TORONTO

STAFF REPORT
ACTION REQUIRED

2009 Audited Consolidated Financial Statements

Date:	June 21, 2010
To:	Audit Committee
From:	Deputy City Manager and Chief Financial Officer Treasurer
Wards:	All
Reference Number:	P:\2010\Internal Services\Acc\ac10014Acc (AFS10297)

SUMMARY

The purpose of this report is to present the City of Toronto's Consolidated Financial Statements for the year ended December 31, 2009 to Council for approval and provide highlights of the City’s 2009 financial performance and financial condition as of December 31, 2009.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer and the Treasurer recommend that:

1. The 2009 Consolidated Financial Statements as attached in Appendix A be approved.

Financial Impact

There are no financial implications as a result of this report.

DECISION HISTORY

Annually, as required by Sections 231 and 232 of the *City of Toronto Act,* the City prepares and publishes an annual financial statement that consolidates the financial results of all City divisions and the agencies, boards, commissions and government business enterprises that the City controls.

ISSUE BACKGROUND

The Consolidated Financial Statements are intended to provide Council, the public, the City’s debenture holders, and other stakeholders, an overview of the state of the City’s finances at the end of the fiscal year and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Consolidated Financial Statements and all other information included in the financial report are the responsibility of management. As required under Section 231 of the *City of Toronto Act*, the financial statements are prepared in accordance with generally accepted accounting principles as set by the Canadian Institute of Chartered Accountants' (CICA) Public Sector Accounting Board (PSAB).

These Consolidated Financial Statements have been audited by Ernst & Young LLP whose role is to express an independent opinion on the fair presentation of the City’s financial position and operating results and to confirm that the statements are free from material misstatement. The external auditor’s opinion is to provide comfort to third parties that the financial statements can be relied upon.

New Accounting and Financial Reporting Requirements:

Effective January 1, 2009, the City has adopted PSAB Sections 3150 (Tangible Capital Assets) and 1200 (Financial Statement Presentation) of the reporting handbook. This has been a major undertaking for the City and represents the largest change ever in municipal accounting. PSAB 3150 provides the requirement for recording tangible capital assets on the statement of financial position (i.e. balance sheet) and amortizing them over their useful lives. Tangible capital assets were previously recorded as capital expenditures upon acquisition and effectively expensed in the year of acquisition, ignoring the future service benefits provided by these assets. PSAB 1200 establishes general reporting principles and standards for the disclosure of information in government financial statements. The comparative figures for 2008 have been restated to comply with the new accounting standards. The impacts of these restatements are reflected in Note 2 to the Consolidated Financial Statements.

The City's financial statements are now prepared on a full accrual accounting basis, the same basis of accounting used by the federal and provincial governments. This is an important milestone in government accounting for local governments and has been ten years in the making. Compared to other government entities, tangible capital assets represent a large proportion of a municipality's assets and are an important part of its operating activities. In comparison, the City's tangible capital assets are valued at approximately 85% of those of the entire Province of Ontario.

In order to inventory and value the City's tangible capital assets, a significant amount of work was undertaken over the past three years by Accounting Services staff in collaboration with other City divisions, other municipalities and the City's external auditor. Reporting of these tangible capital assets provides information for accountability and stewardship and provides critical information on the City's significant investments in assets.

Consolidated Financial Statements

The Consolidated Financial Statements include the following individual statements:

Name	Purpose	New this Year re: PSAB 3150 & 1200
Consolidated Statement of Financial Position	Provides a summary of the City's financial assets and liabilities (the financial resources the City has available for future services and the future revenues required to pay for past transactions).	• Recognition of tangible capital assets. • Recognition of accumulated surplus, composed of amounts previously recorded in Municipal Position: Operating fund, Capital fund, Reserve and Reserve Funds, and Amounts to be recovered; as well as the net amount invested in tangible capital assets.
Consolidated Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities, and provides the calculation of the City's accumulated surplus at year end.	• This statement was previously named the Consolidated Statement of Financial Activities. • Capital expenditures are no longer shown as expenditures. Amortization of tangible capital assets is expensed. • Debenture financing is not shown as revenues and principal repayments are not shown as expenditures.
Consolidated Statement of Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.	• This is a new statement that is unique to governments. • The statement focuses on financial assets and liabilities, detailing amounts that must be financed.
Consolidated Statement of Cash Flows	Summarizes the City's cash position and changes during the year by outlining the City's sources and uses of cash.	• No change

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies, boards, commissions ("ABCs") and government business enterprises that the City effectively controls. There are 110 entities that are directly included in the financial statements and these are listed in Note 1 to the Consolidated Financial Statements. There are also a number of subsidiaries of ABCs which are not included in the entity count above. The notes to the statements provide further detail about the City's financial results and are an integral part of the statements.

In prior years, to aid readers in understanding the financial statements, schedules were prepared for current operations, capital operations, and reserves and reserve funds. With the recognition of tangible capital assets on the statement of financial position, a breakdown between current and capital is no longer provided in the financial statements.

Plain Language Approach

At its meeting held on July 10, 2008 the Audit Committee, in its consideration of the City's 2007 Consolidated Financial Statements, requested staff to move towards a plain language approach when submitting future Financial Statements. Various sections of this report and the notes to this year's Consolidated Financial Statements have been written to incorporate plainer language. As generally accepted accounting principles require specific disclosures, and as certain items are complex, on occasion this limits management's ability to simplify the language. This year a Glossary, which explains various terms used in the financial statements, has been included as Appendix C of this report.

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's balance sheet. This year, for the first time, this statement includes the net book value of the City's tangible capital assets. This statement focuses on the City's assets (financial and non-financial) and liabilities. The difference between the liabilities and financial assets is the City's net debt, which represents the net amount that must be financed from future budgets. Prior years' Consolidated Statement of Financial Position would have identified net debt as "Net Financial Liabilities".

In prior years' the City's municipal position was shown in the Consolidated Statement of Financial Position detailed by fund balances and amounts to be recovered from future years. As these balances are now included in the "Accumulated Surplus", Note 18 to the Consolidated Financial Statements details the breakdown of the accumulated surplus, including all of its components: amount invested in capital assets; operating fund, capital fund, reserve and reserve fund balances; and amounts to be recovered from future revenues.

The City has received funds for specific purposes under legislation, regulation or agreements. The recognition of these funds as revenues has been deferred until related expenses occur in the future. For example, development charges, parkland dedication fees and Federal and Provincial Government transfers received (such as public transit funding), are not recognized as revenues until such time as the projects are constructed. These restricted funds are included in liabilities as "Deferred Revenue" and not in the accumulated surplus. A breakdown of the City's deferred revenue obligatory reserve funds can be found in Note 10(a) to the Consolidated Financial Statements.

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

Consolidated Statement of Operations and Accumulated Surplus

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

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

The 2009 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified "cash requirements" basis and amounts now recorded in these financial statements. Note 20 outlines the adjustments to the budget, particularly reduction of debt proceeds and payments, reduction of tangible capital asset purchases and inclusion of estimated amortization expense. These adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The accrual based budget results in a surplus, as the City must fund reinvestment in assets at amounts greater than their historical cost.

