



STAFF REPORT ACTION REQUIRED

2010 Audited Consolidated Financial Statements

Date:	June 20, 2011
To:	Audit Committee
From:	Deputy City Manager and Chief Financial Officer Treasurer
Wards:	All
Reference Number:	P:\2011\Internal Services\Acc\ac11013Acc (AFS11714)

SUMMARY

The purpose of this report is to present the City of Toronto's Consolidated Financial Statements for the year ended December 31, 2010 to Council for approval and provide highlights of the City's 2010 financial performance and financial condition as of December 31, 2010.

RECOMMENDATIONS

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

1. The 2010 Consolidated Financial Statements as attached in Appendix A be approved.

Financial Impact

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

The financial transactions resulting from these statements have been dealt with in the final operating budget variance report #BU12.2 titled "Operating Variance Report for Year Ended December 31, 2010".

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 31 st .
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 109 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 18 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 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 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 2010 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 19 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 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.

Restatement of Prior Period Consolidated Financial Statements

During the year, a review of the accounting for the TTC Pension Plan was undertaken and it was determined that the plan best reflects a joint defined benefit plan, as defined in Section 3250 of the Public Sector Accounting Handbook, as the Commission and the employee group jointly share the risks and rewards inherent in the plan. Previously, the City recognized amounts paid as an expense, similar to defined contribution plans. As a joint defined benefit plan, the City is required to account for its portion of the plan in accordance with the standards required for defined benefit plans. As a result, the City recognized its portion of the pension expense incurred during the year and its portion of the plan's assets (subject to certain limits). This change is being accounted for on a retroactive basis, with prior period restatement, in accordance with Section 2120 of the Public Sector Accounting Handbook. (Details are provided in Note 2 to the Consolidated Financial Statements).

COMMENTS

The City's 2010 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, 2010.

2010 Financial Highlights

- The net value of the City's tangible capital assets has increased by \$1.2B. The historical cost and accumulated amortization of assets as at December 31, 2010 were \$31.5B and \$11.9B respectively for a net book value of \$19.6B (2009 - \$18.4B). Tangible capital asset purchases during 2010 totalled \$2.3B (2009: \$1.9B). Amortization of tangible capital assets during 2010 totalled \$1.02B (2009: \$1.07B).
- The City's accumulated surplus increased by \$554M to \$15.5B as at December 31, 2010 (2009 \$14.9B). A significant portion of the accumulated surplus is due to the City's \$19.6B net investment in tangible capital assets, offset by \$6.6B 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 \$721M to \$4.4B (2009 - \$3.7B).
- Long-term debt increased by \$55M to \$3.69B (2009 - \$3.64B). This includes both debentures and mortgage debt obligations of Toronto Community Housing Corporation.
- The gross employee benefits liability increased by \$144M to \$2.61B (2009 - \$2.46B), while the net liability increased by \$86M to \$2.59B (2009 - \$2.50B).
- The City collected consolidated revenues of \$11.1B (2009 - \$10.4B) and had consolidated expenses of \$10.5B (2009 - \$9.96B) for a net annual surplus on a full accrual accounting basis of \$554M (2009 - \$459M).
- Deferred revenue decreased by \$136M to \$1.44B (2009 - \$1.58B).
- Cash and investments increased by \$327M to \$3.77B (2009 - \$3.45B), while Accounts payable and accrued liabilities increased by \$420M to \$2.44B (2009 - \$2.02B).
- The City's investment in its government business enterprises increased by \$69M to \$1.26B (2009 - \$1.19B).

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 budget variance reports to the Budget Committee for budgeting and rate setting purposes.

	<i>(in thousands of dollars)</i>	
	<u>2010</u>	<u>2009</u>
Surplus as reported in the Final Year-end Operating Variance Report	367,466	359,597
Timing difference on recognition of Toronto Parking Authority (TPA) dividends	(10,000)	(10,000)
Accounting Adjustments for Financial Statement Presentation Purposes:		
Transfer to reserve fund – principal repayment of Note Receivable – Toronto Hydro Corporation	(528,000)	(245,058)
Non cash adjustments to the ABC and Non Levy surpluses reported in the Consolidated Statement of Financial Activities	(66,976)	(156,744)
Net increase in City's equity in Government Business Enterprises (GBE's) (Toronto Hydro, Enwave, Toronto Parking Authority)	69,001	33,358
Prior Year Surplus carried forward and distributed in the Current Year Budget	(359,597)	(88,577)
PSAB Adjustments including adjustment for TCHC debt expense and employee benefits for future years (see Note 1 below)	(11,168)	9,563
Fund Balances (See Note 2 below)	375,057	331,405
Amounts to be recovered impacts (see Note 3 below)	718,061	225,547
Accounting Surplus for the year	<u>553,844</u>	<u>459,091</u>

Note 1: PSAB adjustments in 2010 are due to:

- adjustment of investments for Toronto Atmospheric Fund (TAF) \$0 (2009: \$-2,474)
- adjustment for Board of Governors of Exhibition Place (BOG) deferred revenue \$-11,446, (2009: \$12,917)
- accrued vacation pay and lieu time \$-8,704 (2009: \$-5,802)
- adjustment to TCHC deferred revenues \$-2,538 (2009: \$-1,200)
- surplus land transferred from TCA to Inventory \$11,520 (2009: \$6,122)

Note 2: Fund balances:

	<u>2010</u>	<u>2009</u>
Capital Fund Activity	(719,619)	(545,321)
Net Change to Reserve Fund Balance	(105,520)	127,762
Net Change to Tangible Capital Assets	1,200,196	748,964
Total	<u>375,057</u>	<u>331,405</u>

Note 3: Amounts to be recovered impacts:

	<u>2010</u>	<u>2009</u>
Principal Repayments on Long Term Debt	816,666	298,062
Interest earned on Sinking Funds	52,610	43,149
Changes in solid waste landfill liabilities	(2,285)	15,998
Changes in property and liability claims	(63,387)	(13,754)
Changes in employee benefit liabilities	(85,543)	(117,908)
Total	<u>718,061</u>	<u>225,547</u>

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, 2010 increased by \$721M to \$4.39B (2009 - \$3.66B). This increase in the City's net debt is primarily due to the amount of tangible assets purchased during the year. (See Consolidated Statement of Change in Net Debt).

The City's net long-term debt (Note 14) increased by \$92M primarily due to increase in new net long term debt issuances of \$253.8M by Toronto Community Housing Corporation (TCHC) offset by net long-term debt decrease of \$163.7M at the City, as a result of the lump sum payment of \$600M into the sinking fund due mainly to the funds received from the sale of Note Receivable from Toronto Hydro Corporation to a third party on April 1, 2010.

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 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 2010, the total amount that will be recovered from future property taxes and other revenues grew by \$205M to \$6.60B. This increase mainly consists of:

- an increase of \$85.5M in employee benefits liabilities;
- an increase of \$63.1M in other (mainly property and liability claims provision); and
- an increase of \$58.9M in mortgage and long term debt.

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

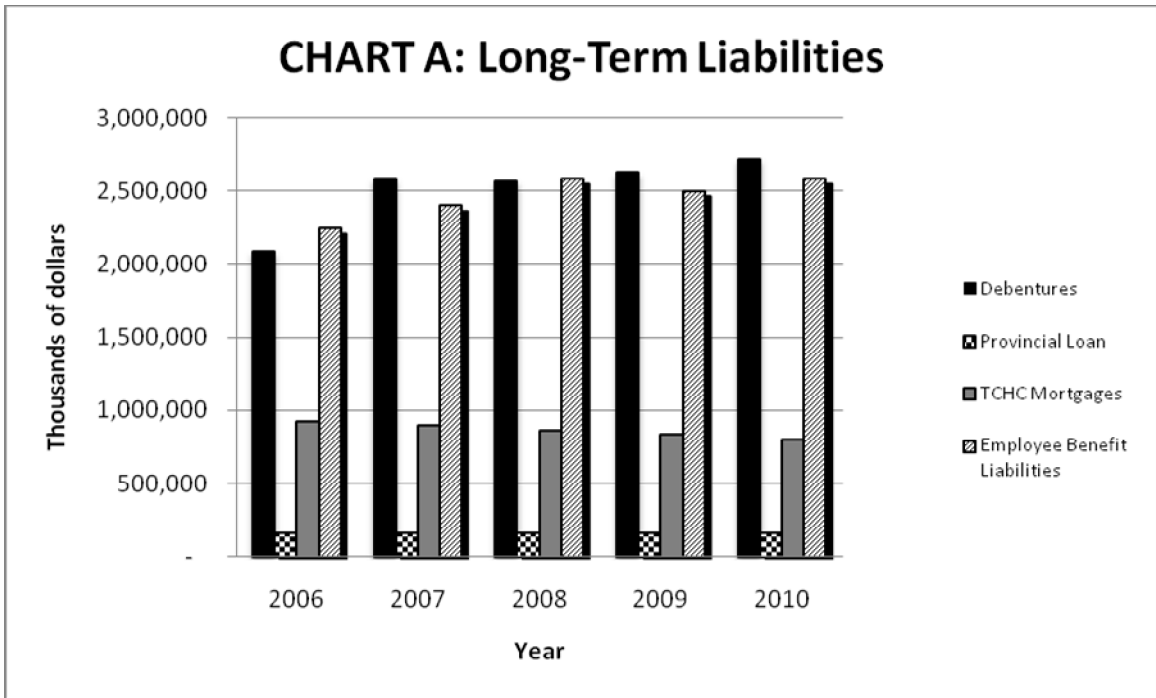
**Table 1
Net Debt – 5 year Summary**

Net Debt	4 Year Average Annual Increase	2010	2009	2008	2007	2006
Liabilities	6.57%	10,899,622	10,392,487	10,647,259	9,631,062	8,451,699
Financial assets	2.08%	6,513,984	6,728,291	7,109,217	6,580,328	5,999,744
Net Debt	15.65%	4,385,638	3,664,196	3,538,042	3,050,734	2,451,955
Percentage Increase		19.69%	3.57%	15.97%	24.42%	

