2,241,737	1,956,011
Environmental services	1,007,283	841,794	781,706
Health services	344,346	336,663	324,191
Social and family services	1,868,277	1,722,911	1,610,249
Social housing	702,155	747,494	682,210
Recreation and cultural services	776,985	740,744	690,954
Planning and development	110,536	75,357	75,421
<b>TOTAL EXPENDITURES (Note 12)</b>	<b>9,155,300</b>	<b>8,575,931</b>	<b>7,957,751</b>
<b>NET EXPENDITURES AND INCREASE IN NET FINANCIAL LIABILITIES</b>	<b>(552,587)</b>	<b>(64,259)</b>	<b>(232,073)</b>
<b>FINANCING</b>			
New long-term debt and mortgages issued	544,480	532,644	500,000
Principal repayments on long-term debt and mortgages	(206,211)	(234,313)	(198,451)
Interest earned on sinking funds	-	(28,536)	(29,613)
Changes in solid waste landfill obligations	-	3,699	10,434
Changes in property and liability claims	-	(42,792)	12,042
Changes in employee benefit liabilities	-	133,223	134,513
<b>NET INCREASE IN AMOUNTS TO BE RECOVERED IN FUTURE YEARS</b>	<b>338,269</b>	<b>363,925</b>	<b>428,925</b>
<b>INCREASE IN NON-FINANCIAL ASSETS</b>	<b>-</b>	<b>21,371</b>	<b>1,107</b>
<b>INCREASE (DECREASE) IN FUND BALANCES</b>	<b>(214,318)</b>	<b>321,037</b>	<b>197,959</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>894,726</b>	<b>3,027,600</b>	<b>2,829,641</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>680,408</b>	<b>3,348,637</b>	<b>3,027,600</b>

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

## Consolidated Statement of Cash Flows

for the year ended December 31, 2006  
(with comparative figures for the year ended December 31, 2005)



	2006	2005
	(\$000)	(\$000)
<b>OPERATIONS</b>		
Net expenditures for the year	(64,259)	(232,073)
Uses of cash:		
Increase in accounts receivable	-	(97,603)
Increase in property taxes receivable	-	(40,772)
Increase in other assets	(823)	(1,558)
Decrease in other liabilities	(41,521)	-
Decrease in deferred revenue	(15,079)	-
	(57,423)	(139,933)
Sources of cash:		
Decrease in accounts receivable	11,192	-
Decrease in property taxes receivable	33,329	-
Increase in accounts payable and accrued liabilities	41,983	20,241
Increase in deferred revenue	-	99,640
Increase in other liabilities	-	19,626
Increase in landfill closure and post-closure liabilities	3,699	10,434
Increase in employee benefit liabilities	133,223	134,513
	223,426	284,454
Net increase (decrease) in cash from operations	101,744	(87,552)
<b>INVESTING</b>		
Net increase in investments	(230,634)	(217,647)
Net decrease (increase) in investments in government business enterprises	(67,976)	22,829
Net decrease in receivable from Toronto District School Board	8,314	14,682
Net decrease in cash from investing	(290,296)	(180,136)
<b>FINANCING</b>		
New long-term debt and mortgages issued	532,644	500,000
Principal repayments on long-term debt and mortgages	(234,313)	(198,451)
Interest earned on sinking funds	(28,536)	(29,613)
Principal repayments on debt by Toronto District School Board	(8,314)	(14,682)
Net increase in cash from financing	261,481	257,254
<b>NET INCREASE (DECREASE) - CASH</b>	72,929	(10,434)
<b>CASH - BEGINNING OF YEAR</b>	54,753	65,187
<b>CASH - END OF YEAR</b>	127,682	54,753

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

## Analysis of Consolidated Current Operations – Schedule 1

for the year ended December 31, 2006

(with comparative figures for the year ended December 31, 2005)



	2006 BUDGET	2006 ACTUALS	2005 ACTUALS
	(\$000)	(\$000)	(\$000)
<b>EXPENDITURES</b>			
<b>General government</b>			
Council	18,665	18,753	17,254
Administration	411,296	351,656	411,664
Ontario property assessment	32,200	30,376	29,881
Allowance for property tax appeals	87,000	75,627	62,189
	549,161	476,412	520,988
<b>Protection to persons and property</b>			
Fire	318,160	347,718	325,066
Police	768,682	782,502	743,926
Building services	85,332	82,189	81,666
Other	40,433	36,551	35,578
	1,212,607	1,248,960	1,186,236
<b>Transportation</b>			
Transit	1,143,122	1,160,194	1,067,249
Road/traffic signals maintenance	354,423	338,873	342,406
	1,497,545	1,499,067	1,409,655
<b>Environmental services</b>			
Water	174,335	159,718	164,174
Wastewater	183,851	187,269	180,756
Solid waste	222,797	233,480	211,008
	580,983	580,467	555,938
<b>Health services</b>			
Ambulance	138,368	144,312	140,283
Public health services	195,886	186,709	174,977
	334,254	331,021	315,260
<b>Social and family services</b>			
Social assistance	1,237,635	1,184,201	1,118,964
Long-term care	190,903	186,812	182,627
Child care assistance	413,657	329,223	295,304
	1,842,195	1,700,236	1,596,895
<b>Social housing</b>			
	589,485	578,953	582,648
<b>Recreation and cultural services</b>			
Parks	130,571	119,772	122,831
Recreation	218,462	242,559	229,543
Other	262,724	245,670	244,548
	611,757	608,001	596,922
<b>Planning and development</b>			
Planning	32,957	33,613	28,733
Business development	10,018	10,971	11,658
	42,975	44,584	40,391
<b>Total Expenditures</b>	7,260,962	7,067,701	6,804,933

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

# Analysis of Consolidated Current Operations – Schedule 1

for the year ended December 31, 2006

(with comparative figures for the year ended December 31, 2005)