Consolidated Statement of Net Debt

The Consolidated Statement of Net Debt is new for 2009, and is unique to governments. Other senior levels of government have been preparing this statement for a number of years. This statement focuses on the debt of the City, adjusting the annual surplus for the impact of tangible capital assets: mainly deducting the costs to acquire assets, and adding back amortization charged during the year.

COMMENTS

The City's 2009 Consolidated Financial Statements presented in Appendix A of this report provide details of the state of the City's finances at the end of the fiscal year, and the revenues and expenses for the year ended December 31, 2009.

2009 Financial Highlights

- The City's tangible capital assets have been recorded for the first time in the City's history. The historical cost and accumulated amortization of assets as at December 31, 2009 were $29.4B and $11.0B respectively for a net book value of $18.4B (2008 - $17.6B). Tangible capital asset purchases during 2009 totalled $1.85B (2008: $1.55B). Amortization of tangible capital assets during 2009 totalled $1.07B (2008: $0.80B).

- The City has recorded an accumulated surplus for the first time, $14.8B with an amount recorded for the prior year of $14.3B due to the recognition of tangible capital assets. Given that in general the City's tangible capital assets do not provide liquidity, they are not included in the calculation of net debt.

- The City’s net debt increased by $292M to $3.83B (2008 - $3.54B).

- Long-term debt increased by $29M to $3.64B (2008 - $3.61B). This includes both debentures and mortgage debt obligations of Toronto Community Housing Corporation.

- The gross employee benefits liability decreased by $368M to $2.46B (2008 - $2.83B), while the net liability actually increased by $80M to $2.67B (2008 - $2.59B).

- The City collected consolidated revenues of $10.41B (2008 - $9.74B) and consolidated expenses of $9.92B (2008 - $9.44B) for a net annual surplus on a full accrual accounting basis of $497M (2008 - $298M).

- Deferred revenue decreased by $343M to $1.58B (2008 - $1.92B).

- Cash and investments decreased by $601M to $3.45B (2008 - $4.05B).

- The City’s investment in its government business enterprises increased by $34M to $1.19B (2008 - $1.16B).

Reconciliation to the Operating Budget Surplus

The following schedule reconciles the “accounting surplus” reported in the Consolidated Financial Statements to the cash based “operating budget surplus” approved by Council as reported in the budget variance reports to the Budget Committee for budgeting and rate setting purposes.

	(in thousands of dollars)	
	2009	**2008**
Surplus as reported in 2009 Final Year-end Operating Variance Report	359,597	79,526
Timing difference on recognition of Toronto Parking Authority (TPA) dividends	(10,000)	20,000
Accounting Adjustments for Financial Statement Presentation Purposes:		
Transfer to reserve fund – principal repayment of Note Receivable –Toronto Hydro Corporation	(245,058)	-
Non cash adjustments to the ABC surpluses reported in the Consolidated Statement of Financial Activities	(150,621)	80,589
Net increase in City’s equity in Government Business Enterprises (GBE’s) (Toronto Hydro, Enwave, Toronto Parking Authority)	33,358	51,164
Prior Year Surplus carried forward and distributed in the Current Year Budget	(88,577)	(95,137)
PSAB Adjustments including adjustment for TCHC debt expense and employee benefits for future years (See Note 1 below)	3,440	(116,486)
Fund Balances (See Note 2 below)	331,405	194,445
Amounts to be recovered impacts (See Note 3 below)	263,659	84,195
Accounting Surplus for the year	**497,203**	**298,296**

Note 1: PSAB adjustments in 2009 are due to:

- adjustment of investments for Toronto Atmospheric Fund (TAF) $-2,473 (2008: TAF & Toronto Community Housing Corporation (TCHC) $-39,781);
- adjustment as a result of Toronto Economic Development Corporation (TEDCO) ceasing to be a GBE $0 (2008: $-72,420);
- adjustment for Board of Governors of Exhibition Place (BOG) deferred revenues $12,917 (2008: $0);
- accrued vacation pay $-5,803 (2008: $-3,153); and
- adjustment to TCHC deferred revenues $-1,201 (2008: $-1,132).

Note 2: Fund balances:	2009	2008
Capital Fund Activity	(545,321)	(702,917)
Net Change to Reserve Fund Balance	127,762	155,388
Net Change to Tangible Capital Assets	748,964	741,974
Total	331,405	194,445

Note 3: Amounts to be recovered impacts:	2009	2008
Principal Repayments on Long Term Debt	298,062	282,004
Interest earned on Sinking Funds	43,149	32,614
Changes in solid waste landfill liabilities	15,998	(10,978)
Changes in unfunded environmental liabilities	-	25
Changes in property and liability claims	(13,754)	(31,563)
Changes in employee benefit liabilities	(79,796)	(187,907)
Total	263,659	84,195

Financial Condition

The most important measure of any government's financial condition is its net debt: calculated as liabilities (e.g. trade and employment payables, mortgages and debentures) less financial assets (e.g. cash, receivables, and investments).

The City's net debt as at December 31, 2009 increased by $292M to $3.83B (2008 - $3.54B). This increase in the City's net debt is primarily due to the amount of tangible assets purchased less the sum of the annual surplus and the amortization of capital assets. (See Consolidated Statement of Change in Net Debt).

The City's long-term debt (Note 13 and 14) remained virtually unchanged in the year as debt principal repayments were almost equivalent to new debt issued.

In order to improve the City's net debt position, the City continues to implement its Long Term Fiscal Plan. Some key measures included in the plan are: tax policies which enhance economic competitiveness and improve Toronto's business climate, utilization of user rate adjustments for environmental and cost control purposes, creating new revenue sources and working with the Province to continue and expand the upload of social service program costs.

While the debt financing has grown and will continue to grow due to state of good repair funding requirements and increased focus on improving public transit, the City's updated Capital Plan inclusive of enhanced federal and provincial funding, combined with the recent approval of the long-term debt restructuring strategy, ensures a solid financing plan is in place for the next five years.

The positive effects of implementing these financial plans are reflected in the City's AA and Aa1(Moody's) independent credit ratings.

Another key indicator of a government's financial condition is the amount that must be paid from future revenues as included in Note 18 of Consolidated Financial Statements. These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities and environmental liabilities. In 2009, the total amount that will be recovered from future property taxes and other revenues grew by $110M to $6.56B. This increase mainly consists of:

- an increase of $80M in employee benefits liabilities;
- an increase of $13M in other (mainly property and liability claims provision);
- an increase of $33M in mortgage and long term debt;
- offset by a decrease of $16M in landfill closure and post-closure liability.

Table 1 outlines the trend in financial asset and liability growth over the last 5 years.