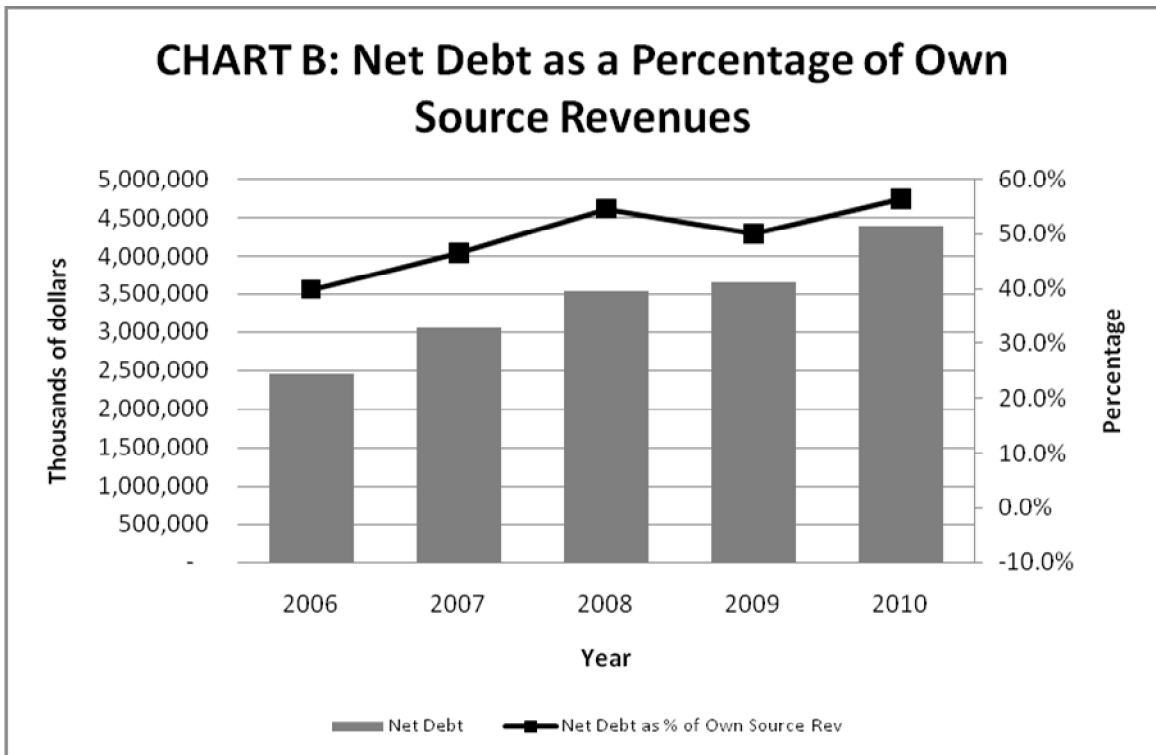
The City’s net debt has increased by a compound annual rate of 15.65% over the last four years, attributable to increases in long-term debt to third parties and in long-term employee benefit liabilities.

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 significantly by a decline 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 attempted to contain 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 13, the provincial loan and the City’s debenture debt is outlined in Note 14, while further detail about the City’s employee benefit liabilities is provided in Note 15 of the Consolidated Financial Statements.



