TORONTO

STAFF REPORT
ACTION REQUIRED

2011 Audited Consolidated Financial Statements

Date:	June 18, 2012
To:	Audit Committee
From:	Deputy City Manager and Chief Financial Officer Treasurer
Wards:	All
Reference Number:	P:\2012\Internal Services\acc\ac12010acc (AFS14737)

SUMMARY

The purpose of this report is to present the City of Toronto's Consolidated Financial Statements for the year ended December 31, 2011 to Council for approval and provide highlights of the City's 2011 financial performance and financial condition as of December 31, 2011.

RECOMMENDATIONS

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

1. City Council approve the 2011 Consolidated Financial Statements as attached in Appendix A.

Financial Impact

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

At its meeting held on May 7, 2012, Budget Committee, in its consideration of item BU25.3 "Operating Variance Report for the Year Ended December 31, 2011", approved the allocation of the 2011 final year-end surplus. Executive Committee and Council will be considering the Budget Committee recommendations at its meetings in September 2012.

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 Pricewaterhouse Coopers 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.

Consolidated Financial Statements

The Consolidated Financial Statements include the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Summarizes the assets (financial and non-financial), liabilities, net debt, and accumulated surplus as at December 31st.
Consolidated Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities, and provides the calculation of the City's accumulated surplus at year end.
Consolidated Statement of Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.
Consolidated Statement of Cash Flows	Summarizes the City's cash position and changes during the year by outlining the City's sources and uses of cash.

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies, boards, commissions ("ABCs") and government business enterprises that the City effectively controls. There are 113 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.

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. 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 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.

The detailed 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, are reflected in Note 17 to the Consolidated Financial Statements.

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 8 (a) to the Consolidated Financial Statements.

As a result of the significant investment in tangible capital assets, there is a large accumulated surplus, which occurs at the same time that the City has a significant net debt, which must be financed through future revenues. Although tangible capital asset balances are considerable for municipalities – much larger on a percentage basis than any other level of government – they do not provide liquidity, 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 2011 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified "cash requirements" basis and amounts recorded in these financial statements on a "full accrual" basis. Note 18 outlines the adjustments to the approved budget, particularly exclusion of debt proceeds, principal payments, and tangible capital asset purchases, and inclusion of estimated amortization expense. These adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The accrual based budget 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 unique to governments. This statement focuses on the debt of the City, adjusting the annual surplus for the impact of tangible capital assets: mainly deducting the costs to acquire assets, and adding back amortization charged during the year.

COMMENTS

The City's 2011 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, 2011.

New in 2011

During 2011, the City established 2 new corporations:

- Casa Loma Corporation (CLC); and,
- Lakeshore Arena Corporation (LAC).

A board was established for each of the two new corporations to oversee operations and examine strategic alternatives for the sale or retention and operation of these facilities. As a result, additional long-term debt of $39.5M has been added to these consolidated financial statements as the City assumed control over the Lakeshore Arena and assumed the debt previously guaranteed by the City for the development of this facility.

Also in 2011, management determined that Toronto Port Lands Corporation (TPLC) now qualified as a government business enterprise based on the company meeting all four of the required characteristics:

1. It is a separate legal entity;
2. It has been delegated financial and operational authority to carry on a business;
3. It sells goods and services to individuals and organizations outside the government reporting entity (i.e. not to the City or its ABCs) as its principal activity; and,
4. It can, in the normal course of operation, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

Previously, with the creation of Build Toronto and Invest Toronto, and the movement of the incubator programs to Economic Development, there was doubt as to whether TPLC was able to meet point four (4) above. However, based on its surplus recognized in 2010, its expectation of ongoing income, and its revaluation of its environmental liabilities, TPLC is expected to qualify for all four points above for the foreseeable future.

In addition, the Public Sector Accounting Board (PSAB) required the conversion of two (2) of the City's four (4) GBEs to International Financial Reporting Standards (IFRS). Adoption of IFRS has resulted in the revaluation of TPLC's tangible capital assets at fair value. This has resulted in a significant increase to the investment in GBEs, as detailed further in this report and in Note 5 of these consolidated financial statements.

2011 Financial Highlights

- The net value of the City's tangible capital assets has increased by $1.0B. The historical cost and accumulated amortization of assets as at December 31, 2011 were $33.2B and $12.5B respectively for a net book value of $20.6B (2010 - $19.6B). Tangible capital asset purchases during 2011 totalled $2.1B (2010: $2.3B). Amortization of tangible capital assets during 2011 totalled $815M (2010: $1.0B).

- The City's accumulated surplus increased by $1B to $16.5B as at December 31, 2011 (2010 $15.5B). A significant portion of the accumulated surplus is due to the City's $20.6B net investment in tangible capital assets, offset by $7.2B for unfunded liabilities to be recovered from future revenues. 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 $26M to $4.41B (2010 - $4.39B).

- Long-term debt increased by $344M to $4.04B (2010 - $3.69B). This includes both debentures and mortgage debt obligations of Toronto Community Housing Corporation.

- The gross employee benefits liability increased by $504M to $3.18B (2010 - $2.67B), while the net liability increased by $187M to $2.78B (2010 - $2.59B).