Table 1

Net Debt – 5 year Summary

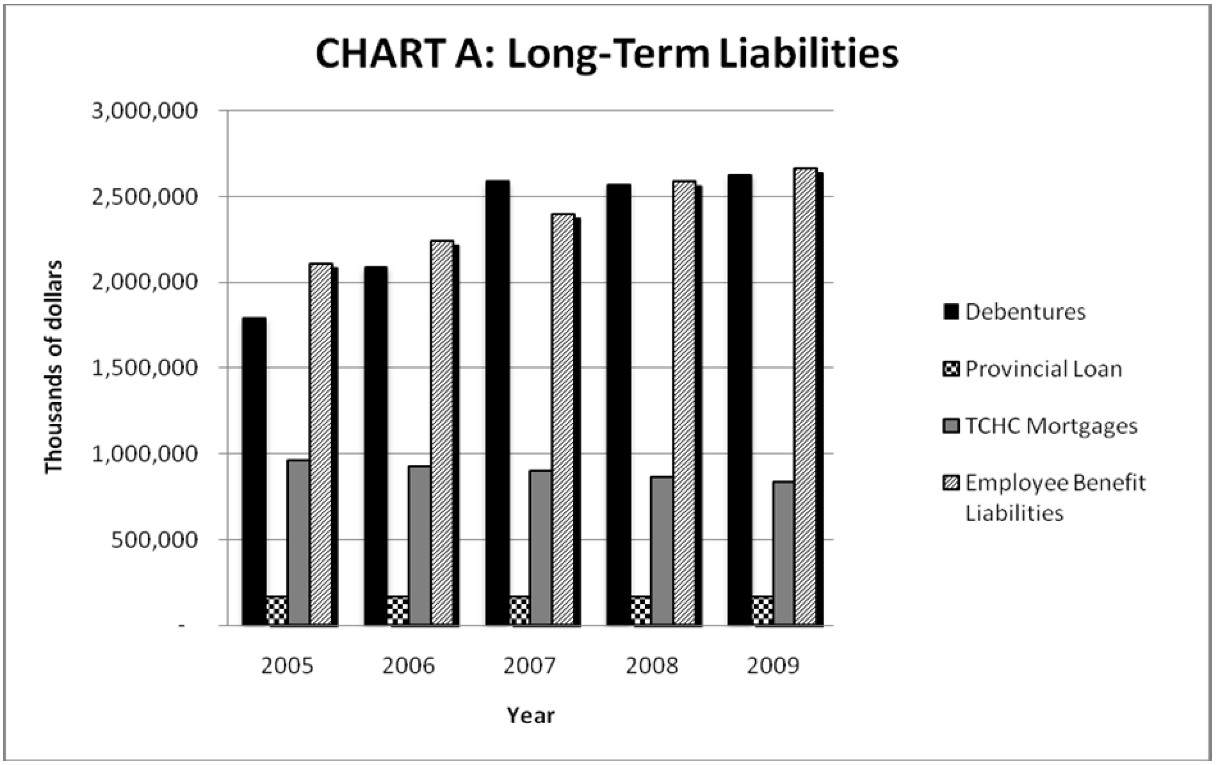
(in thousands of dollars)

Net Debt	5 Year Average Annual Increase	**2009**	**2008**	**2007**	**2006**	**2005**
Liabilities	6.96%	10,558,086	10,647,259	9,631,062	8,451,699	8,067,913
Financial assets	4.19%	6,728,291	7,109,217	6,580,328	5,999,744	5,680,217
Net Debt	**12.54%**	**3,829,795**	**3,538,042**	**3,050,734**	**2,451,955**	**2,387,696**
Percentage Increase		**8.25%**	**15.97%**	**24.42%**	**2.69%**	

The City's net debt has increased by a compound annual rate of 12.54% over the last four years, attributable to increases in long-term debt to third parties and in long-term employee benefit liabilities.

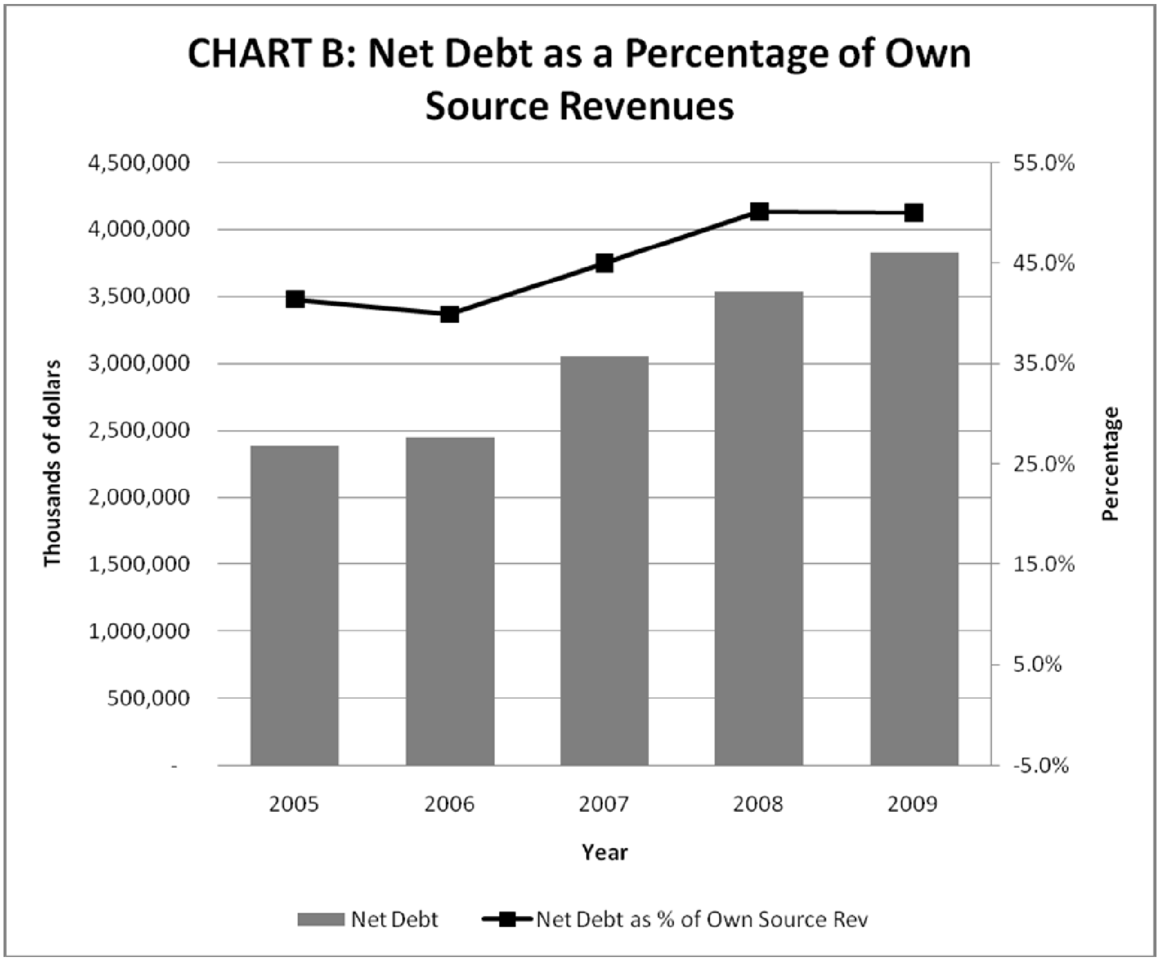
The significant growth in long-term debt has been driven mainly by the need to finance transit capital expenditures. The growth of employee benefit liabilities has been driven by an aging demographic (employees and retirees), increased utilization of the plan, increased cost of drugs and services and de-regulation of government sponsored benefits which are transferred to private benefit plans. Staff have attempted to contain the growth of this liability through collective bargaining and have made significant progress in eliminating the vested sick leave plan for Local 79 employees.