	2006 BUDGET (\$000)	2006 ACTUALS (\$000)	2005 ACTUALS (\$000)
<b>REVENUES</b>			
Residential and commercial property taxation	3,066,327	3,074,783	2,998,391
Taxation from other governments	83,930	89,667	83,618
User charges:			
Transit fares	738,100	740,510	714,509
Water sales	584,009	568,220	541,132
Fines	120,573	134,272	130,991
Licenses and permits	105,126	94,430	94,955
Fees and service charges	381,244	312,675	284,970
Government transfers:			
Social assistance	712,731	675,500	650,208
Child care assistance	320,084	233,687	203,273
Health services	135,210	125,981	104,954
Social housing	397,603	392,358	365,436
Other	359,173	368,184	268,023
Investment income	203,073	191,792	138,863
Net government business enterprises earnings (Note 4)		107,822	102,376
Other	348,428	488,144	451,936
<b>Total Revenues</b>	<b>7,555,611</b>	<b>7,598,025</b>	<b>7,133,635</b>
<b>NET REVENUES FOR THE YEAR</b>	<b>294,649</b>	<b>530,324</b>	<b>328,702</b>
<b>FINANCING AND TRANSFERS</b>			
Principal repayments on long-term debt and mortgages	(206,211)	(234,313)	(198,451)
Interest earned on sinking funds	-	(28,536)	(29,613)
Changes in employee benefit liabilities	-	133,223	134,513
Changes in property and liability claims	-	(42,792)	12,042
Transfers to reserves	(65,908)	(79,583)	(50,477)
Transfers from reserve funds	181,137	39,555	65,755
Transfers to capital fund	(203,667)	(236,284)	(197,248)
<b>Total Financing and Transfers</b>	<b>(294,649)</b>	<b>(448,730)</b>	<b>(263,479)</b>
<b>Increase in Non-Financial Assets</b>	<b>-</b>	<b>21,371</b>	<b>1,107</b>
<b>NET INCREASE IN OPERATING FUND BALANCE FOR THE YEAR</b>	<b>-</b>	<b>102,965</b>	<b>66,330</b>
<b>OPERATING FUND BALANCE – BEGINNING OF YEAR</b>	<b>-</b>	<b>2,381,862</b>	<b>2,315,532</b>
<b>OPERATING FUND BALANCE – END OF YEAR</b>	<b>-</b>	<b>2,484,827</b>	<b>2,381,862</b>

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

## Analysis of Consolidated Capital Operations – Schedule 2

for the year ended December 31, 2006

(with comparative figures for the year ended December 31, 2005)



	2006 BUDGET	2006 ACTUALS	2005 ACTUALS
	(\$000)	(\$000)	(\$000)
<b>EXPENDITURES</b>			
<b>General government</b>	102,561	70,000	62,141
<b>Protection to persons and property</b>			
Fire	30,486	18,467	13,829
Police	58,539	44,495	45,628
Other	9,170	10,897	8,187
	<u>98,195</u>	<u>73,859</u>	<u>67,644</u>
<b>Transportation</b>			
Transit	572,435	548,169	389,481
Roads	313,214	194,501	156,875
	<u>885,649</u>	<u>742,670</u>	<u>546,356</u>
<b>Environmental services</b>			
Water	198,668	162,234	112,641
Wastewater	188,891	84,505	73,739
Solid waste	38,741	14,588	39,388
	<u>426,300</u>	<u>261,327</u>	<u>225,768</u>
<b>Health services</b>			
Ambulance	9,242	5,422	8,141
Public health services	850	220	790
	<u>10,092</u>	<u>5,642</u>	<u>8,931</u>
<b>Social and family services</b>			
Social assistance	9,561	9,250	5,531
Long-term care	7,200	4,901	5,172
Child care assistance	9,321	8,524	2,651
	<u>26,082</u>	<u>22,675</u>	<u>13,354</u>
<b>Social housing</b>	112,670	168,541	99,562
<b>Recreation and cultural services</b>			
Parks	56,685	39,415	22,736
Recreation	76,050	49,721	26,770
Other	32,493	43,607	44,526
	<u>165,228</u>	<u>132,743</u>	<u>94,032</u>
<b>Planning and development</b>			
Planning	6,568	3,510	3,050
Business development	60,993	27,263	31,980
	<u>67,561</u>	<u>30,773</u>	<u>35,030</u>
<b>Total Expenditures</b>	<u>1,894,338</u>	<u>1,508,230</u>	<u>1,152,818</u>

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

## Analysis of Consolidated Capital Operations – Schedule 2

for the year ended December 31, 2006

(with comparative figures for the year ended December 31, 2005)



	<b>2006 BUDGET</b>	<b>2006 ACTUALS</b>	<b>2005 ACTUALS</b>
	(\$000)	(\$000)	(\$000)
<b>REVENUES</b>			
Government of Canada transfers	216,442	167,502	164,427
Province of Ontario transfers	178,846	158,914	75,078
Other municipalities	18,372	22,376	4,843
Other	579,597	367,627	278,044
<b>Total Revenues</b>	<b>993,257</b>	<b>716,419</b>	<b>522,392</b>
<b>NET EXPENDITURES FOR THE YEAR</b>	<b>(901,081)</b>	<b>(791,811)</b>	<b>(630,426)</b>
<b>FINANCING AND TRANSFERS</b>			
New long-term debt and mortgages issued	544,480	532,644	500,000
Changes in solid waste landfill obligations (Note 6)	-	3,699	10,434
Transfers from operating fund	203,667	236,284	197,248
Transfers from reserves	111,167	54,912	32,793
Transfers from reserve funds	25,970	15,748	9,612
<b>Total Financing and Transfers</b>	<b>885,284</b>	<b>843,287</b>	<b>750,087</b>
<b>NET INCREASE (DECREASE) IN CAPITAL FUND BALANCE FOR THE YEAR</b>	<b>(15,797)</b>	<b>51,476</b>	<b>119,661</b>
<b>CAPITAL FUND BALANCE – BEGINNING OF YEAR</b>	<b>15,797</b>	<b>(245,159)</b>	<b>(364,820)</b>
<b>CAPITAL FUND BALANCE – END OF YEAR</b>	<b>-</b>	<b>(193,683)</b>	<b>(245,159)</b>

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

## Analysis of Consolidated Reserves and Consolidated Reserve Funds – Schedule 3



for the year ended December 31, 2006  
(with comparative figures for the year ended December 31, 2005)