- The City collected consolidated revenues of $11.3B (2010 - $11.1B) and had consolidated expenses of $10.7B (2010 - $10.5B) for a net annual surplus on a full accrual accounting basis of $696M (2010 - $554M).

- Deferred revenue increased by $73M to $1.51B (2010 - $1.44B).

- Cash and investments increased by $203M to $3.98B (2010 - $3.78B), while Accounts payable and accrued liabilities increased by $92M to $2.54B (2010 - $2.44B).

- The City's investment in its government business enterprises increased by $456M to $1.72B (2010 - $1.26B). Of the $456M increase, $331M relates to the conversion of two of the City's GBEs (TPLC and Toronto Parking Authority) to IFRS.

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" as reported in the final operating budget variance report to the Budget Committee for budgeting and rate setting purposes.

	(in thousands of dollars) **2011**	**2010**
Surplus as reported in the Final Year-end Operating Variance Report	292,741	367,466
Accounting Adjustments for Financial Statement Presentation Purposes:		
Prior Year (2010) Surplus carried forward and distributed in the Current Year (2011) Budget	(378,731)	(359,597)
Transfer to reserve fund – principal repayment of Note Receivable – Toronto Hydro Corporation	-	(528,000)
Differences between budget and financial reporting:		
Build Toronto, Dividend declared in 2011, budgeted and paid in 2012	20,000	-
Toronto Parking Authority, Dividend paid in prior year, budgeted in current year	(7,000)	(10,000)
ABC Surplus (Deficit) reported in Consolidated Statement of Operations and Accumulated Surplus	6,902	(84,612)
Net increase in City's equity in Government Business Enterprises (GBE's) (Toronto Hydro, Enwave, Toronto Parking Authority and Toronto Port Lands Company)	125,070	69,001
Water and Solid Waste (non-levy) City Operations	41,141	17,636
PSAB Adjustments (See Note 1 following)	44,372	(11,168)
Fund Balances (See Note 2 following)	465,258	370,487
Amounts to be recovered impacts (see Note 3 following)	86,026	722,631
Accounting Surplus for the year	**695,779**	**553,844**

Note 1: PSAB adjustments in 2011 relate to differences between amounts recorded in the consolidated financial statements and those budgeted, and are due to:

	2011	**2010**
Investments for Toronto Atmospheric Fund (TAF)[market to cost]	2,022	-
Board of Governors of Exhibition Place (BOG) [deferred revenue]	-	(11,446)
Accrued vacation pay and lieu time	(770)	(8,704)
TCHC deferred revenues [repayments of loans]	(89)	(2,538)
Surplus land transferred from TCA to inventory (Build Toronto)	43,209	11,520
Total	**44,372**	**(11,168)**

Note 2: Fund balances:

	2011	2010
Capital Fund Activity	(525,376)	(724,189)
Net Change to Reserve Fund Balance	(49,288)	(105,520)
Net Change to Tangible Capital Assets	1,039,922	1,200,196
Total	**465,258**	**370,487**

Note 3: Amounts to be recovered impacts:

	2011	2010
Principal Repayments on Long Term Debt	291,103	816,666
Interest earned on Sinking Funds	67,110	52,610
Changes in solid waste landfill liabilities	(382)	2,285
Changes in property and liability claims	(84,595)	(63,387)
Changes in employee benefit liabilities	(187,210)	(85,543)
Total	**86,026**	**722,631**

Financial Condition

An 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, 2011 increased by $26M to $4.41B (2010 - $4.39B). This increase is due primarily to the City's considerable investments in tangible capital assets, offset by a higher annual surplus for 2011 resulting from higher earnings from GBE's, as well as the impacts from reclassification of Toronto Port Lands Company as a GBE. For more information on the change in Net Debt, please refer to the Consolidated Statement of Change in Net Debt and Note 5 of the Consolidated Financial Statements.

The City's net long-term debt (Note 12) increased by $374M (2010: $91M) primarily due to new net long term debt issuances of $736M (2010: $965M) offset by net long-term debt repayments of $295M (2010: $821M) and interest earned on sinking funds of $67M (2010: $53M). Debt repayments in 2011 were less than in 2010 as $600M, primarily from the sale of the Toronto Hydro note, was invested in sinking funds in 2010.

The following debt was issued in 2011:

$ 000s	Total	<= 5 Yrs	10 Year	15 Year	20 Year	25 Years	30 Year
Summary by Service							
Protection	47,677	-	47,677	-	-	-	-
General Government	57,894	-	37,894	-	-	-	20,000
Transportation	108,056	-	58,056	-	-	-	50,000
TTC	401,373	-	56,373	-	-	-	345,000
Planning & Devt	35,000	-	-	-	-	-	35,000
Lakeshore Arena	39,545	39,545	-	-	-	-	-
Social Housing	46,040	-	-	10,200	9,900	25,940	-
	735,585	39,547	200,000	10,200	9,900	25,940	450,000

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, 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 recovered from future revenues as included in Note 17 of Consolidated Financial Statements. These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities and environmental liabilities. In 2011, the total amount that must be recovered from future property taxes and other revenues grew by $619.5M to $7.21B. This increase mainly consists of:

- an increase of $187.2M in employee benefits liabilities, due primarily to the drop in the discount rate;
- an increase of $88.6M in other liabilities, mainly property and liability claims provision as a result of the discount rate decrease; and
- an increase of $343.7M in mortgage and long term debt, due primarily to increase in the amount of debt issued.