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



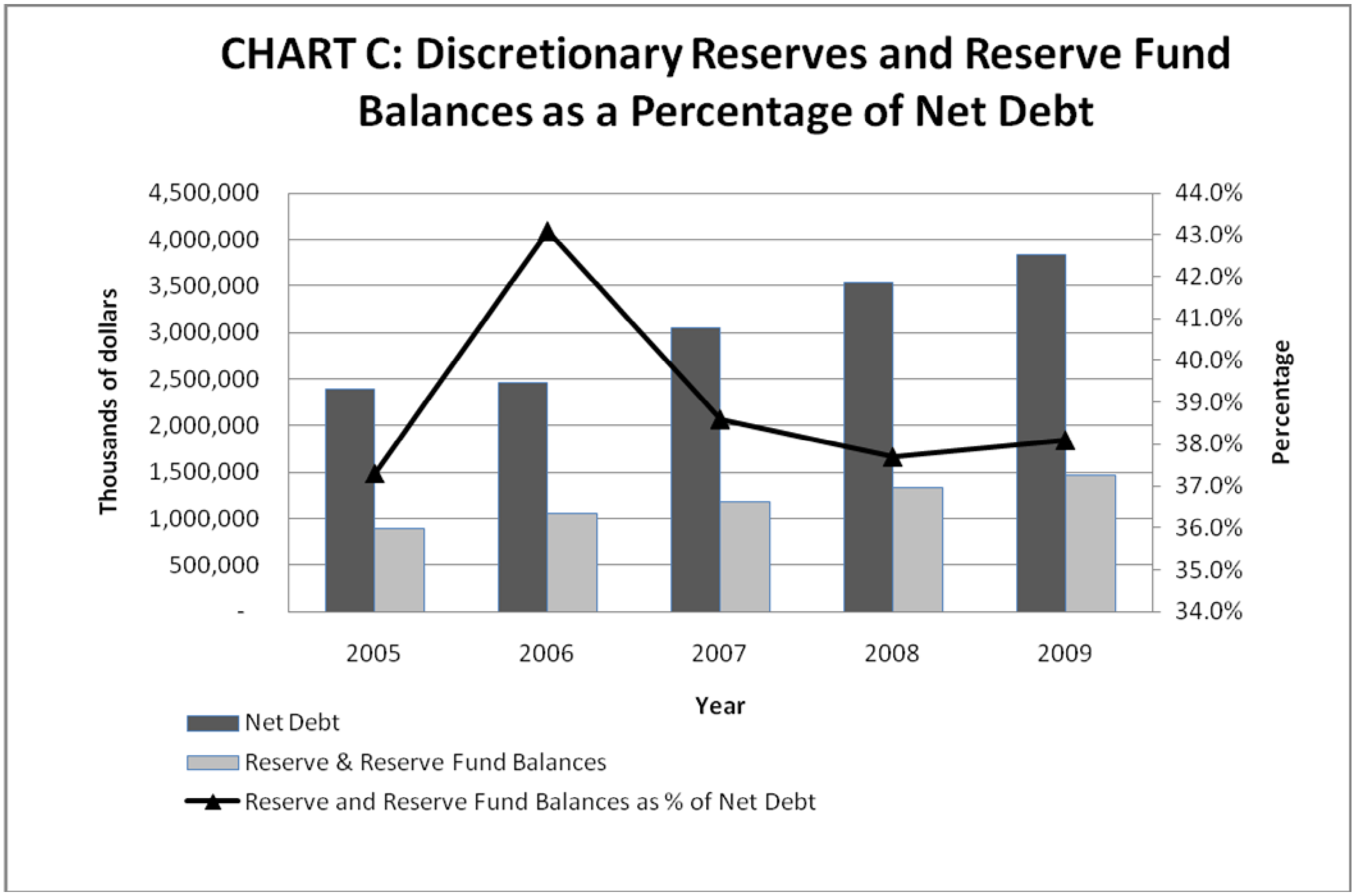
Additional information on the mortgage liabilities of TCHC is provided in Note 13, additional information about the provincial loan and the City's debenture debt is provided in Note 14, while further detail about the City's employee benefit liabilities is provided in Note 15 of the Consolidated Financial Statements.

To put the City's net liability into a different context, Chart B expresses the net debt as a percentage of the City's own source revenues (excluding government transfers and earning from investment in government business enterprise (GBE's). The net liability as a percentage of own source revenues has grown from 41.4% to 51.7% in the last five years.



The City's net debt substantially exceeds the City's reserve and reserve fund balances as shown in Chart C. The vast majority of the reserve and reserve funds are committed to fund capital projects identified in the ten year capital plan, and future known liabilities, leaving only a small portion available for discretionary spending. The balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements and all capital reserves/reserve funds are required to replace and maintain capital assets. Also, the current balances of some reserve funds (e.g. Employee Benefits) provide only a small portion of the funding to cover the future obligations for which they have been set aside.

For financial statement purposes, PSAB requires that obligatory reserve fund balances (such as development charges and unspent provincial public transit funding) be classified as deferred revenue (see Note 10 (a) of Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements are lower than those included in staff reports to the Budget Committee and Council which include obligatory reserve fund balances.



Note 18 of the Consolidated Financial Statements provides a breakdown of the City's reserves and reserve funds.

Comparison to Other Jurisdictions

Table 2 provides a comparison of key financial indicators for a selection of large Canadian cities – 2008 figures.

Table 2

			2008 *(in millions of dollars)*			
	Toronto	**Montreal**	**Ottawa**	**Calgary**	**Edmonton**	**Vancouver**
Investments	3,819	1,268	773	1,958	1,399	610
Investment in GBEs*	1,194	-	317	1,599	2,430	-
Interest bearing long-term debt	3,611	7,638	775	1,959	1,041	484
Net financial assets (liabilities) (not a total)	(3,501)	(5,305)	(453)	680	2,387	(157)

* Government Business Enterprises - In other Canadian municipalities as compared above, these types of investments are primarily in electric utility systems and other utility systems such as natural gas and water. Details of Toronto's investments are provided in Note 5 to the Consolidated Financial Statements and include the note receivable from Toronto Hydro Corporation.

The City compares favourably on its investment level. Calgary and Edmonton compare favourably on their net financial position largely because of their government business enterprises and lack of social housing debt.