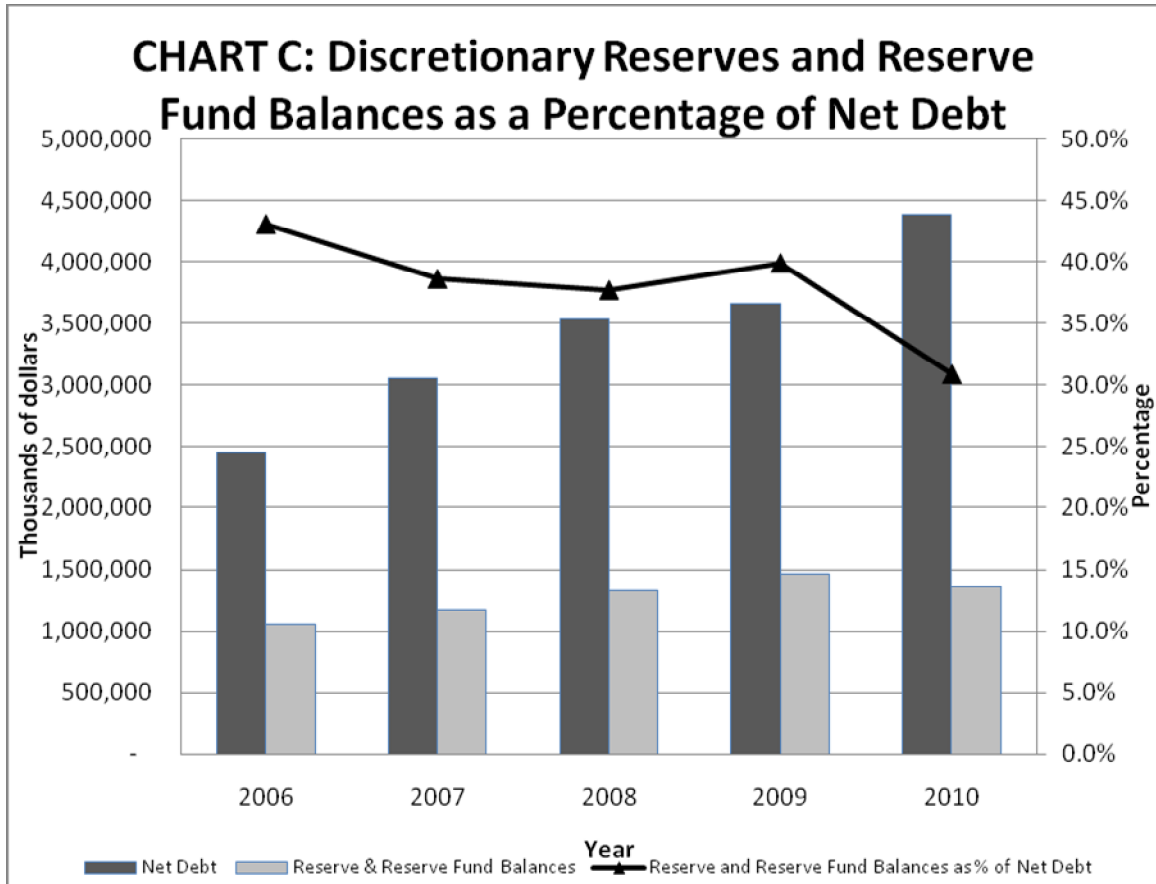
To put the City's net liability into a different context, Chart B expresses the net debt as a percentage of the City's own source revenues (excluding government transfers and earnings from investment in government business enterprise (GBE's)). The net liability as a percentage of own source revenues has grown from 40.0% to 56.4% 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.

If the Obligatory Reserve Funds were included in Chart C, then the Reserve & Reserve Fund Balances as % of Net Debt would be 55.9% in 2010.

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 10 (a) of the Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements (Note 18), 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 – 2009 figures.

Table 2

2009 <i>(in millions of dollars)</i>						
	Toronto	Montreal	Ottawa	Calgary	Edmonton	Vancouver
Investments	3,251	1,595	892	2,219	1,385	414
Investments in GBE's*	1,191	-	330	1,751	2,471	-
Interest bearing long-term debt	3,639	8,009	811	2,462	1,493	498
Net financial assets (liabilities) (not a total)	(3,664)	(5,322)	(867)	439	2,073	(322)

*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 7 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 decreased \$54M in 2010. The decrease consists primarily of the following:

- higher receivable from Government of Canada (\$9.1M) due to the following:

	<i>(in thousands of dollars)</i>
	Increase(Decrease)
Canada Strategic Infrastructure Fund (CSIF)-receipt of funds in 2010	(55.3)
Federal Gas Tax – receipt of funds in 2010	(81.4)
Harmonized Sales Tax Rebates	55.7
G20 Summit Expenses (City and Toronto Police)	75.4
Infrastructure Stimulus Funds	13.0
Other increases	1.7
Total	9.1

- lower receivable from Government of Ontario (\$79.1M) due primarily to the following:

	<i>(in thousands of dollars)</i>
	Increase(Decrease)
Social Housing Renovation and Retrofit Program (SHRRP)	(22.9)
Ontario Bus Replacement program (OBRP) received in 2010	(48.7)
Ministry of Transportation – Move Ontario (York Spadina Extension)	(3.3)
Other increases and decreases	(4.2)
Total	(79.1)

- increase in receivable from York Region regarding their subway contribution (\$17.7M).
- decrease in Water fees receivable is attributable to lower metered consumption of water for 2010 as compared to 2009 resulting in lower year end accrual of \$7.6M in 2010.

The breakdown of accounts receivable at December 31, 2010 with 2009 comparatives is as follow:

Accounts Receivable	<i>(in thousands of dollars)</i>	
	2010	2009
Government of Canada	254,476	245,362
Government of Ontario	149,997	229,066
Other municipal governments	40,065	20,940
School board	1,786	199
Utility fees	115,205	122,407
Other fees and charges	470,447	468,005
Total	1,031,976	1,085,979

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:

Taxes Receivable	<i>(in thousands of dollars)</i>	
	2010	2009
Current year	220,077	228,172
Prior year	36,453	34,455
Previous years	31,140	35,829
Interest/penalty	39,811	38,801
Less: allowance for doubtful accounts	(27,094)	(24,169)
Net receivables	300,387	313,088

Other Assets (Note 4)

Other assets comprised mainly of loans receivable from various organizations. Other Assets decreased by \$49.1M to \$112.1M (2008: \$161.1M) due primarily to a decrease of TCHC loans recoverable from developers of \$44M.

