TORONTO

STAFF REPORT
ACTION REQUIRED

2012 Audited Consolidated Financial Statements

Date:	June 18, 2013
To:	Audit Committee
From:	Deputy City Manager and Chief Financial Officer Treasurer
Wards:	All
Reference Number:	P:\2013\Internal Services\acc\ac13008acc (AFS16922)

SUMMARY

The purpose of this report is to present the City of Toronto's Consolidated Financial Statements for the year ended December 31, 2012 to Council for approval and provide highlights of the City's 2012 financial performance and financial condition as of December 31, 2012.

RECOMMENDATIONS

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

1. City Council approve the 2012 Consolidated Financial Statements as attached in Appendix A.

Financial Impact

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

This report and the accompanying 2012 Consolidated Financial Statements (attached as Appendix A) provide information about the City's overall financial position as at December 31, 2012 and its financial performance during the year. For 2012, on an accounting basis, the City had consolidated revenues of $11.7B, consolidated expenses of $10.3B, and a resulting annual surplus of $1.4B. The City ended 2012 with consolidated assets (financial and non-financial) of $30.6B, offset by consolidated liabilities of $12.5B, resulting in an accumulated surplus as at December 31, 2012 of $18.1B.

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, corporations 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 (GAAP) 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 and corporations, and government business enterprises that the City effectively controls. There are 114 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 agencies and corporations 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 certain 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 9 (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 2012 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 19 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 typically 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.

Net Debt is a term defined by the Public Sector Accounting Board (PSAB) as all liabilities (both shorter and longer term liabilities) less financial assets. Net Debt (also referred to as Net Liabilities) may be materially different than the amount of the City's consolidated outstanding debt captured as "Net long-term debt" on the City's Consolidated Statement of Financial Position, details of which are provided in Note 13 of the Consolidated Statements.

Restatement of Prior Period (2011) Consolidated Financial Statements

Prior year financial statements have been restated for two adjustments:

a) Deferred Revenues: In order to prepare for the implementation of new accounting standards beginning with the 2013 reporting year, all deferred revenue accounts were reviewed. During this review it was determined that certain amounts in deferred revenue represented contra-accounts for certain loans, which effectively treated loan payments from the City to qualifying organizations as expenditures at the time of payment, and recorded loan repayments received by the City as income upon receipt. Some of these loans pre-dated amalgamation, while others resulted from programs that continue to be in place. Following the review of these matters, it was determined that all loan contra accounts were to be eliminated and that any uncollectible balances should be written off through periodic reviews of each loan's collectability.

The net impact of this change is an increase to the 2011 year-end accumulated surplus of $59.2M: Accounts Receivable decrease by $0.6M (related to a forgivable loan which, as per accounting standard, must be written off) and Deferred Revenues decrease by $59.8M.

b) Assets under development at the Toronto Waterfront Revitalization Corporation (TWRC): The TWRC has adjusted their comparative figures for 2011 to account for assets under development, which were previously expensed as incurred. The City proportionately consolidates one-third of the TWRC assets, liabilities, income and expenses, and therefore these statements show one-third of TWRC's change.

   The net impact of this change is an increase to the 2011 year-end accumulated surplus of $70.1M: Tangible Capital Assets under Construction increase by $70.1M.

These changes are being accounted for on a retroactive basis, with prior period restatement. Further details are provided in Note 2 to the Consolidated Financial Statements.

COMMENTS

The City's 2012 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, 2012.

New in 2012

Sale of Enwave Energy Corporation

On October 31, 2012 the City sold its shares in Enwave for a total consideration of $167.4M resulting in a gain on sale of $96.6M (proceeds net of legal fees of $167.4M less adjusted cost of investment of $70.8M).

International Financial Reporting Standards (IFRS) adjustment for Toronto Hydro Corporation

In 2011 the Public Sector Accounting Board (PSAB) required that the GBEs report their financial results under IFRS. However, PSAB also provided a one year deferral for local electrical distribution companies such as Toronto Hydro Corporation. For 2012, Toronto

Hydro elected to report its financial results under United States Generally Accepted Account Principles (GAAP), which provides for financial results that are more predictable and comparable to their previous Canadian GAAP results. Toronto Hydro has provided the City with a reconciliation between US GAAP and IFRS for financial reporting purposes only. This adjustment to IFRS for the City's reporting has resulted in a change to retained earnings for Toronto Hydro of $97M, primarily due to differences in accounting treatment related to regulatory assets and liabilities, and property, plant and equipment.