	<b>2006 BUDGET</b>	<b>2006 ACTUALS</b>	<b>2005 ACTUALS</b>
	(\$000)	(\$000)	(\$000)
<b>RESERVES</b>			
<b>TRANSFERS FROM (TO) OTHER FUNDS</b>			
Reserve fund	-	17,791	-
Operating fund	65,908	79,583	50,477
Capital fund	(111,167)	(54,912)	(32,793)
<b>TOTAL TRANSFERS FROM (TO) OTHER FUNDS FOR THE YEAR</b>	<b>(45,259)</b>	<b>42,462</b>	<b>17,684</b>
<b>RESERVES BALANCE – BEGINNING OF YEAR</b>	<b>178,801</b>	<b>196,485</b>	<b>178,801</b>
<b>RESERVES BALANCE – END OF YEAR (APPENDIX 1)</b>	<b>133,542</b>	<b>238,947</b>	<b>196,485</b>
<b>RESERVE FUNDS</b>			
<b>REVENUES</b>			
Sale of land	12,882	8,505	17,713
Government Transfers	-	132,600	-
Investment income	40,963	44,461	34,111
Other	-	11,662	17,827
<b>TOTAL REVENUES</b>	<b>53,845</b>	<b>197,228</b>	<b>69,651</b>
<b>TRANSFERS TO OTHER FUNDS</b>			
Reserves	-	(17,791)	-
Operating fund	(181,137)	(39,555)	(65,755)
Capital fund	(25,970)	(15,748)	(9,612)
<b>TOTAL TRANSFERS TO OTHER FUNDS</b>	<b>(207,107)</b>	<b>(73,094)</b>	<b>(75,367)</b>
<b>NET INCREASE (DECREASE) IN RESERVE FUNDS BALANCE FOR THE YEAR</b>	<b>(153,262)</b>	<b>124,134</b>	<b>(5,716)</b>
<b>RESERVE FUNDS BALANCE – BEGINNING OF YEAR</b>	<b>700,128</b>	<b>694,412</b>	<b>700,128</b>
<b>RESERVE FUNDS BALANCE – END OF YEAR (APPENDIX 1)</b>	<b>546,866</b>	<b>818,546</b>	<b>694,412</b>
<b>TOTAL RESERVES AND RESERVE FUNDS</b>	<b>680,408</b>	<b>1,057,493</b>	<b>890,897</b>

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

## 1. Significant Accounting Policies

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

### Basis of Consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures of the operating fund, capital fund, reserves and reserve funds of the City of Toronto (the "City") and, except for government business enterprises which are accounted for by the modified equity basis of accounting, 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.

### Consolidated entities:

#### *Agencies, Boards and Commissions:*

- |   |   |
|---|---|
| ❖ Exhibition Place                              | ❖ Toronto Community Housing Corporation |
| ❖ Heritage Toronto                              | ❖ Toronto Licensing Commission          |
| ❖ Hummingbird Centre for the Performing Arts    | ❖ Toronto Police Services Board         |
| ❖ North York Performing Arts Centre Corporation | ❖ Toronto Public Library Board          |
| ❖ St. Lawrence Centre for the Arts              | ❖ Toronto Transit Commission            |
| ❖ Toronto Atmospheric Fund                      | ❖ Toronto Zoo                           |
| ❖ Toronto Board of Health                       | ❖ Yonge-Dundas Square                   |

#### *Arenas:*

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

#### *Community Centres:*

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

*Business Improvement Areas:*

- |                       |                             |                              |
|-----------------------|-----------------------------|------------------------------|
| ❖ Beaches             | ❖ Gerrard India Bazaar      | ❖ Pape Village               |
| ❖ Bloor Annex         | ❖ Greektown on the Danforth | ❖ Queens Quay Harbourfront   |
| ❖ Bloor by the Park   | ❖ Harbord Street            | ❖ Riverside                  |
| ❖ Bloorcourt Village  | ❖ Hillcrest Village         | ❖ Roncesvalles Village       |
| ❖ Bloorcourt Village  | ❖ Junction Gardens          | ❖ Rosedale Main Street       |
| ❖ Bloor West Village  | ❖ Kennedy Road              | ❖ St. Clair Gardens          |
| ❖ Bloor-Yorkville     | ❖ Kingsway                  | ❖ St. Clair Avenue West      |
| ❖ Church-Wellesley    | ❖ Knob Hill Plaza           | ❖ St. Lawrence Neighbourhood |
| ❖ Cliffside           | ❖ Korea Town                | ❖ Upper Village (Toronto)    |
| ❖ College Promenade   | ❖ Lakeshore Village         | ❖ Upper Village (York)       |
| ❖ Corso Italia        | ❖ Liberty Village           | ❖ Village of Islington       |
| ❖ Danforth Village    | ❖ Little Italy              | ❖ West Queen West            |
| ❖ The Danforth        | ❖ Long Branch               | ❖ Weston Village             |
| ❖ Dovercourt Village  | ❖ Mimico by the Lake        | ❖ Wexford                    |
| ❖ Downtown Yonge      | ❖ Mimico Village            | ❖ Wychwood Heights           |
| ❖ Eglinton Hill       | ❖ Mirvish Village           | ❖ Yonge-Lawrence Village     |
| ❖ The Eglinton Way    | ❖ Mount Dennis              | ❖ York-Eglinton              |
| ❖ Emery Village       | ❖ Old Cabbagetown           |                              |
| ❖ Forest Hill Village | ❖ Parkdale Village          |                              |

All interfund assets and liabilities and sources of financing and expenditures have been eliminated in these consolidated financial statements.

**Government Business Enterprises**

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.

- ❖ Enwave District Energy Limited ("Enwave")
- ❖ Toronto Economic Development Corporation ("TEDCO")
- ❖ Toronto Hydro Corporation
- ❖ Toronto Parking Authority

**Trust Funds**

Trust funds and their related operations administered by the City are not included in the consolidated financial statements, but are reported separately on the Trust Fund Statement of Continuity and the Trust Fund Balance Sheet (Note 13).

**Basis of Accounting**

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable; expenditures are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

## Capital Assets

The historical cost and accumulated depreciation of capital assets are not reported. Capital assets are reported as an expenditure on the Consolidated Statement of Financial Activities in the year of acquisition.