Investments (Note 5)

Investments increased by \$43.3M to \$3.29B (2007: \$3.25B) due primarily to additional funds received from the Federal Government for Canada Strategic Infrastructure Fund (CSIF) and Federal Gas Tax in 2010.

Note Receivable – Toronto Hydro Corporation (Note 6)

On April 1, 2010, the Toronto Hydro Corporation note receivable of \$490,115 was sold to a third party for cash consideration of \$528,000, resulting in a gain on sale of \$37,885.

Investment in government business enterprises (GBEs) (Note 7)

Investment in government business enterprises increased by \$69M due primarily to increases in GBE earnings.

Additional information regarding the City's remaining GBEs as at December 31, 2010, including 2010 transactions for all GBEs with the City and condensed financial results, are provided in Note 7 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable (Note 9)

The breakdown of accounts payable and accrued liabilities at December 31, 2010 with 2009 comparatives is as follows:

Accounts Payable	<i>(in thousands of dollars)</i>	
	2010	2009
Local Board trade payables	533,279	453,652
City trade payables and accruals	1,060,398	819,882
Payable to school boards	177,695	143,902
Provision for tax appeals & rebates	452,766	411,997
Credit balances on property tax accounts	57,852	63,889
Wages accruals	161,537	130,410
Total	2,443,527	2,023,732

- Local board trade payables were higher in 2010 primarily due to increases in Toronto Transit Commission (TTC) trade payables for \$62.4M.
- City trade payables and accruals are higher (\$240.5M) due to the following:

	<i>(in thousands of dollars)</i>
	Increase
Harmonized Sales Tax Payable to Federal Government	8.0
Trade Payables processed at year end	66.8
Holdbacks	40.0
Municipal Services Damage Guarantee (MSDG) Deposits	10.3
G20 Summit expenses	27.0
Unearned Advances for Ontario Works Program	45.7
Year end accruals including Toronto Water	33.5
Other increases and decreases	9.2
Total	240.5

- Payable to school boards was higher in 2010 primarily due to higher tax levy for Toronto District School Board \$28.95M.
- The provision for tax assessment appeals increased by approximately \$40.8M primarily as a result of unprocessed pending assessment appeals, and vacancy, charitable and heritage rebates.
- Wages accruals were higher as an additional day's pay was accrued in 2010(\$12M), accrual for outstanding settlements (\$10.4M) and additional accrual for lieu time liability (\$8M) in 2010.

Deferred Revenue (Note 10)

Deferred Revenue decreased by \$136M to \$1.43B (2009: \$1.58B) primarily as a result of:

- A decrease in obligatory reserve funds of \$130.5M for Public Transit and Water & Wastewater, used for capital purchases;
- Wind up of the Ontario Bus Replacement Program (OBRP) (\$44.5M) in 2010; offset by
- Increase in funds received for Development Charges and Planning Act (\$49.8M).

Other Liabilities (Note 11)

Other Liabilities increased by \$92M to \$477M (2009: \$385M), mainly as a result of:

- an increase in the property and liability claims provision (\$63.4M);
- increases in Toronto Transit Commission (TTC) in unsettled accident claims (\$17.2M); and
- Increase in deposits held for Exhibition Place and National Trade Centre (\$7.6M).

Net Long-Term Debt, excluding TCHC Mortgages (Note 14)

Net long-term debt increased by \$92M to \$2.89B (2009: \$2.80B) as follows:

	<i>(in thousands of dollars)</i>
	Increase(Decrease)
Issuance of Debt - City	702.2
- TCHC	261.0
- Other ABC's	2.0
Debt Repayment – City (includes \$600M paid into the sinking fund)	(813.5)
Debt Repayment – TCHC	(7.2)
Interest earned on sinking funds	(52.6)
Total	91.9

Employee Benefit Liabilities (Note 15)

Employee liabilities were projected, with the same assumptions and methods as those used in the December 31, 2009 valuation, with the exception of the discount rate. The discount rate dropped from the previous valuation, increasing the liability for both WSIB and post employment benefits. 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) increased by \$144M to \$2.61B (2008 - \$2.46B). The unamortized actuarial gain of \$107.3M was offset by unamortized actuarial loss of \$123.8 resulting from the review of TTC Pension Plan being undertaken in 2010 with the change being accounted for on retroactive basis (See Note 2 of the Consolidated Financial Statements). This resulted in net unamortized actuarial losses of \$16.5M for 2010.