Analysis of Key Asset and Liability Accounts

Accounts Receivable

Accounts receivable balances increased $315.7M in 2009. The increase consists primarily of the following:

- higher receivable from Government of Canada for Federal Gas Tax ($40.7M) and for Canada Strategic Infrastructure Fund (CSIF) ($20.1M);
- higher receivable from Government of Ontario for the following:
  - TTC re: Transit City Project – Metrolinx ($33.3M);
  - Social Housing Renovation and Retrofit Program (SHRRP) ($54.3M);
  - Ministry of Transportation for Toronto York Spadina Subway Extension ($18.9M);
  - Ontario Bus Replacement program (OBRP) ($23.6M);
  - Provincial Offences Act/fines ($9.5M); and
  - Receivable from Ministry for Community and Social Services for Ontario Works program for October – December not settled as of December 2009, settled in 2010. (26.1M).
- increase in receivable from York Region regarding their subway contribution payment for 2009 ($14.9M) offset by payment received for amount for 2008 ($10 million).
- increase in Water fees receivable ($14.7M) due to the timing of the last water billing in 2009 being processed late in December and increase in Solid Waste receivables ($4M)
- other fees and charges are primarily higher due a vendor take back mortgage for 2 Bloor St. West ($35M), increase in provisions and other miscellaneous increases.

The breakdown of accounts receivable at December 31, 2009 with 2008 comparatives is as follow:

	(in thousands of dollars)	
Accounts Receivable	**2009**	**2008**
Government of Canada	245,362	182,150
Government of Ontario	249,617	74,441
Other municipal governments	20,940	16,299
School board	199	300
Utility fees	122,407	103,920
Other fees and charges	447,454	393,122
Total	**1,085,979**	**770,232**

Taxes Receivable

Taxes receivable consists of all outstanding taxes, items that have been added to the tax roll (such as utilities arrears, drainage charges, local improvement charges), accumulated penalties and interest charges, net of an allowance for uncollectible taxes. A breakdown of this receivable is noted below:

Taxes Receivable	2009	2008
	(in thousands of dollars)	
Current year	228,172	184,623
Prior year	34,455	26,622
Previous years	35,829	26,942
Interest/penalty	38,801	30,363
Less: allowance for doubtful accounts	(24,169)	(22,476)
Net receivables	**313,088**	**246,074**

Total year end taxes receivable increased by $67M mainly as a result of the following:

- The continued decline in economic conditions experienced in 2009 resulted in a $42.4M increase to the December 31, 2009 taxes receivable as compared to December 31, 2008. Staff are not concerned about this increase at this time as the amount is substantially secured by the underlying property value.
- Year end receivables which are due in future periods increased by $24.6M to $74M (2008: $49.4M). These receivables are mainly supplementary/omitted levies and other charges issued late in the year and due in the following year.

Other Assets

Other Assets increased by $52.4M to $161.1M (2008: $108.8M) due primarily to:

- TCHC advancing an additional $35.4M in 2009 to Dundas Parliament Development Corporation (DPDC) for the interim financing of their construction, and
- Build Toronto Holding One Inc., (BTHOI), a wholly owned subsidiary of Build Toronto, acquiring a loan of $26.9M from a financial intermediary with respect to a development in the Toronto Waterfront. The loan expires in 2018 and has an interest rate of 5.6% with a balloon payment of $12.2M.

Investments

Investments decreased by $568M to $3.25B (2007: $3.82B) due primarily to use of Investing in Ontario Act funds ($238M) for transit related debt charges, and borrowing less than budgeted by $223M.

Details about the City’s investment portfolios and their yields are provided in Note 5 to the Consolidated Financial Statements.

Note Receivable – Toronto Hydro Corporation

Note receivable decreased by $245 million due to the $245M principal repayment by Toronto Hydro. The proceeds will be used in part for the debt restructuring strategy approved by Council on December 9, 2009 and adopted as part of the 2010-2019 Capital Budget and Plan to repay Sinking Fund debentures. Under the debt restructuring strategy, Council has approved the sale of the balance of the Toronto Hydro Promissory

Note which was sold on April 1, 2010. (See Note 19 of the Consolidated Financial Statements).

Investment in government business enterprises
With the implementation of reporting for Tangible Capital Assets, the City recorded the transfers of assets from Enwave as at 2004 and 2008, the dates the assets were put in use as part of the City's water system. These changes have been applied retroactively and prior periods have been restated. (See Note 2 (b) of the Consolidated Financial Statements).

There has been a significant decrease in GBE earnings year over year due to lower earnings at Toronto Hydro Inc., as the prior year included $118M gain on sale of Toronto Hydro Telecom.

Additional information regarding the City's remaining GBEs as at December 31, 2009 including 2009 transactions for all GBEs with the City as well as condensed financial results, are provided in Note 7 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable
The breakdown of accounts payable and accrued liabilities at December 31, 2009 with 2008 comparatives is as follows:

	(in thousands of dollars)	
Accounts Payable	**2009**	**2008**
Local Board trade payables	453,652	465,946
City trade payables and accruals	819,882	770,536
Payable to school boards	143,902	157,376
Provision for tax appeals & rebates	411,997	397,182
Credit balances on property tax accounts	63,889	65,692
Payroll liabilities	130,410	114,086
Total	**2,023,732**	**1,970,818**

Local board trade payables were lower in 2009 primarily due to decreases in Toronto Transit Commission (TTC) trade payables for $12M. City trade payables and accruals are higher due to increases in construction holdbacks ($21.2M), higher accruals at year end for Parks ($11M), Planning ($16M) and various other areas. The provision for tax assessment appeals increased by approximately $14.8M primarily as a result of unprocessed vacancy, charitable and heritage rebates. The decrease in credit balances on property tax accounts is due to refunds being issued throughout the year thus reducing the outstanding credit balance. Payroll liabilities were higher as an additional day's pay was accrued in 2009.

Deferred Revenue
Deferred Revenue decreased by $343M to $1.58B (2008: $1.92B) primarily as a result of:

- A decrease in obligatory reserve funds ($197.6M) for Public Transit and Water & Wastewater used for capital purchases;
- A decrease due to funds from Investing in Ontario Act ($238M) taken into income in 2009;
- An increase due to funds received from Provincial government for Ontario Bus Replacement Program (OBRP) $21.5M which remained unspent at the end of the year.

Other Liabilities
Other Liabilities increased by $27.3M to $384.5M (2008: $357.2M), mainly as a result of:

- an increase in the property and liability claims provision ($13.8M);
- increases in Toronto Transit Commission (TTC) in unsettled accident claims ($30.9M); and,
- decrease due to release of deposits held for Exhibition Place and National Trade Centre ($11.9M).

Net Long-Term Debt (excluding TCHC Mortgages)
Net long-term debt increased by $57M to $2.80B (2008: $2.74B) as follows: issuance of debt totalling $317M by the City, offset by net debt repayments for TCHC ($5M) and interest earned on sinking funds totalling $254M.

Employee Benefit Liabilities
During the year, a full valuation of employee liabilities was performed using updated assumptions. As a result of this valuation, the gross employee benefits liability (identified as "Total employee accrued benefit obligation" in Note 15 of the Consolidated Financial Statements) decreased by $368M to $2.46B (2008 - $2.83B). Accounting standards however, require that actuarial gains and losses are amortized over the remaining service lives of the employee group, and therefore the net liability recorded in these financial statements will not show the full impact of this improvement right away, but will show this over the next 13 years.