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

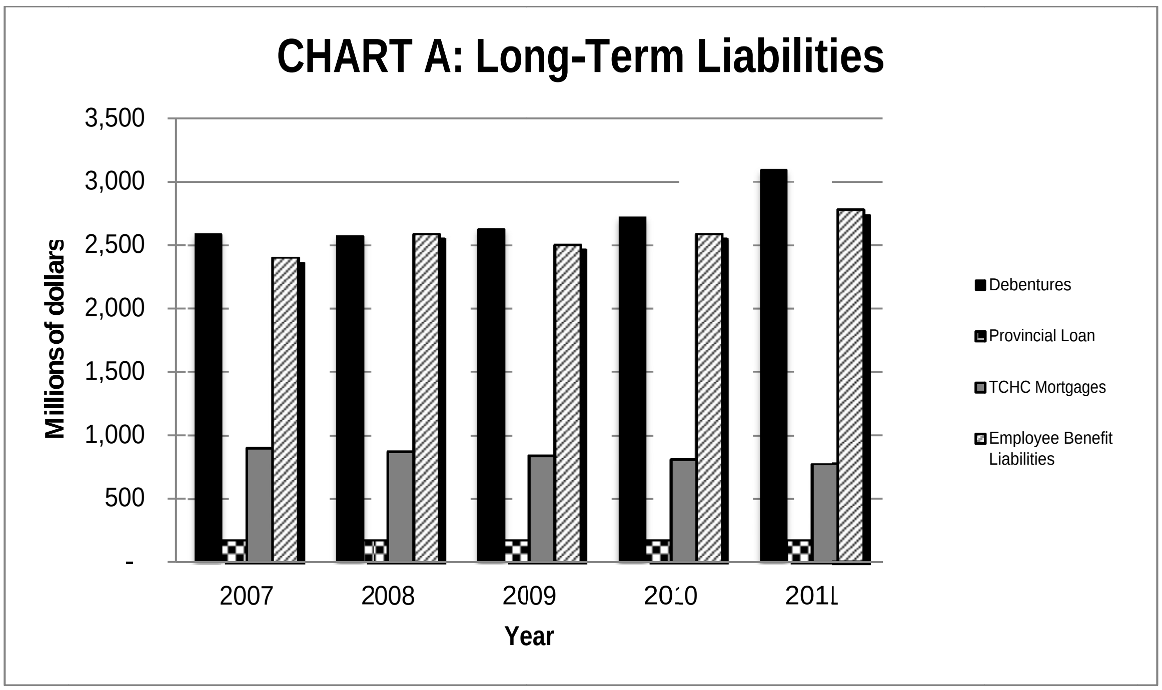
Table 1
Net Debt – 5 year Summary

Net Debt ($'000s)	4 Year Average Annual Increase	**2011**	**2010**	**2009**	**2008**	**2007**
Liabilities	4.95%	11,684,379	10,899,622	10,392,487	10,647,259	9,631,062
Financial assets	2.53%	7,273,083	6,513,984	6,728,291	7,109,217	6,580,328
Net Debt	**9.66%**	**4,411,296**	**4,385,638**	**3,664,196**	**3,538,042**	**3,050,734**
Percentage Increase		**0.59%**	**19.69%**	**3.57%**	**15.97%**	

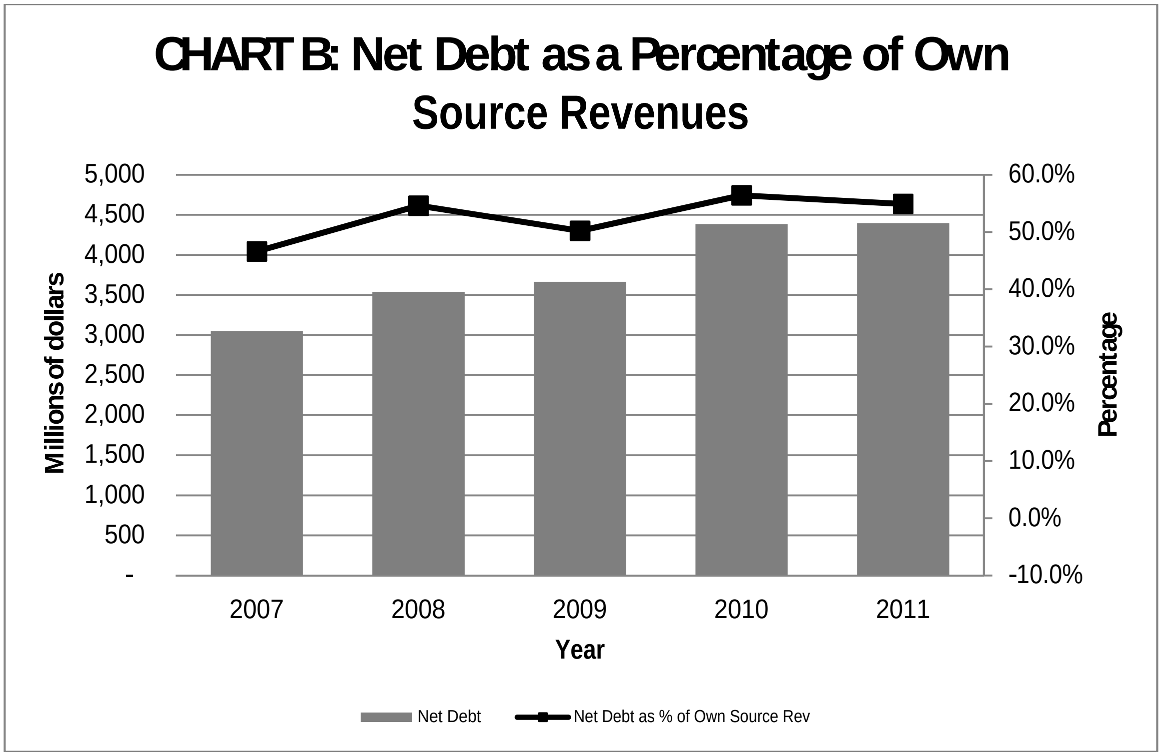
The City’s net debt has increased by a compound annual rate of 9.66% over the last four years, attributable to increases in long-term debt to third parties and in long-term employee benefit liabilities.