## Use of Estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures for the year. These estimates and assumptions, including such areas as employee benefits, assessment appeals, claims provisions, landfill liabilities and environmental provisions, are based on the City's best information and judgement and may differ significantly based on actual results.

## Tax Revenues

Annually, the City bills and collects over \$3.1 billion in property tax revenues for municipal purposes. A further \$1.9 billion in provincial education taxes are billed and collected each year 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* (for 2007), the *Municipal Act, 2001* (prior to 2007), 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 costs of education on a Province-wide basis.

Property assessments, on which property taxes are based, are established by the Municipal Property Assessment Corporation ("MPAC"), a not-for-profit corporation funded by all of Ontario's municipalities. The current value assessment ("CVA") of a property represents an estimated market value of a property as of a fixed date. Assessed values for all properties within the municipality are provided to the City in the form of 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 and the tax rate for the class, 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 property's previous year total taxes, and provides for the cash requirements of the City for the initial part of the year prior to Council's approval of the final operating budget and the approved property tax levy for the year. Final bills are issued in May, following Council's approval of the capital and operating 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 up to four supplementary assessment rolls over the course of the year from MPAC that identify new or omitted assessments. Property taxes for these supplementary/omitted amounts are then billed according to the approved tax rate for the property class.

Taxation revenues in any year may also be reduced as a result of reductions in assessment values rising from assessment and/or 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 to begin in 2006. These changes include limiting allowable annual tax increases on these property classes to 5 per cent 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 over a 15-year time period (2006 to 2020).

### **Investments**

Investments are recorded at amortized cost less any amounts written off to reflect a permanent decline in value. Investments consist of authorized investments pursuant to provisions of the *Municipal Act* and comprise government and corporate bonds, debentures and short-term instruments of various financial institutions.

Investment income earned on available current funds, capital funds, reserve and reserve funds (other than obligatory funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue balances.

### **Property and Liability Claims**

Estimated costs to settle claims are based on available loss information and projections of estimated future expenditures developed from the City's historical experience on loss payments. Claims are reported as an operating expenditure in the year of the loss, where the costs are deemed to be likely and can be reasonably determined, and are reported as a liability on the Consolidated Statement of Financial Position.

### **Environmental Provisions**

The City provides for the cost of compliance with environmental legislation when conditions are identified which indicate non-compliance with environmental legislation and costs can be reasonably determined. The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation.

### **Landfill Closure and Post-Closure Liabilities**

The estimated costs to maintain closed solid waste landfill sites are based on estimated future expenditures in current dollars, adjusted for estimated inflation, and 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 recognized as revenue in the fiscal year the related expenditures are incurred or services performed.

### Employee Benefits

The contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due.

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 benefits are actuarially determined using the projected benefits method pro-rated on service and management's best estimate 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 average remaining service life of the related employee group. Employee future benefit liabilities are discounted using current interest rates on long-term bonds. The costs of workplace safety and insurance obligations are actuarially determined and are expensed.

### Government Transfers

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

### Reserves and Reserve Funds

Reserves and reserve funds comprise funds set aside for specific purposes by Council and funds which are 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.

## 2. Investments

The cost and market value of the investments reported on the Consolidated Statement of Financial Position as at December 31 are as follows:

	2006		2005	
	Cost (\$000)	Market Value (\$000)	Cost (\$000)	Market Value (\$000)
Federal government bonds	865,087	885,671	460,773	479,066
Provincial government bonds	858,960	883,206	639,072	671,033
Municipal government bonds	404,383	421,569	403,503	430,977
Money market instruments	26,247	26,247	434,022	434,762
Corporate bonds	314,966	315,690	330,588	336,137
Other	351,034	364,364	322,085	323,524
	<u>2,820,677</u>	<u>2,896,747</u>	<u>2,590,043</u>	<u>2,675,499</u>

The weighted average yield on the cost of the bond investment portfolio during the year was 4.65% (2005 – 4.84%). Maturity dates on investments in the portfolio range from 2007 to 2037 (2005 - 2006 to 2035). Included in the City's investment portfolio are City of Toronto debentures at coupon rates varying from 4.55% to 8.0% and with a carrying value of \$192,596,000 (2005 - \$196,339,000). Other investments include pooled fixed income and equity funds held by the Toronto Community Housing Corporation ("TCHC") as at December 31, 2006 amounting to \$147,818,000 (2005 - \$146,155,000).

### 3. Note Receivable – Toronto Hydro Corporation

The note receivable from Toronto Hydro Corporation was amended on September 5, 2006 to fix the interest rate, effective May 1, 2006, at 6.11% per annum (2005 - 6.8%) and to establish an agreed repayment schedule. Toronto Hydro Corporation is required to pay the principal amount of the note as follows: \$245,058,000 on the last business day before each of December 31, 2007, December 31, 2009, December 31, 2011 and on May 6, 2013. Interest is calculated and payable quarterly in arrears on the last business day of March, June, September and December of each year.

### 4. Investments in Government Business Enterprises

Government business enterprises consist of Toronto Hydro Corporation, Toronto Parking Authority, TEDCO and Enwave. The City holds an interest of approximately 43% (2005 - 43%) in Enwave and a 100% interest in the other government business enterprises. Details of the continuity of the book value of these investments are as follows:

	2006 (\$000)	2005 (\$000)
Balance - beginning of year	1,012,568	1,035,397
Results of operations (Appendix 2)	107,822	102,376
Dividends received (Appendix 2)	(46,200)	(68,000)
Elimination of sale of streetlighting assets to Toronto Hydro Corporation (Appendix 2)	-	(60,000)
Change in net value of streetlighting assets eliminated on sale to Toronto Hydro Corporation (Appendix 2)	6,354	-
	1,080,544	1,009,773
Subscription to additional Enwave shares, subsequent to October 31 fiscal year end of Enwave	-	2,795
Balance - end of year	1,080,544	1,012,568

Condensed financial results for each government business enterprise are disclosed in Appendix 2 to these notes to the consolidated financial statements. The results presented in Appendix 2 relate to fiscal years ended December 31 for all government business enterprises except Enwave, whose results are presented based on an October 31 fiscal year end.