The net employee benefit liability actually increased by $80M to $2.67B (2008 - $2.59B), as the prior years' amortization of actuarial losses exceeds the amount of the gain reflected in 2009. The $80M increase is largely due to:

- decrease in the non-OMERS pension plan liabilities ($40M);
- decrease in sick leave benefits ($39M);
- increase in workers' compensation benefits ($24M);
- decrease in post-employment benefits ($313M); and
- change in unamortized actuarial losses to unamortized gain ($448M).

Additional information is provided in Note 15 of the Consolidated Financial Statements.

Tangible Capital Assets
Reporting on tangible capital assets was a major undertaking by the City of Toronto to comply with the PSAB Standards 1200 and 3150. This is the first time, this reporting has been done. This required a high level of analysis and collaboration to inventory the different types of assets, analyze the segments, and prepare costings which in many cases was not available due to the age of the assets, and unavailability of invoices or other support. In order to estimate the historical cost of assets where no cost records were available, various techniques were undertaken to estimate the replacement or reproduction cost of the asset, then discounted back to the purchase date using construction price indices.

Note 1 to the consolidated financial statements outlines the significant accounting policies providing an overview of the policy of recording tangible capital assets.

The breakdown of tangible capital assets, as well as accumulated amortization, as at December 31, 2009 with 2008 are presented in Note 16 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

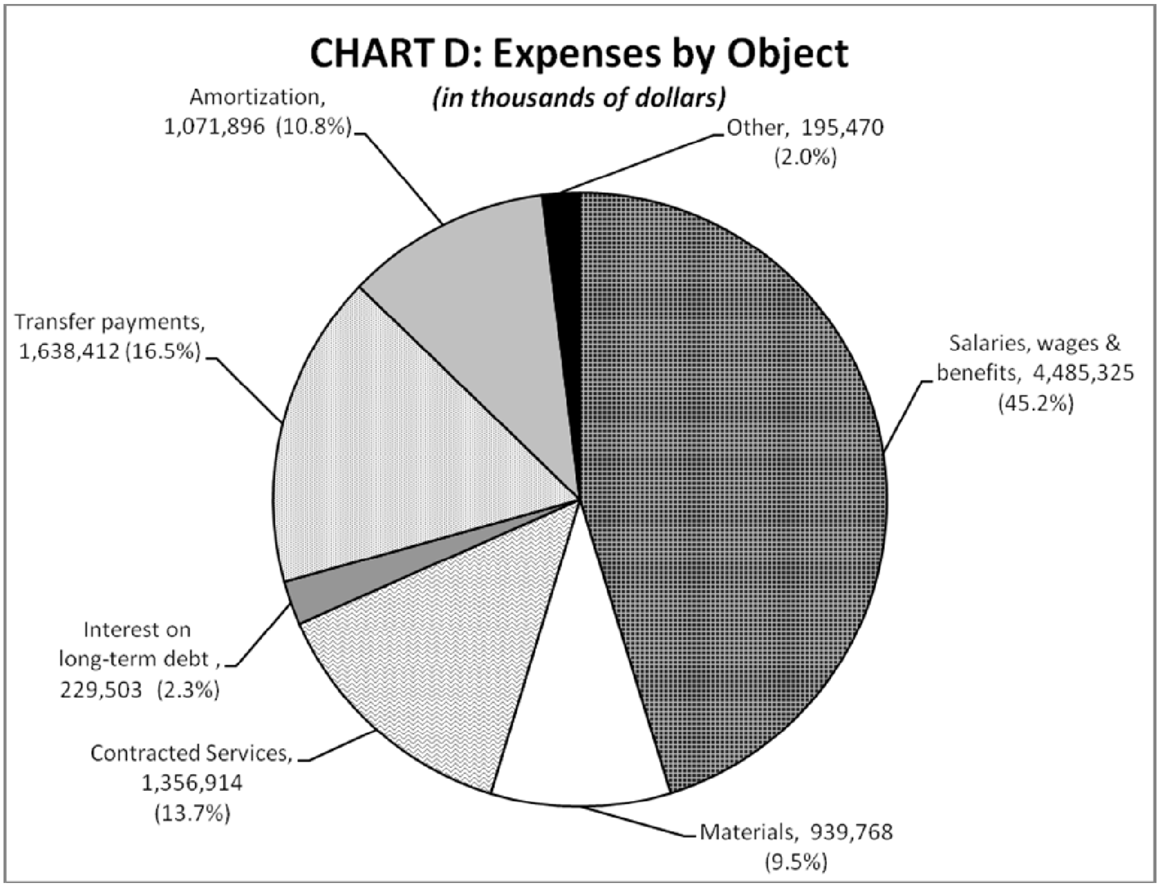
During the year, consolidated asset additions totalled $1.85B, with the most significant portion being building and building improvements of $648M. This consists of $308M at the TCHC, $109M at the TTC, $38M at the BOG, and $192M at the City. The City's largest acquisition was the police training facility for $76M.

During the year amortization of tangible capital assets increased $274M to $1.07B (2008 - $797M). The majority of this increase, $248M represents the increase at the TTC, primarily as a result of increased amortization of vehicles.

Inventories and Prepaid Expenses
Inventories and prepaid expenses totalled $206M (2008: 167M). The increase was generated largely by increase in supplies for pandemic preparation and prepaid payments related to Ontario Works program.

Consolidated Expenses
Gross consolidated expenses for 2009 totalled $9.92 billion (2008: $9.44 billion). The increase was generated largely by inflationary increases (wages, materials and contracted services), increased employee benefit liabilities and increased interest charges on long-term debt.

Chart D breaks down the gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 45.2% of the total amount. It should be noted that principal re-payments on debt are not included as they are considered financing transactions for accounting purposes and are not considered expenses.



Note 21 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenses by object.

Table 3 provides a comparison of 2009 Consolidated Net Revenue by program versus budget, and a comparison with the previous year's actuals.

Table 3

Consolidated Net Revenue by Program					
(in thousands of dollars)					
	2009 Budget	2009 Actual	Difference	Change	2008 Actual Restated
Revenues					
Property Taxation	3,558,901	3,655,880	96,979	2.7%	3,469,974
Taxation from other governments	77,427	100,179	22,752	22.7%	80,710
User Charges	2,460,319	2,309,164	(151,155)	(6.5%)	2,108,423
Funding transfers from other governments	2,848,559	2,901,868	53,309	1.8%	2,731,174
Development Charges	129,950	83,144	(46,806)	(56.3%)	56,234
Investment Income	164,590	257,883	93,293	36.2%	240,738
Net Government Business Enterprise Earnings	-	108,657	108,657	100.0%	233,926
Other	1,203,745	997,716	(206,029)	(20.7%)	816,661
Total	**10,443,491**	**10,414,491**	**(29,000)**	**(0.3%)**	**9,737,840**
Expenses					
General Government	776,662	803,504	(26,842)	3.3%	794,329
Protection to persons and property	1,500,680	1,525,221	(24,541)	(1.6%)	1,466,272
Transportation	3,040,322	2,658,085	382,237	14.4%	2,578,243
Environmental services	979,527	873,684	105,843	12.1%	855,105
Health services	383,390	376,463	6,927	1.8%	375,904
Social and family services	2,023,056	1,946,444	76,612	3.9%	1,803,134
Social Housing	694,317	837,786	(143,469)	(17.1%)	651,022
Recreational and cultural services	801,144	769,110	32,034	4.2%	770,880
Planning and development	45,652	126,991	(81,339)	(64.1%)	144,655
Total	**10,244,750**	**9,917,288**	**327,462**	**3.3%**	**9,439,544**
NET REVENUE / ANNUAL SURPLUS	**198,741**	**497,203**			**298,296**

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements (see Note 20 in the Consolidated Financial Statements). The budget is however, adjusted to exclude purchases of tangible capital assets from expenses, to also exclude debt principal from revenues and expenses, and to allow for amortization of tangible capital assets, as shown in Note 20.