The net employee benefit liability increased by \$86M to \$2.59B (2009 - \$2.50B), as the prior years' amortization of actuarial losses exceeds the amount of the gain reflected in 2009. The \$86M increase is largely due to:

- decrease in the non-OMERS pension plan liabilities (\$80.5M);
- increase in sick leave benefits (\$5.5M);
- increase in workers' compensation benefits (\$34.7M);
- increase in post-employment benefits (\$184.2M); and
- decrease in unamortized gain (\$58.4M) due to amortization.

Tangible Capital Assets (Note 16)

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, 2010 with 2009 comparatives, 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 \$2.26B, with the most significant portion being building and building improvements of \$588M. This consists of \$244M at the TCHC, \$69M at the TTC, \$29M at the Toronto Public Library, \$130M at the Toronto Port Lands Company, \$13M at the Toronto Police Services and \$101M at the City. The City's largest acquisition was the Toronto Port Lands Corus Building for \$123M.

During the year amortization of tangible capital assets decreased \$53M to \$1.02B (2009-\$1.07B).

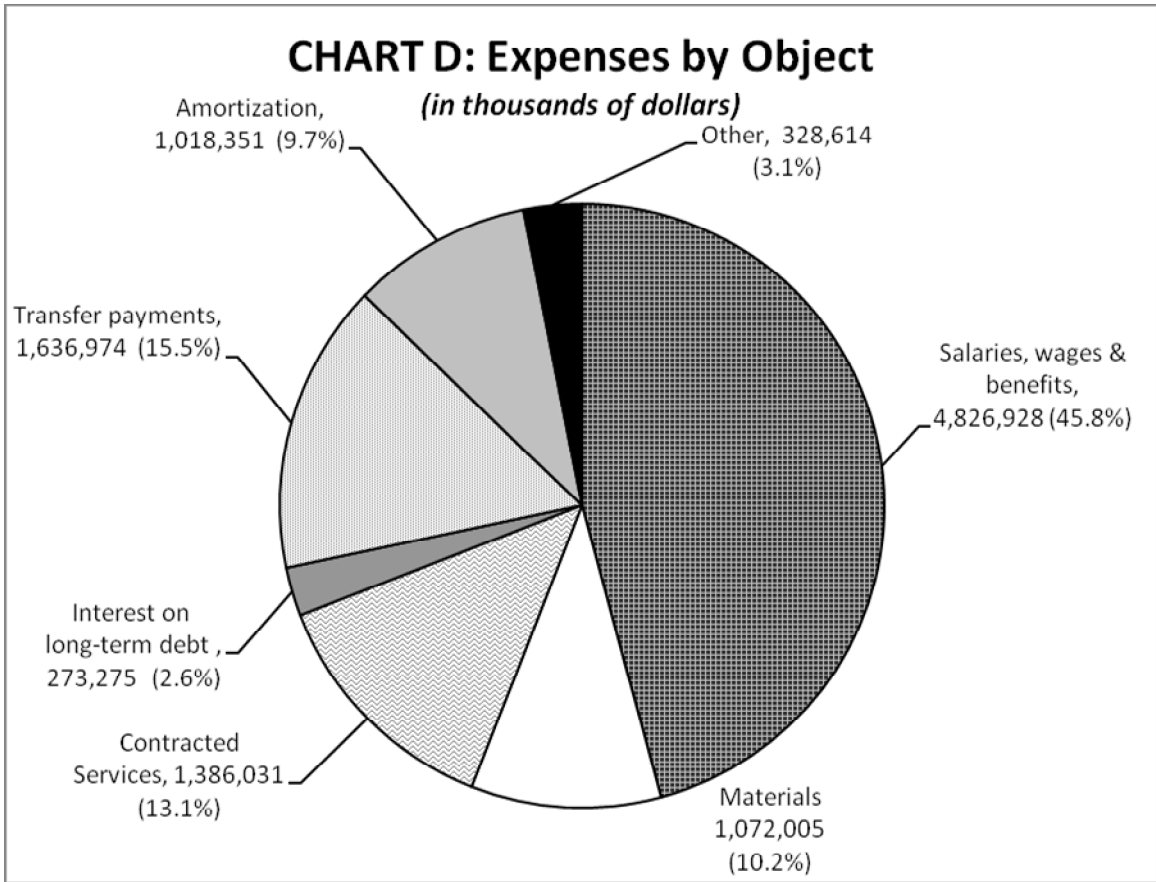
Inventories and Prepaid Expenses

Inventories and prepaid expenses totalled \$282M (2009: \$206M). The increase was generated largely by the following: prepaid payments to Ontario Works recipients (\$20M); prepaid related to Children Services (\$19.9M); Surplus City Land (\$11.5M); and increase in supplies for pandemic preparation (\$1.8M).

Consolidated Expenses

Gross consolidated expenses for 2010 totalled \$10.5B (2009: \$9.9B). 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 45.8% 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 2010 Consolidated Net Revenue by program versus budget, and also shows 2009 actuals.