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

	2006 (\$000)	2005 (\$000)
<b>Received by the City:</b>		
These amounts are included in expenses of the appropriate government business enterprise in the condensed financial results reported in Appendix 2 to these consolidated financial statements		
Interest on note receivable from Toronto Hydro Corporation (Note 3)	62,160	66,656
Share of operating income from Toronto Parking Authority	32,719	30,608
Interest on loans to TEDCO	-	9
<b>Purchased by the City:</b>		
This amount is included in revenues of Toronto Hydro Corporation in the condensed financial results reported in Appendix 2 to these consolidated financial statements		
Streetlighting electricity and maintenance services from Toronto Hydro Corporation	24,568	14,452

**5. Deferred Revenue**

Revenues received that have been set aside for specific purposes by legislation, regulation or agreement are included in deferred revenue and reported on the Consolidated Statement of Financial Position. Details of these revenues are as follows:

	2006 (\$000)	2005 (\$000)
<b>Obligatory Reserve Funds:</b>		
Development Charges	194,599	190,313
Water / Wastewater	153,694	155,818
Third Party Agreements	110,379	83,644
Community Services	71,160	105,260
Parkland Acquisition	70,558	72,858
State of Good Repair	21,866	22,830
Planning Act	8,599	7,025
Parking Authority	6,756	6,358
Donations	2,910	2,537
	640,521	646,643
<b>Other Deferred Revenues:</b>		
Community Services	25,595	4,558
Planning Act	42,742	37,539
Agencies, Boards & Community Centres	159,031	194,228
<b>Total</b>	<b>867,889</b>	<b>882,968</b>

## 6. Landfill Closure and Post-Closure Liabilities

The Ontario Environmental Protection Act sets out the regulatory requirements for the closure and maintenance of landfill sites. Under this 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 over the estimated remaining life of active landfill sites based on usage.

The City has approximately 161 (2005 – 161) inactive landfill sites and retains responsibility for all costs relating to closure and post-closure care. The City closed its last remaining active landfill site, Keele Valley, on December 31, 2002 and completed its closure activities on this site during 2005.

Post-closure care activities for landfill sites are expected to occur for a minimum of 40 years 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 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 5% (2005 – 5%). The estimated present value of future expenditures for closure and post-closure care as at December 31, 2006 is \$128,724,000 (2005 – \$125,025,000).

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, 2006 was \$35,796,000 (2005 - \$33,998,000) and is included as part of State of Good Repair Reserve Fund in Appendix 1, and the balance in the Keele Valley Site Post-Closure Trust Fund as at December 31, 2006 was \$7,095,000 (2005 - \$6,885,000) (Note 13).

Subsequent to the year end, The City of Toronto 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 \$220,310,000 purchase was finalized on April 2, 2007.

## 7. Mortgages Payable

The mortgages payable are obligations of TCHC which has provided a security interest in the housing properties owned by TCHC. These properties have a net book value of \$1,351,312,000 (2005 - \$1,362,475,000) and have not been reflected in the Consolidated Statement of Financial Position.

Interest rates of the mortgages range from 3.3% to 13.3%. Principal repayments relating to the mortgages outstanding as at December 31, 2006 are due as follows:

	<b>\$000</b>
2007	30,736
2008	32,364
2009	34,203
2010	36,133
2011	37,929
Thereafter	759,178
	<u>930,543</u>

## 8. Net Long-Term Debt

Provincial legislation restricts the use of long-term debt to finance only capital expenditures. Provincial legislation allows the City to issue debt on behalf of the Toronto School Boards at the request of these boards. The responsibility of raising the amounts to service these liabilities lies with the respective school board. The debt is a direct, joint and several obligation of the City and the school boards.

Net long-term debt reported on the Consolidated Statement of Financial Position comprises the following:

	<b>2006</b>	<b>2005</b>
	<b>(\$000)</b>	<b>(\$000)</b>
Long-term debt issued by the City at various rates of interest ranging from 3.65% to 8.65%	2,656,039	2,443,505
Loans payable bearing interest between 4.81% to 5.15%	47,972	-
Loans payable to the Province of Ontario at 2.76%	170,171	170,171
Loan payable bearing interest at 8.05%	1,574	1,652
Sinking fund deposits bearing interest between 4% to 6%	(614,301)	(650,207)
	<b>2,261,455</b>	<b>1,965,121</b>

Principal repayments relating to net long-term debt of \$2,261,455 outstanding as at December 31, 2006 are due as follows:

	<b>\$000</b>
2007	327,415
2008	297,533
2009	292,067
2010	271,008
2011	242,981
Thereafter	830,451
	<b>2,261,455</b>

Included in net long-term debt are outstanding debentures of \$2,188,000,000 (2005 - \$1,888,000,000) for which there are sinking fund assets with a carrying value of \$620,429,000 (market value - \$666,704,000) (2005 - \$666,371,000 (market value - \$720,965,000)). 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 \$102,654,000 (market value - \$105,365,000) (2005 - \$146,357,000 (market value - \$154,106,000)).

The City's long-term liabilities at the end of the year are to be recovered from the following sources:

	<b>2006</b>	<b>2005</b>
	<b>(\$000)</b>	<b>(\$000)</b>
Property taxes	2,211,110	1,904,772
Water billings	638	2,328
Toronto District School Board	49,707	58,021
	<b>2,261,455</b>	<b>1,965,121</b>

On May 7, 2007, TCHC entered into a credit agreement with TCHC Issuer Trust which in turn has entered into an agreement with various agents to issue \$250,000,000 4.877% Debenture Series A due May 11, 2037 subject to prior sale by the agents [the "Offering"]. TCHC Issuer Trust will advance the proceeds of the Offering to TCHC as a loan pursuant to the Credit Agreement and Master Covenant Agreement between TCHC and TCHC Issuer Trust. TCHC will use such advance for long-term financing of social housing projects and related programs of TCHC and its affiliates.