The significant growth in long-term debt has been driven mainly by the need to finance transit capital expnditures. The˜he growth of employee benefit liabilities has been driven significantly by declines in the discount rate, 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. Council has contained some of the growth of this liability through collective bargaining, including eliminating the vested sick leave plan for new employees for Local 79 and 416 hired after July 31, 2009.

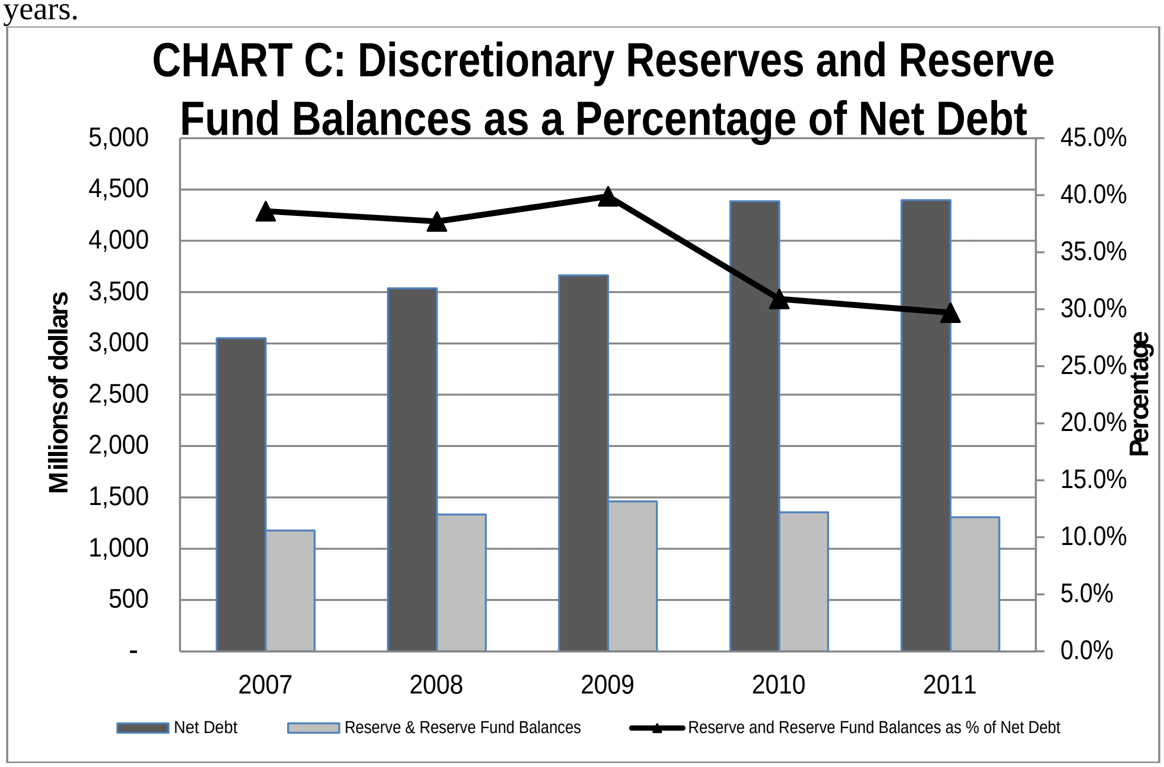
Chart A provides the breakdown of long-term liability growth by debt type.



Information on the mortgage liabilities of TCHC is provided in Note 11, the provincial loan and the City’s debenture debt is outlined in Note 12, while further detail about the City’s employee benefit liabilities is provided in Note 13 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 earnings from investment in government business enterprise (GBE's). The net liability as a percentage of own source revenues has grown from 46.6% to 55.1% over 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. 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.