Details for both items are provided in Note 6 of the consolidated financial statements.

2012 Financial Highlights

- The net value of the City’s tangible capital assets has increased by $1.4B. The historical cost and accumulated amortization of assets as at December 31, 2012 were $35.3B and $13.2B respectively for a net book value of $22.1B (2011 - $20.7B). Tangible capital asset purchases during 2012 totalled $2.3B (2011: $2.2B). Amortization of tangible capital assets during 2012 totalled $802M (2011: $815M).

- The City's accumulated surplus increased by $1.52B to $18.16B as at December 31, 2012 (2011 $16.64B) due to an accounting surplus of $1.4B and IFRS adjustment of $97M related to Toronto Hydro. A reconciliation of the City's operating surplus to the accounting surplus is shown on page 7.

- The City’s Net Debt (the amount by which liabilities exceed financial assets) decreased by $144M to $4.25B (2011 - $4.39B).

- Long-term debt increased by $394M to $4.43B (2011 - $4.04B). This includes both debentures and mortgage debt obligations of Toronto Community Housing Corporation. Total long term debt issued during the year was approximately $802M, while debt repayments including sinking fund earnings totalled $408M.

- The gross employee benefits liability decreased by $175M to $3.0B (2011 - $3.18B), while the net liability increased by $260M to $3.04B (2011 - $2.78B). Additional detail on this change is included on page 17 of this report.

- The City collected consolidated revenues of $11.7B (2011 - $11.3B) and had consolidated expenses of $10.3B (2011 - $10.6B) for a net annual surplus on a full accrual accounting basis of $1.4B (2011 - $727M).

- Deferred revenue increased by $154M to $1.57B (2011 - $1.42B).

- Cash and investments increased by $894M to $4.87B (2011 - $3.97B), while accounts payable and accrued liabilities increased by $60M to $2.68B (2011 - $2.62B).

- The City’s investment in its government business enterprises increased by $59M to $1.78B (2011 - $1.72B).

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 2012 final operating budget variance report to the Budget Committee for budgeting and rate setting purposes.

	(in $000's)	
	2012	**2011**
Surplus as reported in the Final Year-end Operating Variance Report	307,917	292,741
Accounting Adjustments for Financial Statement Presentation Purposes:		
Prior Year Surplus carried forward and used in the Current Year Budget	(101,748)	(378,731)
Surplus related to settlement of assessment appeals for six bank tower properties as reported to Committee and Council (EX32.11)	94,000	-
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)
Gain on Sale of Enwave	96,611	-
Enwave Dividends and Interest	13,193	-
TPLC Dividends	40,000	-
City's agencies and corporations Surplus (Deficit) reported in Consolidated Statement of Operations and Accumulated Surplus	63,142	6,902
TPLC adjustment on becoming a GBE	-	32,898
GBE's earnings, net of distributions	32,713	92,172
Water and Solid Waste (non-levy) City Operations	11,754	41,141
PSAB Adjustments (See Note 1 following)	31,136	45,991
Fund Balances (See Note 2 following)	767,578	495,095
Amounts to be recovered impacts (see Note 3 following)	70,157	86,026
Accounting Surplus for the year	**1,426,453**	**727,235**

Note 1: PSAB adjustments in 2012 relate to differences between amounts recorded in the consolidated financial statements and those budgeted, and are due to:

	2012 $'000s	**2011 $'000s**
Investments for Toronto Atmospheric Fund (TAF) [market to cost]	-	2,022
Board of Governors of Exhibition Place (BOG) [deferred revenue]	5,111	-
Accrued vacation pay and lieu time	1,763	(770)
Loan related deferred revenues	(1,367)	1,530
Surplus land transferred from TCA to inventory (Build Toronto)	25,629	43,209
Total	**31,136**	**45,991**

Note 2: Fund balances:

	2012 $'000s	**2011 $'000s**
Capital Fund Activity	(600,999)	(525,376)
Net Change to Reserve Fund Balance	(42,554)	(49,288)
Net Change to Tangible Capital Assets	1,411,131	1,069,759
Total	**767,578**	**495,095**

Note 3: Amounts to be recovered impacts:

	2012 $'000s	**2011 $'000s**
Principal Repayments on Long Term Debt	291,512	291,103
Interest earned on Sinking Funds	71,342	67,110
Changes in solid waste landfill liabilities	(2,742)	(382)
Changes in property and liability claims	(30,129)	(84,595)
Changes in employee benefit liabilities	(259,826)	(187,210)
Total	**70,157**	**86,026**

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, 2012 decreased by $144M to $4.25B (2011 - $4.39B). This decrease is due primarily to the City's considerable accounting surplus during 2012, offset by its investments in tangible capital assets. For more information on the change in Net Debt, please refer to the Consolidated Statement of Change in Net Debt.