Table 3

Consolidated Net Revenue by Program					
<i>(in thousands of dollars)</i>					
	2010 Budget	2010 Actual	Difference	Change	2009 Actual
Revenues					
Property Taxation	3,688,830	3,859,765	170,935	4.4%	3,655,880
Taxation from other governments	92,281	108,656	16,375	15.1%	100,179
User Charges	2,579,932	2,529,093	(50,839)	(2.0%)	2,309,164
Funding transfers from other governments	3,752,573	3,173,242	(579,331)	(18.3%)	2,993,468
Government Business Enterprise Earnings	-	153,294	153,294	100%	115,012
Investment Income	155,934	265,990	110,056	41.4%	282,217
Development Charges	144,057	92,162	(51,895)	(56.3%)	83,144
Rent and Concessions	315,857	372,959	57,102	15.3%	355,005
Other	700,704	540,861	(159,843)	(29.6%)	520,422
Total	11,430,168	11,096,022	(334,146)	(3.0%)	10,414,491
Expenses					
General Government	1,056,940	1,065,764	(8,824)	(0.8)%	803,504
Protection to persons and property	1,565,075	1,569,710	(4,635)	(0.3)%	1,525,221
Transportation	2,770,454	2,833,944	(63,490)	(2.2)%	2,696,197
Environmental services	1,046,129	883,897	162,232	18.4%	873,684
Health services	389,640	401,271	(11,631)	(2.9)%	376,463
Social and family services	2,241,798	2,040,833	200,965	9.8%	1,946,444
Social Housing	843,870	818,287	25,583	3.1%	837,786
Recreational and cultural services	884,643	795,910	88,733	11.1%	769,110
Planning and development	148,488	132,562	15,926	12.0%	126,991
Total	10,947,037	10,542,178	404,859	3.8%	9,955,400
ANNUAL SURPLUS	483,131	553,844			459,091

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 19 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 2010, property taxes made up 41.41% (2009 – 40.97%) of the City's operating revenue.

Property taxes exceeded budget by \$170.9M primarily due to the following:

- Higher than anticipated Supplementary Taxes \$40.3M; and
- Municipal Land Transfer Tax (MLTT) revenue exceeded budget by \$103.4M.

Taxation from other government (Payments in lieu of taxes) exceeded budget by \$16.4M due to the following:

- Primarily the result of confirmation that amounts due from the Canadian Broadcasting Corporation for levies issued in 2010 and prior years were no longer deemed uncollectable.

User fees were under budget by \$50.8M due to:

- Under achievement of revenues for business and animal licensing revenues \$1.7M and shortfall of \$1.5M in Golf facility permits and leases and agreements;
- Lower than budgeted revenue of \$9.8M mainly from lower water sales revenue;
- Lower sewer surcharge revenue of \$6.8M due to reduced revenue from lower than budgeted tonnes of Biosolids received from Toronto Water Division for \$2.5M, lower transfer station and recoveries revenues due to a lower waste generation/higher diversion rate for \$3.3M;
- Delayed roll-out of Multi-Residential Source Separated Organics (SSO) resulting in lower sales of multi-unit residence toters (\$2M); lower than budgeted residential bin fee revenue of \$1.9M; offset by higher than budgeted revenue of \$2.9M from sales of materials including recyclables and whitegoods and other material; and
- Lower than budgeted revenues for Police Services (\$25.9M) due to G20 event, however costs were recovered from other levels of government.

Funding Transfers from other governments were under budget by \$579.3M primarily due to:

- Under spending in TTC projects for Spadina Subway extension, Infrastructure Stimulus projects and Streetcar purchases by \$145M;
- Lower than budgeted spending for TTC Transit City project of \$302M;
- Operating subsidy variance of \$69M in Shelter, Support & Housing Administration due primarily to lower subsidies of \$63M than budget in Social Housing activities; and
- Operating subsidy variance of \$147M in Toronto Employment and Social Services (TESS) is mainly due to lower eligible expenditures for Ontario Works (OW) Financial Assistance and Enhanced Employment Services (EES).

Government Business Enterprise Earnings (\$153M) represents the earnings from Toronto Hydro Corporation, Toronto Parking Authority and Enwave. Details are available in Note 6 and Appendix 1 of the Consolidated Financial Statements.

Investment earnings were higher than budget by \$110M mainly due to a capital gain arising from the sale of Toronto Hydro Note of \$38M, and a higher than forecasted rate of return combined with a low interest rate used to allocate investment earnings to City reserve funds.

Development Charges revenues applied to capital spending were under budget by \$52M, 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 \$57M due primarily to higher rental and concession revenues at the agencies, boards and commissions.

Other Revenues were lower than budget by \$157M primarily due to funding for capital projects that were under spent.