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

If the Obligatory Reserve Funds were included in Chart C, then the Reserve and Reserve Fund Balances would be 55.3% of Net Debt (2010: 55.9%).

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

Comparison to Other Jurisdictions

Table 2 provides a comparison of key financial indicators for a selection of large Canadian cities – 2010 figures.

Table 2

2010 *($ millions)*						
	Toronto	**Montreal**	**Ottawa**	**Calgary**	**Edmonton**	**Vancouver**
Investments	3,294	2,094	738	2,358	1,379	494
Investments in GBE's*	1,260	-	343	1,845	2,465	-
Interest bearing long-term debt	3,694	8,446	1,056	2,930	1,840	595
Net financial assets (liabilities) [not a total]	(4,386)	(4,658)	(1,052)	82	1,741	(349)

*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 investment are provided in Note 5 to the Consolidated Financial Statements.

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 $154.8M in 2011. The increase consists primarily of the following:

- higher receivable from Government of Canada ($61.7M) due to the following:

	($ millions) **Increase (Decrease)**
Federal Gas Tax	77.2
Toronto York Spadina Subway Extension (TYSSE)	26.9
Infrastructure Stimulus Funds	25.1
Union Station Project – Transport Canada contribution	9.3
Canada Strategic Infrastructure Fund (CSIF)-claims submitted not yet paid	6.5
G20 Summit Expenses – received in 2011	(67.0)
Harmonized Sales Tax (HST) Rebates	(15.2)
Other increases and decreases	(1.1)
Total	**61.7**

- higher receivable from Government of Ontario ($78.3M) due primarily to the following:

	($ millions) **Increase**
Transit City – Light Rail Vehicle (LRV) Funding	46.3
Ministry of Transportation – Move Ontario (York Spadina Extension)	27.7
Other increases and decreases	4.3
Total	**78.3**

- decrease in receivable from York Region ($13.7M) due primarily to higher receivable from York Region for their subway contribution ($12.7M) offset by timely collection for Capital cost sharing ($27M) for water infrastructure.

- increase in Water fees receivable is primarily attributable to average increase in water rates of 9% which resulted in higher receivable and higher accrual amount at year end.

The breakdown of accounts receivable at December 31, 2011 with 2010 comparatives is as follows:

	(in $'000s)	
Accounts Receivable	**2011**	**2010**
Government of Canada	316,131	254,476
Government of Ontario	228,338	149,997
Other municipal governments	26,346	40,065
School board	9,382	1,786
Utility fees	133,565	115,205
Other fees and charges	461,046	458,482
Total	**1,174,808**	**1,020,011**

Taxes Receivable

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

	(in thousands of dollars)	
Taxes Receivable	**2011**	**2010**
Current year	171,704	220,077
Prior year	29,981	36,453
Previous years	32,559	31,140
Interest/penalty	38,317	39,811
Less: allowance for doubtful accounts	(28,352)	(27,094)
Net receivables	**244,209**	**300,387**

Other Assets (Note 3)

Other assets comprised mainly of loans receivable from various organizations. Other Assets increased by $5M to $129M (2010: $124M) due primarily to:

- TCHC advancing an additional $29.3M to Parliament and Gerrard Development Corporation (PGDC) for financing the pre-development costs of condominium buildings; offset by
- Decrease in TCHC loans recoverable from Dundas and Parliament Development Corporation ("DPDC") for $23.9M.

Investments (Note 4)

Investments increased by $201M to $3.5B (2010: $3.3B) due primarily to additional funds received from the Provincial Government for Transit Expansion, Toronto York Spadina Subway Extension and increased development charges funds.

Investment in government business enterprises (GBEs) (Note 5)

Investment in government business enterprises increased by $456M due primarily to increases in GBE earnings resulting from the reclassification of Toronto Port Lands Company as a GBE effective January 1, 2011.

Additional information regarding the City's GBEs as at December 31, 2011, including 2011 transactions for all GBEs with the City and condensed financial results, are provided in Note 5 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable (Note 7)
The breakdown of accounts payable and accrued liabilities at December 31, 2011 with 2010 comparatives is as follows:

Accounts Payable	*(in thousands of dollars)* 2011	2010
Local Board trade payables	637,463	533,279
City trade payables and accruals	905,022	1,055,288
Payable to school boards	260,470	182,805
Provision for tax appeals & rebates	487,309	452,766
Credit balances on property tax accounts	41,657	57,852
Wages accruals	203,992	161,537
Total	**2,535,913**	**2,443,527**

- Local board trade payables were higher in 2011 primarily due to increases in Toronto Transit Commission (TTC) trade payables for $105.7M.
- City trade payables and accruals are lower ($150.3M) due primarily to the following:

	(in millions of dollars) Increase / (decrease)
Trade Payables	(105.5)
Holdbacks for construction contracts	(36.5)
Other increases and decreases	(8.3)
Total	**(150.3)**

- Payable to school boards was higher ($77.7M) in 2011 primarily due to higher net tax levy for Toronto District School Board of $90.7M offset by payment of Education Development charges to School Board in 2011 of $13.4M.
- The provision for tax assessment appeals increased by approximately $34.5M primarily as a result of unprocessed pending assessment appeals, and vacancy, charitable and heritage rebates.
- Credit balances on property tax accounts was lower ($16.2M) due to refunds being issued throughout the year thus reducing the outstanding credit balance.
- Wage accruals were higher by $42.4M as an additional day's pay was accrued in 2011 ($4.2M), accrual for outstanding settlements ($21.7M) and an additional accrual due amounts payable in 2012 from the voluntary separation program agreements signed in 2011 ($16.5M).