## 9. Employee Benefit Liabilities

The City provides certain benefits, including retirement and other post-employment benefits, to most of its employees. Employee benefit liabilities as at December 31 are as follows:

	<b>2006</b>	<b>2005</b>
	<b>(\$000)</b>	<b>(\$000)</b>
Future payments required for:		
Pension liabilities, other than OMERS	81,104	95,442
Sick leave benefits	285,164	308,308
Workplace Safety and Insurance Board obligations	318,640	289,225
Other employment and post-employment benefits	1,732,595	1,547,001
Total employee benefit obligation	2,417,503	2,239,976
Less: unamortized actuarial loss	171,992	127,688
Employee benefit liabilities	<b>2,245,511</b>	<b>2,112,288</b>

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

	<b>2006</b>	<b>2005</b>
	<b>(\$000)</b>	<b>(\$000)</b>
Balance – beginning of year	2,112,288	1,977,775
Current service cost	135,613	132,502
Interest cost	127,416	117,572
Amortization of actuarial loss	26,313	21,410
Expected benefits paid	(156,119)	(136,971)
Balance – end of year	<u>2,245,511</u>	<u>2,112,288</u>

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

	<b>2006</b>	<b>2005</b>
	<b>(\$000)</b>	<b>(\$000)</b>
Current service costs	135,613	132,502
Amortization of actuarial loss	26,313	21,410
Interest cost	127,416	117,572
Total expenditures	<u>289,342</u>	<u>271,484</u>

### *Pension Plans*

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, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. As a result, the City does not recognize any share of the OMERS pension surplus or deficit. Employer contributions for current service amounted to \$108,676,000 (2005 - \$101,484,000) and are matched by employee contributions in a similar amount.

The amount contributed for past service to OMERS for the year ended December 31, 2006 was \$2,105,000 (2005 - \$405,000). Employer's contributions for current and past service are included as an expenditure on the Consolidated Statement of Financial Activities.

The Toronto Transit Commission also participates in a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit/defined contribution hybrid pension plan that provides pensions to members based on the length of service and average base year (pensionable) earnings. The Commissioner's pension plan is operated by a separate legal entity, the Toronto Transit Commission Pension Fund Society (the "Society"). The Society also administers the defined benefit supplemental plans designed to pay employees the differences between their earned pension under the by-laws of the Society and the maximum allowable pension under the Income Tax Act (Canada). Employer contributions to these plans during 2006 amounted to \$51,269,000 (2005 - \$45,033,000).

The City also 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 to the extent that an actuarial surplus is available. As at December 31, 2006, there were 28 (2005 – 36) active members with an average age of 60. There were also 5,744 (2005 - 5,996) pensioners and 2,889 (2005 - 2,884) spousal beneficiaries in receipt of a pension, with an average age of 75. Pension payments and refunds during the year were approximately \$199,650,000 (2005 - \$200,827,000).

Employees contribute a portion (varying amounts ranging from 5% to 9.8%) of their salary to the pension plans for current service and the City contributes an equal amount. Member contributions ceased upon completion of 35 years of service.

While the City and employees are required to contribute equal amounts into the pension plans, the City retains the risk of the accrued benefit obligation. The pension plan assets are invested in Canadian and foreign equities, bonds and debentures and other short-term investments.

One of the plans, the Toronto Civic Employees Pension Plan, is in a surplus position. The accrued benefit asset of this plan as at December 31 includes the following components:

	<b>2006</b>	<b>2005</b>
	<b>(\$000)</b>	<b>(\$000)</b>
Accrued benefit obligation – end of year	378,439	397,899
Pension plan assets - end of year	500,607	475,306
Net pension assets	122,168	77,407
Unamortized actuarial losses	12,557	52,954
Accrued benefit asset	134,725	130,361

Since there is uncertainty about the City's right to this accrued benefit asset, this amount has not been reflected on the Consolidated Statement of Financial Position.

The remaining four plans are in a deficit position. The accrued benefit asset of three of these plans, the Metro Toronto Employees Pension Plan, the Toronto Firefighters Pension Plan and City of York Employee Pension Plan includes the following components as at December 31:

	<b>2006</b>	<b>2005</b>
	<b>(\$000)</b>	<b>(\$000)</b>
Accrued benefit obligation – end of year	1,183,910	1,146,423
Pension plan assets - end of year	1,162,051	1,087,376
Net pension deficit	(21,859)	(59,047)
Unamortized actuarial losses	162,702	214,229
Accrued benefit asset	140,843	155,182

The accrued benefit asset of the above three plans has not been reflected on the Consolidated Statement of Financial Position as the City will not realize any future benefit from this asset.

The accrued pension liability of the one remaining pension plan, the Toronto Police Pension Plan, is included in employee benefit liabilities on the Consolidated Statement of Financial Position as at December 31 and includes the following components:

	<b>2006</b>	<b>2005</b>
	<b>(\$000)</b>	<b>(\$000)</b>
Accrued benefit obligation – end of year	796,818	886,580
Pension plan assets - end of year	721,471	754,620
Net pension deficit	(75,347)	(131,960)
Unamortized actuarial losses (gains)	(5,757)	36,518
Accrued pension deficit	(81,104)	(95,442)

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, 2005, with the results extrapolated to December 31, 2006. The accrued benefit obligation as at December 31, 2006 is based on actuarial valuations for accounting purposes as at December 31, 2006. The unamortized actuarial losses in the five plans are being amortized on a straight-line basis. As most of the members are no longer active, the actuarial losses are being amortized over a 10 to 13 year period, being the expected average remaining life expectancy of the inactive members.

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 2.5% per annum (2005 – 3%) and the rate of compensation increase is estimated at 3.75% to 4.5% per annum (2005 – 4.0%) for determining the accrued benefit obligation. The discount rate used to determine the accrued benefit obligation is 5% (2005 – 5%) and benefit cost is 5% (2005 – 5.6%) per annum.

Pension plan assets are valued at market values. The expected rate of return on plan assets is 6.5% (2005 – 6.75%) per annum net of all administrative expenses. The return on the market value of plan assets during the year was 12.6% (2005 – 11.2%).