Table 3 reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.

Table 3 indicates that the consolidated operations generated a surplus of $497M. The contributory factors are as follows:

- City operations contributed $33.4M towards the surplus due to prudent expense management as well as the implementation of cost saving strategies introduced in the fourth quarter which included hiring slowdown and expense constraints.
- Agencies, Boards and Commissions (ABCs) collectively reported a favourable net variance of $4.2M.
- Corporate Accounts contributed $317M due to considerable savings in expenses and higher than budgeted revenue as follows:
    - Prudent financial management including labour disruption, wage settlement savings, reduced assessment appeals, related tax reductions and higher investment earnings; this contributed $178M.
    - At the same time, other tax and non-program revenue increases and expense decreases realized about $139M in budgetary savings.
- This was offset by increase in the PSAB accrual for adjustments for retirement and post employment benefits ($120M) and a decrease in legacy pension plan liabilities ($40.2M) due primarily to the rebound in the equity market. Both of these items are non-cash items that are not included in the City's budget.
- Principal Debt Repayments of $292M are budgeted as an expense but are accounted for on the financial statements as repayment of a liability.
- Tangible Capital Asset purchases of $1.85B are no longer treated as expenses but as asset purchases, while amortization of these assets of $1.07B is recorded in these consolidated financial statements as an expense.

Expenses

A breakdown of other contributing factors by function is as follows:

- The General Government spending was higher than budget primarily due to adjustments to the budget for debt repayments which were higher than actual repayments during the year. This was offset by the tax deficiencies/assessment appeal being $53M under budget due to the fact that a large number of pending appeals for 2008 and prior years were closed by the Assessment Review Board (ARB) or withdrawn by the appellants; the Solid Waste Management Rebate program issued lower than expected rebates, resulting in saving of $29.6M; savings also resulted from Council's decision of adopting the amended compensation policy for management / non-union staff, ratifying the COLA increase for union staff, management of the labour disruption, other cost saving strategies.

- Actual costs for protection to persons and property (Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act Courts) include increased cost in Fire for WSIB occupational illness claims ($3.8M) offset by under spending in salaries due to delayed hiring ($2.6M) of a new class of recruits (39 vacancies), hiring expected to be done in 2010, PSAB adjustments for employee benefits and TCA adjustments.

- Transportation includes Roads/Traffic signals maintenance and Transit. Transportation services spending was lower than budget due primarily to savings in salaries and budgets arising from staff vacancies ($7.219M); under spending in winter maintenance service ($0.703M); utility cut repair activities ($3.407M); roadside cleaning and red light camera programs ($2.042M); and lower fleet fuel charges ($0.727M). These favourable variances were partially offset by increased expenses of $1.983M for de-icing salt arising from the winter conditions earlier in the year, as well as the increasing commodity price of salt. Toronto Transit Commission was under spent by $17.73M due to energy cost savings arising from lower than anticipated rates and reduction in accident claims expenses.

- Environmental services spending was lower than budget due primarily to vacant staff positions ($24.68M); lower cost for road repairs managed by Transportation Services; utility savings from efficiencies; overall slowdown in the economy affected the production of waste and resulted in lower than expected tonnage.

- Social and Family Services spending was lower than budget by $76.6M due to a higher proportion of single people compared to families in the social assistance caseload; average actual monthly caseload of 88,506 compared favourably to the budgeted caseload of 90,000; unanticipated one-time Provincial Cost of Administration (COA) funding of $3.0M; delayed hiring and general under spending partially offset by overspending in Ontario Disability Support Program (ODSP) due to an increasing ODSP caseload.

- Social Housing spending was higher than budget primarily due to additional spending at TCHC for the funds received from the Province for Social Housing Renovation and Retrofit Projects(SHRRP Funds) for $55M and higher than budgeted spending for provincial downloading $50M and adjustment to budget for debt repayments $39M.

- Recreational and cultural services spending was lower than budget due primarily to savings in salaries due to labour disruption and implementation of cost restraint measures.

- Planning and development spending was higher than budget due to consolidation of Toronto Portlands Company (previously TEDCO), Build Toronto and Invest Toronto in total $26.5M; proportionate consolidation of Toronto Waterfront Revitalization Corporation (TWRC) $12.5M and Business Improvement Areas (BIAs) $18M.

Revenues

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of the City's many revenue sources. In 2009, property taxes made up 40.97% (2008 - 41.98%) of the City's operating revenue.

Property taxes were higher than budget due to the following:

- Supplementary and omitted assessment received from MPAC generated revenues which exceeded expectations and created $29.4M additional revenue;
- Approximately $17.8M represent Business Improvement Area (BIA) levies which were approved by Council to fund operational expenditures in the same amount, resulting in a net zero overall budget.
- Municipal Land Transfer Tax (MLTT) revenue exceeded budget ($18.5M) due to higher than expected sales and registration of properties in 2009; and
- Personal Vehicle Tax (PVT) revenue exceeded budget ($5.4M) due to the catch-up provision experienced in 2009. These are amounts which were collected in 2009 for individuals who avoided PVT charges in 2008 by purchasing their stickers before September 2008 when the program began.

Taxation from other government (Payment in lieu of taxes) exceeded budget by $22.7 M as follows:

- $6M as a result of lower than anticipated provision requirement for pending appeals and provision for outstanding PIL receivable;
- $12M for 2008 and prior years. Outstanding pending appeals closed by the ARB or withdrawn by the appellants, in addition to other reductions to the provision;
- $2.8M as a result of anticipated assessment reductions due to conversion of federally owned properties to taxable was not realized during 2009; and
- $0.5M as a result of a grant payment received by the University of Toronto.

User fees were under budget by $151.2M due to:

- Toronto Transit Commission ridership being slightly under budget coming in at a projected 471.2M riders versus a planned ridership of 473M, with 1.8M fewer rides compared to budget and a lower than anticipated average fare due to higher usage of Adult passes and increased usage of concession fares amounting in total to ($68.8M);
- Under achievement of revenues for community planning development applications ($2.891M), building licenses and permits ($10.8M), cat and dog licenses ($1.3M) due to economic conditions;
- Lower than projected revenue of $2.73M mainly from water sales revenue attributable to lower consumption throughout the summer months due to the cool wet weather;
- Lower than forecasted Red Light Camera (RLC) infraction revenue ($2.385M) due to forecast of 54,737 charges versus actual of 27,500;
- Drop in revenue for recreational programs ($8.4M) and golf course revenue ($4.2M) as a result of summer labour disruption; and

- Under achieved revenues from recovery of utility cut costs ($4M) due to drop in construction activities.