Expenses

Gross consolidated expenses for 2010 totalled \$10.5B (2009: \$9.9B). 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:

- **Transportation including Roads/Traffic signals maintenance and Transit.**
Transportation services was \$64M more than budget, primarily due to amortization costs of \$94.5M, offset by savings in gross expenditures by \$30.4M from savings in salaries and benefits (\$8.8M); under spending of in the Winter Maintenance program (\$12.6M) as a result of the mild weather; and the Utility Cut Repair program because of lower utility cut contract bidding prices (\$5.4M).
- **Environmental services spending was lower than budget by \$162M due primarily to:**
 - Water/Wastewater year end capital spending (\$107.9M) under budget;
 - Solid Waste Management Service lower spending (\$25.8M) due to lower debt charges of \$10M (principal and interest), deferrals in capital maintenance expenditures; lower than anticipated tonnage resulting in savings of \$14.8M; lower discretionary spending of \$5M due to delayed implementation of multi residential waste diversion programs; offset by higher cost of \$6.3M mainly attributable to higher salaries and benefits; and

- Toronto Water reported a gross expenditure savings (\$31.67M) due largely from unfilled vacancies \$11.62M, lower cost for road repairs managed by Transportation Services \$6.6M, and a one-time reversal of bad debt expense \$5.6M.
- Social and Family Services spending was lower than budget by \$201M due to the following:
 - Ontario Works (OW) financial benefits were under spent by \$27.7M mainly due to a lower than budgeted OW caseload;
 - Social Housing Administration gross savings of \$74.0 is due primarily to:
 - \$62.2M due to delays in flow through of Social Housing Renovation and Retrofit Program (SHRRP) payments because of milestones requirements, the funds were not disbursed. These agreements have been extended to the end of 2011 in which the remaining funds will be advanced;
 - \$6.3M due to actual property tax assessments for TCHC being less than budget;
 - \$3.4M due to lower than budgeted cost factors such as mortgage renewal rates, market rental increases and delays in new affordable housing units coming on-line;
 - The \$12.9M savings in Affordable Housing Programs are due to delays in commencing capital maintenance projects;
 - Long Term Care Homes had a year-end favourable Gross expenditure variance of \$19.4M due to the following:
 - \$7.9M is primarily attributed to reduced operating expenditures in both the homes and community based programs due to lower than anticipated provincial subsidies and grants;
 - \$11.45M is due to delays by the Provincial Government in approvals and the proclamation of the new Long Term Care Homes Act to July 1, 2010 instead of January 2010 as originally planned, and this resulted in delays in spending of capital programs; and
 - Children's Services had a year-end favourable Gross expenditure variance of \$12.3M for various maintenance projects due to delays encountered in negotiating design specifications and tender contracts etc.
- Recreational and cultural services spending was lower than budget by \$89M due primarily to under spending of \$70.6M on various capital projects and savings in expenditures of \$15.4M due to cost containment on discretionary items.
- Planning and development spending was lower than budget by \$16M due primarily to the following:
 - lower capital spending for various Toronto Waterfront projects of \$89M due to longer time frame for site remediation, delay in awarding construction contracts and delays due to timeframe for finalizing the environmental assessment;

- savings in expenditures of \$5.6M, primarily related to savings in salaries and benefits; offset by
- higher spending than budget, primarily due to consolidation of Toronto Port Lands Company (previously TEDCO), Build Toronto and Invest Toronto in total \$30.5M; proportionate consolidation of Toronto Waterfront Revitalization Corporation (TWRC) \$36.7M, and Business Improvement Areas (BIAs) \$17.8M.

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 55.9% 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.

Five Year Summary of Revenues

Table 4
Consolidated Revenues – 5 year Summary

Revenues	Avg. Annual Increase	<i>(in thousands of dollars)</i>				
		2010	2009	2008	2007	2006
Property taxes	3.42%	3,646,675	3,520,450	3,369,949	3,285,947	3,187,263
Municipal land transfer tax (MLTT)	29.70%	278,980	183,892	165,743	-	-
Personal vehicle Tax (PVT)	68.70%	42,766	51,717	14,992	-	-
User charges	4.65%	2,529,093	2,309,164	2,401,354	2,205,493	2,109,188
Government transfers	8.90%	3,173,242	2,993,468	3,025,828	2,188,715	2,256,719
Rent and Concessions	2.60%	372,959	355,005	355,591	347,317	336,523
Other	13.02%	1,052,307	1,000,795	404,383	833,064	644,792
Total	6.78%	11,096,022	10,414,491	9,737,840	8,860,536	8,534,485
Percentage Increase		6.54%	6.95%	9.90%	3.82%	

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 2010, 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 2010 to address them.

Highlights include: implementation of the new Illness or Injury Plan with Toronto Civic Employees Union (TCEU) Local 416 and Canadian Union of Public Employees (CUPE) Local 79, full funding of significant components of the Transit initiatives, and agreement from the Province to fully fund their 50% share of Ontario Works administration costs.

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Giuliana Carbone
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ATTACHMENTS

Appendix A: 2010 Consolidated Financial Statements

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

Appendix C: Glossary