Net (revenues) expenditures related to the one pension in an accrued pension liability position include the following components:

	<b>2006</b> <b>(\$000)</b>	<b>2005</b> <b>(\$000)</b>
Amortization of actuarial losses	3,535	7,691
Interest cost on the average accrued benefit obligation	39,093	48,590
Expected return on average pension plan assets	(43,728)	(47,298)
Net (revenues) expenditures related to pension plans	<u>(1,100)</u>	<u>8,983</u>

The net (revenues) expenditures related to the pension plan in an accrued liability position are included in the Consolidated Statement of Financial Activities as a component of expenditures.

#### *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 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. A sick leave reserve fund is established to help reduce the future impact of these obligations. As at December 31, 2006, the balance in the sick leave reserve fund is \$71,059,000 (2005 - \$77,699,000) and is included as part of Employee Benefits Reserve Fund in Appendix 1. Payments during the year amounted to \$22,493,000 (2005 - \$19,576,000).

#### *Workplace Safety and Insurance Board 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 is established to help reduce the future impact of these obligations. As at December 31, 2006, the balance in the Workers' Compensation Reserve Fund is \$12,852,000 (2005 - \$9,919,000) and is included as part of Employee Benefits Reserve Fund in Appendix 1. Payments during the year by the City to the Workplace Safety and Insurance Board ("WSIB") amounted to \$38,385,000 (2005 - \$36,167,000).

#### *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 is established to help reduce the future impact of these obligations. As at December 31, 2006, the balance in the employee benefits reserve fund is \$154,337,000 (2005 - \$139,370,000) and is included as part of Employee Benefits Reserve Fund in Appendix 1. Payments during the year amounted to \$38,810,000 (2005 - \$30,649,000).

Due to the complexities in valuing the plans, actuarial valuations are conducted on a periodic basis. The liabilities reported in these consolidated financial statements are based on the most recent actuarial valuations as at December 31, 2002, with the results extrapolated to December 31, 2006. Many of the estimates and assumptions used may change significantly with the next detailed valuation. The significant actuarial assumptions adopted in measuring the City's accrued benefit obligations and benefit costs for other retirement and post-employment benefits are as follows:

	2006	2005
Discount rate for accrued benefit obligation and benefit costs:		
Post employment	5.5%	5.5%
Post retirement, sick leave and WSIB	6.0%	6.0%
Rate of compensation increase	3.0%	3.0%
Health care inflation – Hospital, dental care and other medical	4.5%	4.5%
Health care inflation – Drugs	10.7%	11.3%

The health care inflation rate for drugs is assumed to reduce to 5.5% over 9 years.

#### 10. Amounts to be Recovered in Future Years

Amounts to be recovered in future years comprise the gross amounts of the following liabilities as at December 31, some of which have been partially funded through reserve funds:

	2006 (\$000)	2005 (\$000)
TCHC mortgages (Note 7)	930,543	965,396
Net long-term debt (Note 8)	2,261,455	1,965,121
Employee benefit liabilities (Note 9)	2,245,511	2,112,288
Property and liability claims provisions (Note 15)	117,276	160,068
Landfill closure and post-closure liabilities (Note 6)	128,724	125,025
	5,683,509	5,327,898
Less amounts recoverable from Toronto District School Board (Note 8)	49,707	58,021
	5,633,802	5,269,877

## 11. Capital Fund

The balance of the Capital Fund, reported on the Consolidated Statement of Financial Position, represents the net financial position of all uncompleted capital projects as at December 31 and is analyzed as follows:

	2006	2005
	(\$000)	(\$000)
Capital financing received in advance of expenditures	141,593	132,793
Capital expenditures yet to be financed	(335,276)	(377,952)
<b>Capital Fund Balance</b> (Schedule 2)	<b>(193,683)</b>	<b>(245,159)</b>
Capital expenditures yet to be financed are to be funded in future years as follows:		
Long-term liabilities	297,952	343,886
Developer recoveries and reserves	25,259	28,346
Other	12,065	5,720
	<b>335,276</b>	<b>377,952</b>

Approval has been received for future issuance of \$396,404,000 in long-term liabilities, which includes the \$297,952,000 noted above. The remaining \$98,452,000 in approved long-term debt is for capital expenditures yet to be incurred.

## 12. Expenditures by Object

Expenditures by object comprise the following:

	2006	2005
	(\$000)	(\$000)
Salaries, wages and benefits	3,877,770	3,671,156
Materials	2,123,736	1,944,301
Contracted services	1,050,517	1,042,994
Interest on long-term debt	202,870	130,098
Transfer payments	370,784	305,303
Other	950,254	863,899
	<b>8,575,931</b>	<b>7,957,751</b>

### 13. Trust Funds

Trust funds administered by the City amounting to \$47,358,000 (2005 - \$48,704,000) have not been included on the Consolidated Statement of Financial Position nor have their operations been included on the Consolidated Statement of Financial Activities. Trust fund balances as at December 31 are as follows:

	2006	2005
	(\$000)	(\$000)
Toronto Atmospheric Trust Fund	24,797	26,425
Keele Valley Site Post-Closure (Note 6)	7,095	6,885
Homes for the Aged – Residents	6,957	6,323
Development Charges Trust – Railway Lands	3,219	3,094
Community Services Levies	1,067	1,025
Contract Aftercare	991	965
Waterpark Place	952	915
Development Charges Trust – Queen's Quay	477	459
Ricoh Coliseum	441	-
Heritage and Culture Trusts	372	357
Police Trust Funds	278	994
Lakeshore Pedestrian Bridge	218	210
Candidates' Municipal Election Surpluses	141	693
Children's Greenhouse – Allan Gardens	100	103
Other trust funds	253	256
	<u>47,358</u>	<u>48,704</u>

### 14. Budget Data

Budget data for 2006 included in these consolidated financial statements represents budgets approved by Council except for reserves and reserve funds, which have been modified to reflect funding contributions contained in approved operating and capital budgets.

### 15. Contingencies and Commitments

The City is subject to various litigations 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.

Exposures on property and liability claims are covered by a combination of self-insurance and coverage with insurance carriers. Provisions for property and liability claims are recorded in other liabilities on the Consolidated Statement of Financial Position in the amount of \$117,276,000 (2005 - \$160,068,000).