Deferred Revenue (Note 8)
Deferred Revenue increased by $73M to $1.51B (2010: $1.44B) primarily as a result of:

- increase in funds received for Development Charges, Building Code and Planning Act of $104.5M;
- increase in Obligatory Reserve Funds of $28.2M for Water & Wastewater due to higher contributions as compared to withdrawals for capital purchases;

- increase in deferred building permit revenues of $10.2M – based on examination of work outstanding at December 31;
- funds received from MetroLinx in payment for their portion of future ownership of Union Station of $28.4M; offset by a
- decrease in Obligatory Reserve Funds of $101.6M for Public Transit due to withdrawals for transit capital purchases.

Other Liabilities (Note 9)
Other Liabilities increased by $78.7M to $555.7M (2010: $477M), mainly as a result of:
- an increase in the property and liability claims provision ($77.4M);
- increases in Toronto Transit Commission (TTC) unsettled accident claims ($14.9M);
- increase in Toronto Transit Commission (TTC) environmental liabilities ($7.2M);
- increase in Build Toronto environmental liabilities ($20M);
- increase in liability for Toronto Police Services for OMERS ($5.4M) due to the timing of payment of the liability; offset by
- decrease in TPLC environmental liabilities ($47.7M).

Net Long-Term Debt, excluding TCHC Mortgages (Note 12)
Net long-term debt increased by $373.7M to $3.26B (2010: $2.89B) as follows:

	(in $ millions) Increase / (Decrease)
Issuance of Debt – City	670.1
– TCHC	25.9
– Other ABC's	39.5
Debt Repayment – City	(202.7)
Debt Repayment – TCHC	(92.0)
Interest earned on sinking funds	(67.1)
Total	**373.7**

Details on debt issuances are provided on page 8 of this report.

Employee Benefit Liabilities (Note 13)
Employee benefits liabilities represent the amount payable to employees or third parties in future years for services that were rendered by the employees in the current or past years. These amounts represent amounts payable for items such as workers compensation, health care benefits for early retirees, and pensions for those retirees covered by the City's legacy pension plans. An actuarial valuation is undertaken every three years to calculate the liability, estimating expected future costs and then calculating the present value based on the applicable municipal bond rate (the discount rate) as at December 31, in accordance with PSAB standards. Employee benefits liabilities were projected, with the same assumptions and methods as those used in the December 31, 2010 valuation, with the exception of the discount rate. To reflect the very low interest rates at December 31, 2011, the discount rates dropped approximately 0.9% from the

previous valuation, increasing the liability. As a result of this valuation, the gross employee benefits liability (identified as "Total employee accrued benefit obligation" in Note 13 of the Consolidated Financial Statements) increased by $504M to $3.18B (2010 - $2.67B), and the unamortized actuarial loss increased by $317M to $403M, resulting in a net increase in the liability of $187M.

The net employee benefit liability increase of $187M to $2.77B (2010 - $2.59B) is primarily due to the low discount rate. The increase by category is as follows:

- increase in the non-OMERS pension plan liabilities ($95M);
- increase in sick leave benefits ($45M);
- increase in workers' compensation benefits ($49M);
- increase in post-employment benefits ($315M); offset by an
- increase in unamortized loss ($317M) due to the revaluation.

Tangible Capital Assets (Note 14)

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

The breakdown of tangible capital assets, as well as accumulated amortization, as at December 31, 2011 with 2010 comparatives, is presented in Note 14 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