Funding Transfers from other governments were over budget by $53.3M primarily due to:

- Funding for Transit Capital was $209.4M over the original revenue budget of $57.9M approved by Council. The budget was revised during the year however the financial statements present the original approved budget. This was offset by lower subsidies for the following:
- Operating subsidy variance of $94.6M in Shelter, Support & Housing Administration due to:
  - lower subsidies of $98.3M in Affordable Housing Program as the related expenditures (100% funded) were lower;
  - offset by higher Homelessness Partnership Initiative (HPI) funding of $1.3M as the related expenditures (100% funded) were higher;
  - offset by $0.6M higher subsidy than budget for Let's Build Affordable Housing Program funding provided by the Province at 100% to match the expenditures; and
  - offset by $1.7 M higher subsidy in Hostels Services due to increase in hostels per-diem subsidies compared to budget (33,392 days over budget).
- Operating subsidy variance of $33.3M in Toronto Employment and Social Services (TESS) is mainly due to:
  - Actual eligible expenditures for Ontario Works (OW) Financial Assistance Program lower than budgeted expenditures of $42.2M, resulting in lower subsidy than budget by $31.8M ($42.2M at 80% subsidy); and
  - Combined subsidies for OW Cost of Administration and other one-time programs were capped to the maximum approved amount per service agreement, and the actual contracted subsidies were lower by $1.3M than budget for year 2009.
- Operating subsidy variance of $6.2M in Long-Term Care Homes & Services is mainly due to lower than budgeted actual subsidies earned for City operated homes, Homemakers and Nursing Services, Supportive housing and Community support programs run by the division.
- Lower than budget provincial grant revenue of $2.5M from Ministry of Health and Long Term Care (MOHLTC) mainly in the Central Ambulance Communication Centre (CACC); and lower subsidies in Children Services ($1.6M) and Social Development, Finance & Administration($2.04).

Development Charges revenues applied to capital spending were under budget by $46.8M due to under spending on capital projects attributable to the inability to find and secure suitable sites, delays in construction start-up and deferral of work, and the impact of labour disruption. As an obligatory reserve, development charges are recognized as the funds are spent for the intended purposes.

Investment earnings were higher than budget by $93.3M due to higher than forecasted rate of return and lower interest allocated to Reserve Funds as per policy.

Other Revenues were lower than budget by $206M primarily due to:

- Lower than budgeted recoveries and contribution for capital expenditures ($140M);
- Actual transfers of $7.5M from the National Child Benefit Supplement Reserve Fund to operating were $18.5 million less than budgeted;
- Actual transfers of $0.5M from the Social Housing Federal Reserve Fund to operating were $21M less than budgeted;
- Budget overestimated for Facilities' revenues for permanent property rents ($7.5M);
- Solid Waste: lower recyclable tonnage and lower market prices for City's recyclable commodities due to the recession in 2009 ($13.4M); and
- Lower other recoveries ($12.8M).

The five year summary of revenues outlined in Table 4 demonstrates that property taxes continue to be the slowest growing revenue source for the City. During this period, assessment growth has been relatively low. In addition, the City has been limited by provincial legislation and Council policy from extending tax rate increases on the commercial, industrial and multi-residential assessment base on the same basis as the residential base. The commercial, industrial and multi-residential property classes represent approximately 56.7% of the City’s tax revenue base.

As a result of the slow growth of property tax revenue, more reliance has been placed on user fees, senior government transfers and other sources of revenue to meet expenses and minimize property tax rate increases. Council’s approval of the Municipal Land Transfer and Personal Vehicle Ownership taxes in October of 2007, both of which were implemented in 2008, are examples of the action taken by the City to diversify its revenue sources to address this issue.

Table 4

Consolidated Revenues – 5 year Summary

	(in thousands of dollars)					
Revenues	**Avg. Annual Increase**	**2009**	**2008**	**2007**	**2006**	**2005**
Property taxes	3.38%	3,520,450	3,369,949	3,285,947	3,187,263	3,082,009
Municipal land transfer tax (MLTT)	n/a	183,892	165,743	-	-	-
Personal vehicle Tax (PVT)	n/a	51,717	14,992	-	-	-
User charges	6.93%	2,309,164	2,108,423	1,966,890	1,856,407	1,766,557
Government transfers	9.52%	2,901,868	2,731,174	1,952,047	2,254,726	1,831,399
Other	13.16%	1,447,400	1,347,559	1,655,652	1,236,089	1,045,713
Total	**7.75%**	**10,414,491**	**9,737,840**	**8,860,536**	**8,534,485**	**7,725,678**
Percentage Increase		6.95%	9.90%	3.82%	10.47%	

Risks and Mitigates

The City continues to face a number of risks that could have a negative impact on the City's financial future. These risks include: lack of long-term dedicated funding to assist the City in addressing its infrastructure deficit including building and expanding the transit system to meet the City's strategic goals and accessing non-property tax revenue sources that grow with the economy to ensure long term sustainable funding.

In 2009, the City made significant progress to address these risks by continuing to implement its Long Term Financial Plan. Appendix B lists eight (8) specific financial issues/risks and the actions taken in 2009 to address them.

Highlights include: negotiating a new Illness or Injury Plan with TCEU Local 416 and CUPE Local 79, full funding of significant components of the Transit City initiative, and agreement from the Province to fully fund their 50% share of Ontario Works administration costs.

Evaluating the City's Performance

The financial statements and the credit ratings do not provide an assessment of value for money. The City examines its performance internally and externally, relative to other municipalities, and performance measures are an integral part of the budget preparation and review process.

Toronto's performance continues to compare favourably against other Ontario municipalities in a number of areas based on the measures reported under the provincially mandated Municipal Performance Measurement Program (MPMP) and the Ontario Municipal CAO's Benchmarking Initiative (OMBI).

A detailed report entitled "Toronto's 2008 Performance Measurement and Benchmarking Report" was presented to the Executive Committee on June 14, 2010 and compares Toronto's 2008 results in 27 different service areas to those of 14 other Ontario municipalities in the performance categories of service level, efficiency, customer service and community impact.

The report also includes a summary of the City's internal trends between 2007 and 2008. For 82% of the service level indicators, Toronto's service levels had been maintained or increased in 2008. For performance measures relating to efficiency, customer service and community impact, 69 % of the measures either improved or remained stable in 2008.

The full report entitled Toronto's 2008 Performance Measurement and Benchmarking Report can be found on the City's website at http://www.toronto.ca/city_performance/pdf/consolidated-2008-PMBR-report.pdf

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Cam Weldon Deputy City Manager and Chief Financial Officer	Giuliana Carbone Treasurer

ATTACHMENTS

Appendix A: 2009 Consolidated Financial Statements
Appendix B: Key Issues/Risks Facing the City of Toronto
Appendix C: Glossary