A class action was commenced against the former Toronto Hydro-Electric Commission and other Ontario municipal electric utilities under the Class Proceedings Act, 1992 seeking \$500,000,000 in restitution for late payment charges collected by them from their customers that were in excess of the interest limit stipulated in section 347 of the *Criminal Code*. This action is at a preliminary stage. Pleadings have closed but examinations for discovery have not been conducted and the classes have not been certified. After the release by the Supreme Court of Canada of its 2004 decision in the Consumers' Gas case, the plaintiffs in this proposed class action indicated their intention to proceed with the litigation, but no formal steps have been taken.

A similar class action was commenced against the Toronto Hydro-Electric Commission under the Class Proceedings Act, 1992 seeking \$64,000,000 in restitution for late payment charges collected by it from its customers that were in excess of the interest limit stipulated in section 347 of the *Criminal Code*. This action is also at the preliminary stage. Pleadings have closed and examinations for discovery have been conducted but, as in the first action, the classes have not been certified.

Given the preliminary status of these actions, it is not possible at this time to quantify the effect, if any, of these actions on these consolidated financial statements.

A class action claiming \$500,000,000 in damages, plus interest and costs, was served on the Toronto Transit Commission on November 30, 2001. The claim is based on alleged exposure by workers to asbestos during construction work at the Sheppard Subway Station. The claim also names the Ministry of Labour and an environmental consultant company as defendants and alleges various violations of the *Occupational Health and Safety Act* and its regulations. Management believes that the ultimate disposition of this matter will not materially exceed amounts recorded in the accounts.

In February 2005, a contract was awarded by the Toronto Transit Commission for purchase of 330 low-floor buses of which 230 buses were delivered in 2006 with the remaining 100 to be delivered in 2007. Subsequent to this award, on July 19, 2006 and August 30, 2006, the contract was amended to include 220 hybrids to be delivered in 2007 and 144 hybrids to be delivered in 2008. This amounted to 694 buses at a revised contract value of \$487,000,000 including the fire suppression system amendment. At December 31, 2006, 230 buses had been delivered at a cost of \$153,900,000.

On December 21, 2006, a contract was awarded for \$674,800,000 for purchase of 234 subway cars or 39 train sets. As at December 2006, the Toronto Transit Commission had incurred costs of \$100,500,000 which represented the initial notice to proceed payment reflected in the terms of payment for the contract. The first train set is scheduled for delivery in September 2009.

At December 31, 2006, the Toronto Transit Commission has various capital project contractual commitments of \$84,000,000 (2005 - \$63,600,000).

The Ministry of the Environment has issued Certificates of Approval for 18 (2005 - 14) of the estimated 161 (2005 - 161) 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 6).

The City has provided unconditional loan guarantees to certain third parties amounting to \$31,802,000 (2005 - \$30,885,000), primarily related to possible defaults in financial agreements for certain construction projects and for several cultural non-profit organizations.

As at December 31, 2006, the City is committed to future minimum annual operating lease payments for premises and equipment as follows:

	<b>\$000</b>
2007	24,267
2008	19,944
2009	14,719
2010	11,674
2011	9,706
Thereafter	29,993
	110,303

**16. Comparative Consolidated Financial Statements**

These consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated financial statements.

**Details of reserves and reserve funds**

	<b>2006</b>	<b>2005</b>
	<b>(\$000)</b>	<b>(\$000)</b>
<b>RESERVES</b>		
Corporate	216,749	181,730
Water and Wastewater	22,198	14,755
	238,947	196,485
 <b>RESERVE FUNDS</b>		
Employee Benefits (note 9)	238,249	227,025
Stabilization	215,415	122,990
Corporate	205,373	216,150
Community Initiatives	81,851	54,646
State of Good Repair (note 6)	77,658	73,601
	818,546	694,412
	1,057,493	890,897

## Notes to Consolidated Financial Statements – Appendix 2

December 31, 2006

### Government Business Enterprises Condensed Financial Results (\$'000)

Fiscal Year Ended	<u>Toronto Hydro Corporation</u>		<u>Toronto Parking Authority</u>		<u>TEDCO</u>		<u>Enwave</u>		<u>Total</u>	
	December 31		December 31		December 31		October 31			
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<b>Financial Position</b>										
<b>Assets</b>										
Current	800,457	1,061,085	24,399	20,273	9,180	10,582	25,290	7,347	859,326	1,099,287
Capital	1,656,868	1,624,741	121,734	116,343	31,987	30,859	258,697	232,069	2,069,286	2,004,012
Other	134,381	133,432	29,694	21,975	39,628	35,421	21,477	12,319	225,180	203,147
	2,591,706	2,819,258	175,827	158,591	80,795	76,862	305,464	251,735	3,153,792	3,306,446
<b>Liabilities</b>										
Current	555,105	941,211	26,280	19,985	8,456	7,319	28,594	19,800	618,435	988,315
Long-term	1,144,537	1,032,180	-	-	59,203	58,781	92,204	58,670	1,295,944	1,149,631
	1,699,642	1,973,391	26,280	19,985	67,659	66,100	120,798	78,470	1,914,379	2,137,946
<b>Net equity</b>	892,064	845,867	149,547	138,606	13,136	10,762	184,666	173,265	1,239,413	1,168,500
<b>City's share (Note 4)</b>	838,418	785,867	149,547	138,606	13,136	10,762	79,443	74,538	1,080,544	1,009,773
Results of Operations										
Revenues	2,266,912	2,626,671	100,456	94,376	15,378	9,198	80,655	59,070	2,463,401	2,789,315
Expenses	2,174,515	2,534,226	89,515	84,124	13,004	10,745	75,753	56,220	2,352,787	2,685,315
<b>Net income (loss)</b>	92,397	92,445	10,941	10,252	2,374	(1,547)	4,902	2,850	110,614	104,000
<b>City's share (Note 4)</b>	92,397	92,445	10,941	10,252	2,374	(1,547)	2,110	1,226	107,822	102,376
<b>Dividends paid to City (Note 4)</b>	46,200	68,000	-	-	-	-	-	-	46,200	68,000
<b>Net book value of assets sold from the City to Toronto Hydro Corporation (Note 4)</b>	53,646	60,000	-	-	-	-	-	-	53,646	60,000