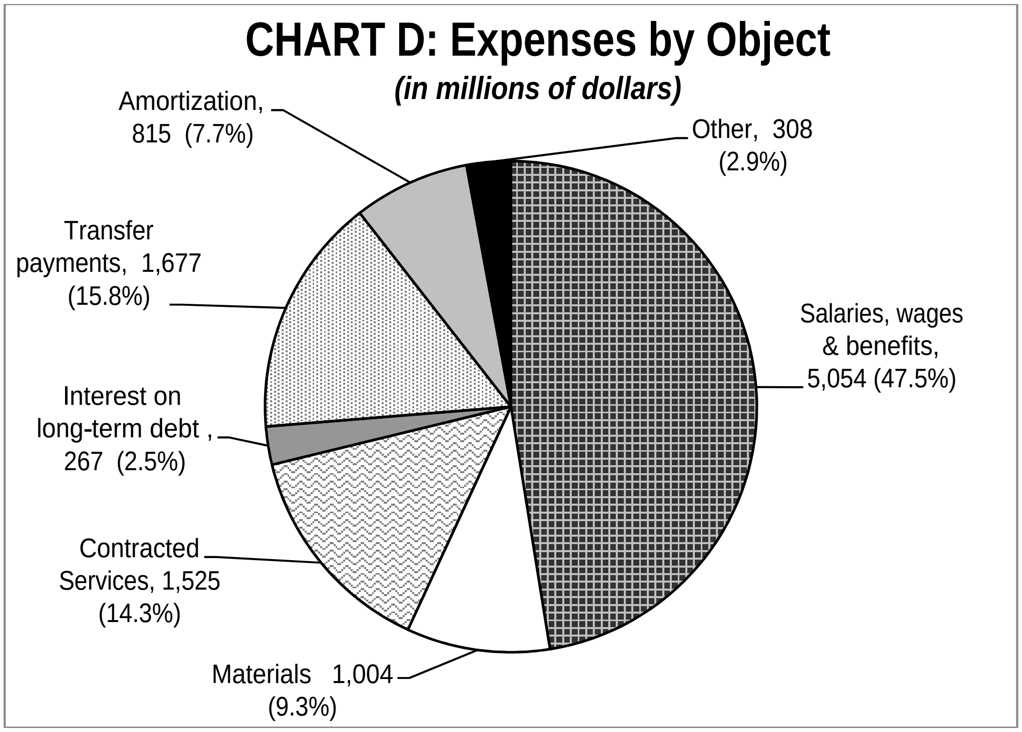
During the year, consolidated asset additions totalled $2.1B, with the most significant portion being building and building improvements of $490M. This consists of $154M at the TCHC, $210M at the TTC, $19M at the Toronto Public Library, $3M at Build Toronto, $39M at the Lakeshore Arena Corporation, $26M at the Toronto Police Services and $39M at the City.

During the year, amortization of tangible capital assets decreased by $204M to $814.5M (2010- $1.02B), mainly as a result of a decrease in TTC amortization of $230M.

Consolidated Expenses

Gross consolidated expenses for 2011 totalled $10.65B (2010: $10.54B). 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 47.5% 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 20 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenses by object.

Table 3 provides a comparison of 2011 Consolidated Net Revenue by program versus budget, and also shows 2010 actuals. The table also provides a comparison of expense by type or category of service.

Table 3

Consolidated Net Revenue by Program *(in thousands of dollars)*	2011 Budget	2011 Actual	Difference	Change	2010 Actual
Revenues					
Property Taxation	3,762,308	3,907,433	145,125	3.7%	3,859,765
Taxation from other governments	91,781	98,596	6,815	6.9%	108,656
User Charges	2,634,516	2,632,476	(2,040)	(0.1%)	2,529,093
Funding transfers from other governments	3,403,246	3,148,351	(254,895)	(8.1%)	3,173,242
Government Business Enterprise Earnings	-	188,041	188,041	100%	153,294
Investment Income	154,581	248,397	93,816	37.8%	265,990
Development Charges	154,072	94,952	(59,120)	(62.3%)	92,162
Rent and Concessions	351,559	386,073	34,514	8.9%	372,959
Other	742,067	641,531	(100,536)	(15.7%)	540,861
Total	**11,294,130**	**11,345,850**	**51,720**	**0.5%**	**11,096,022**
Expenses					
General Government	1,173,332	1,195,957	(22,625)	(1.9%)	1,065,764
Protection to persons and property	1,569,689	1,667,615	(97,926)	(5.9%)	1,569,710
Transportation	2,716,864	2,642,260	74,604	2.8%	2,833,944
Environmental services	1,017,088	871,059	146,029	16.8%	883,897
Health services	410,731	399,207	11,524	2.9%	401,271
Social and family services	2,141,751	2,049,481	92,270	4.5%	2,040,833
Social Housing	894,908	803,748	91,160	11.3%	818,287
Recreational and cultural services	873,448	847,271	26,177	3.1%	795,910
Planning and development	150,299	173,473	(23,174)	(13.4%)	132,562
Total	**10,948,110**	**10,650,071**	**298,039**	**2.8%**	**10,542,178**
ANNUAL SURPLUS	**346,020**	**695,779**			**553,844**

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

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

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 2011, property taxes made up 39.8% (2010 – 40.4%) of the City's operating revenue.

Property taxes exceeded budget by $145M primarily due to the following:

- Municipal Land Transfer Tax (MLTT) revenue exceeded budget by $97.8M due to higher than anticipated home sales and average home prices;
- Increase in Supplementary Taxes of $30.6M due to higher revenues from supplementary assessment rolls; and,
- Approximately $19.7M represent Business Improvement Area (BIA) levies which were approved by Council to fund operational expenditures in the same amount.

Funding Transfers from other governments were under budget by $255M primarily due to:

- Under-spending in TTC projects for the Toronto-York Spadina Subway Extension by $217M;
- Shelter, Support & Housing Administration operating subsidies were lower by $54.9M, mainly due to lower subsidies in the Social Housing Renovation and Retrofit Program Stimulus Funding (SHRRP) by $59M;
- Ontario Works operating subsidies were lower by $45M, mainly due to lower subsidies than budget for Ontario Works Financial Assistance Program ($40M); offset by
- Receipt of $81M from Metrolinx for transit expansion projects budgeted on a net zero basis.