The City's net long-term debt (Note 13) increased by $435M (2011: $374M) primarily due to new net long term debt issuances of $802M (2011: $736M) offset by net long-term debt repayments of $295M (2011: $295M) and interest earned on sinking funds of $71M (2011: $67M). There was an increase in debt issuance for the City and TCHC and no debt issuance for the City's agencies and corporations as compared to 2011.

The following table lists all consolidated debt issued in 2012.

Table 1: Debt issued in 2012

$ 000s	Total	Debentures 10 Year	Infrastructure Ontario 20 Year	TCHC 25 Years	Debentures 30 Year
Summary by Service					
General Government	38,290	38,290	-	-	-
Protection	27,377	8,877	-	-	18,500
Transportation	62,649	22,649	-	-	40,000
TTC	376,503	158,367	-	-	218,136
Environmental	168,680	1,646	143,670	-	23,364
Social and Family	13,499	13,499	-	-	-
Social Housing	60,839	2,800	-	58,039	-
Recreation & Culture	45,974	45,974	-	-	-
Planning & Development	7,898	7,898	-	-	-
	801,709	300,000	143,670	58,039	300,000

In order to improve the City's financial 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, working with the Province to continue the upload of social service program costs, and working with other levels of government to obtain permanent, sustainable funding for transit and social housing.

While debt financing has grown and will continue to grow due to state of good repair funding requirements and increased focus on expanding public transit infrastructure to meet the demands of a growing population, the City's updated Capital Plan, which includes a non-debt financing strategy to fund additional capital needs, 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 2012, the total amount that must be recovered from future property taxes and other revenues grew by $692M to $7.91B. This increase mainly consists of:

- an increase of $260M in the net employee benefits liabilities (as detailed on page 17 of this report);
- an increase of $35M in other liabilities, mainly property and liability claims provision, as a result of the discount rate decrease for these liabilities; and

- a net increase of $394M in mortgages and long term debt.

Table 2 outlines the trend in financial asset and liability growth over the last five (5) years.