Government Business Enterprise Earnings ($188M) represent the earnings from Toronto Hydro Corporation, Toronto Parking Authority, Toronto Port Lands Company (reclassified as a GBE effective January 1, 2011) and Enwave. Details are available in Note 5 and Appendix 1 of the Consolidated Financial Statements.

Investment earnings were higher than budget by $93.8M due to interest earned on the sinking fund of $67.1M not specifically budgeted for, and higher than forecast interest and investment earnings of $22.1M.

Development Charges revenues applied to capital spending were under budget by $59.1M, due to under-spending on capital projects, as a result of an inability to find and secure suitable sites, delays in construction start-up, and deferral of work. As an obligatory reserve, development charges are recognized as the funds are spent for the intended purposes.

Rent and Concessions were higher than budget by $34.5M due primarily to higher rental and concession revenues at the agencies, boards and commissions.

Other Revenues were lower than budget by $100.5M primarily due to funding for capital projects that were under-spent. Other revenues include contributions from project partners in joint agreements with the City, other third party recoveries, utility cut recoveries, various revenues such as sale of recycled materials, publications, composters, scrap, recycling revenues, donations, etc.

Expenses

Gross consolidated expenses for 2011 totalled $10.65B (2010: $10.54B). 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. A breakdown of other contributing factors by function is as follows:

- Actual costs for protection to persons and property (Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act Courts) was $98M higher than budget, primarily due to:
    - PSAB adjustments for employee benefits ($38.8M) for Fire and Police Services not budgeted for; and,
    - Deficits for City Sponsored Pension Plans ($63.9M) for the Police and Firefighters not budgeted for.

- Transportation (including Roads/Traffic signals maintenance and Transit) was $75M lower than budget, primarily due to under-spending on various projects.

- Environmental services spending was lower than budget by $146M due primarily to under-spending at Toronto Water of $15.2M and at Solid Waste of $114.8M due to:
    - savings in debt charges of $15.4M, as a result of postponement of debt issuance;
    - lower than anticipated tonnage resulting in savings of $9.8M; and
    - under-spending on various projects of $84.5M.

- Social and Family Services spending was lower than budget by $92M, due to the following:
    - Ontario Works (OW) financial benefits were under-spent by $40M due to a lower than budgeted OW caseload;
    - Savings of $12.7M in Affordable Housing Programs due to delays in commencing maintenance projects;
    - Savings of $19.2M in Toronto Employment & Social Services (TESS) due primarily to lower subsidy than budget on Enhanced Employment Services (EES); and
    - Children's Services under-spending of $10.8M.

- Social Housing spending was lower than budget by $91M, due primarily to:
  - Social Housing Administration gross savings of $74.4M, due primarily to delays in flow through of Social Housing Renovation and Retrofit Program (SHRRP) subsidy payments due to milestones requirements, delayed the distribution of funds to non-profit agencies. These will be disbursed in 2012 as milestones are achieved;
  - lower than budgeted spending at TCHC ($14.7M).

Five Year Summary of Revenues

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 55.3% 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.

Table 4
Consolidated Revenues – 5 year Summary

		(in thousands of dollars)				
Revenues	**Avg. Annual Increase**	**2011**	**2010**	**2009**	**2008**	**2007**
Property taxes	5.85%	3,681,241	3,646,675	3,520,450	3,369,949	3,285,947
Municipal land transfer tax (MLTT)	39.84%	324,065	278,980	183,892	165,743	-
Personal vehicle Tax (PVT)	N/A	723	42,766	51,717	14,992	-
User charges	9.25%	2,632,476	2,529,093	2,309,164	2,401,354	2,205,493
Government transfers	19.94%	3,148,351	3,173,242	2,993,468	3,025,828	2,188,715
Rent and Concessions	5.43%	386,073	372,959	355,005	355,591	347,317
Other	18.65%	1,172,921	1,052,307	1,000,795	404,383	833,064
Total	**13.16%**	**11,345,850**	**11,096,022**	**10,414,491**	**9,737,840**	**8,860,536**
Percentage Increase		2.25%	6.54%	6.95%	9.90%	

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 2011, the City continued to make progress to address these risks by continuing to implement its Long Term Financial Plan. Appendix B lists eight (8) specific financial issues/risks and the actions taken in 2011 to help address them.

Highlights include:

- Implementation of the Service Review Program to identify those services the City should continue to deliver, provide efficiency and effectiveness measures for those programs, and recommend proper funding sources. The Service Review Program has three parts:
    - Core Service Review (completed in 2011),
    - User Fee Review (completed in 2011), and
    - Service Efficiency Studies (which commenced in 2011 and will continue into 2012 and 2013);
- Continued cost containment;
- Voluntary Separation Program which reduced staffing by 714 positions; and
- Completion of over 500 infrastructure projects, which were partially funded by stimulus funding from the Federal and/or Provincial governments.

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SIGNATURE

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Cam Weldon
Deputy City Manager and
Chief Financial Officer

SIGNATURE

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Giuliana Carbone
Treasurer

ATTACHMENTS

Appendix A: 2011 Consolidated Financial Statements
Appendix B: Key Issues/Risks Facing the City of Toronto
Appendix C: Glossary