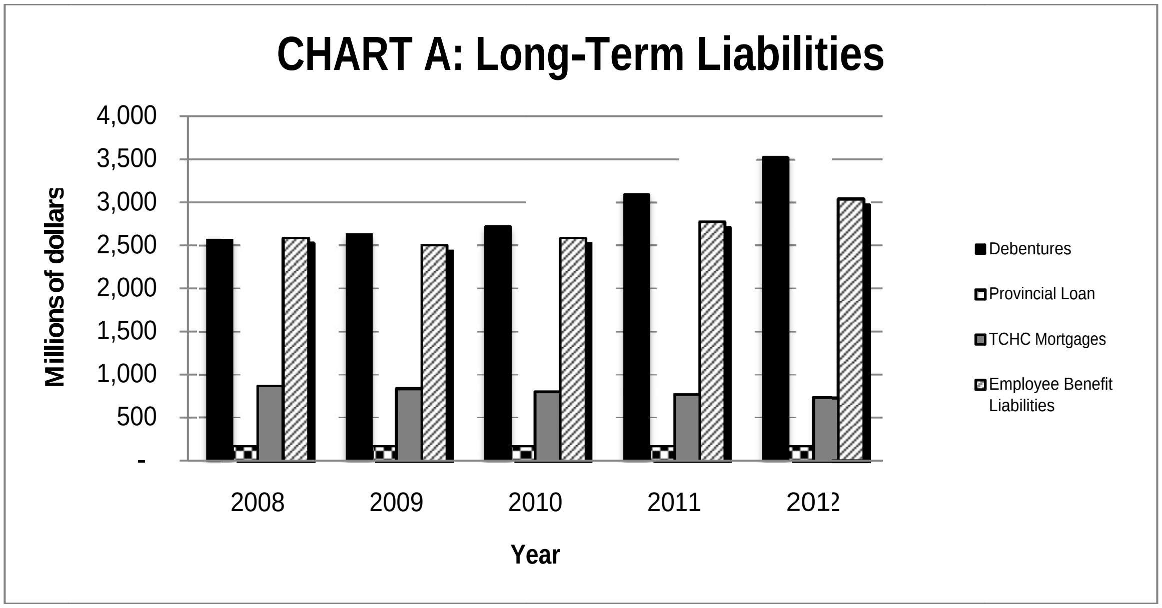
Table 2
Net Debt – 5 year Summary

Net Debt ($'000s)	4 Year Average Annual Increase	2012	2011	2010	2009	2008
Liabilities	4.07%	12,490,490	11,672,374	10,899,622	10,392,487	10,647,259
Financial assets	3.78%	8,245,455	7,283,091	6,513,984	6,728,291	7,109,217
Net Debt	**4.66%**	**4,245,035**	**4,389,283**	**4,385,638**	**3,664,196**	**3,538,042**
Percentage Increase		**(3.29%)**	**0.08%**	**19.69%**	**3.57%**	

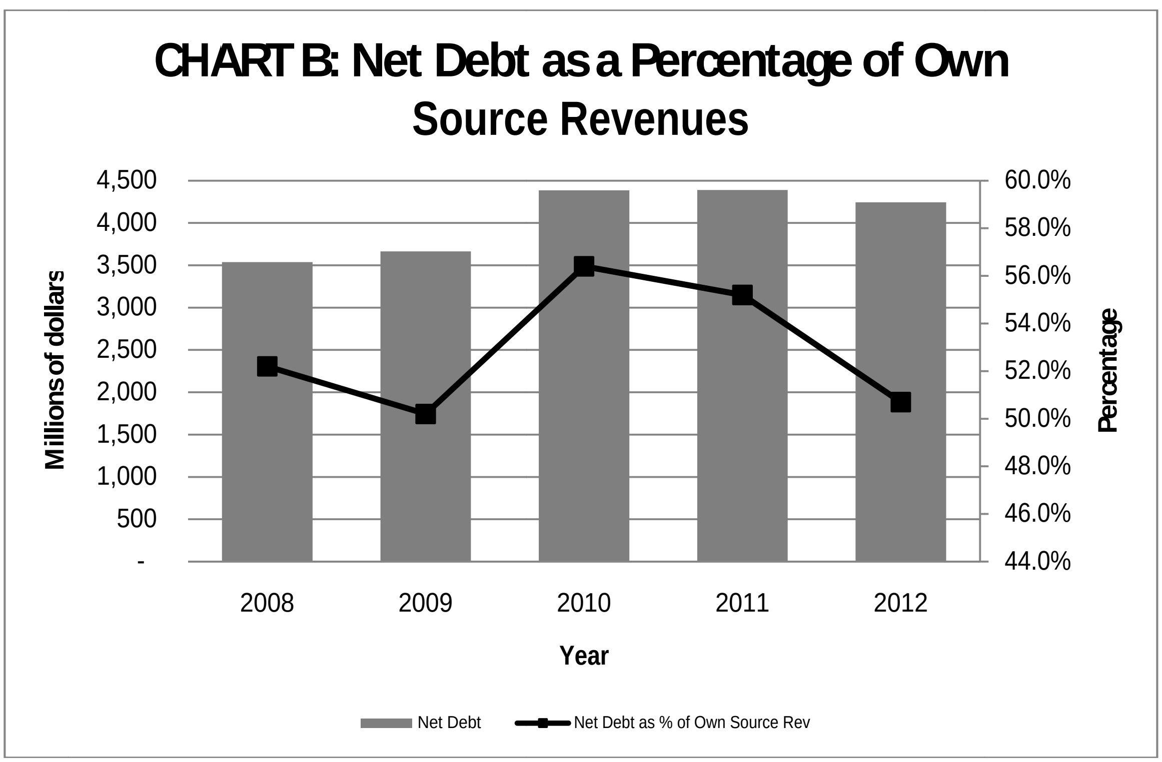
The City's Net Debt has increased by a compound annual rate of 4.66% over the last four years, attributable to increases in long-term debt to third parties and in long-term employee benefit liabilities. Net debt however, barely changed in 2011 and decreased in 2012.

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 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 CUPE Locals 79 and 416 hired after July 31, 2009, cost of living increases which are below inflation for the first two years of the existing four year collective agreements (2012 and 2013), and changes in benefits.

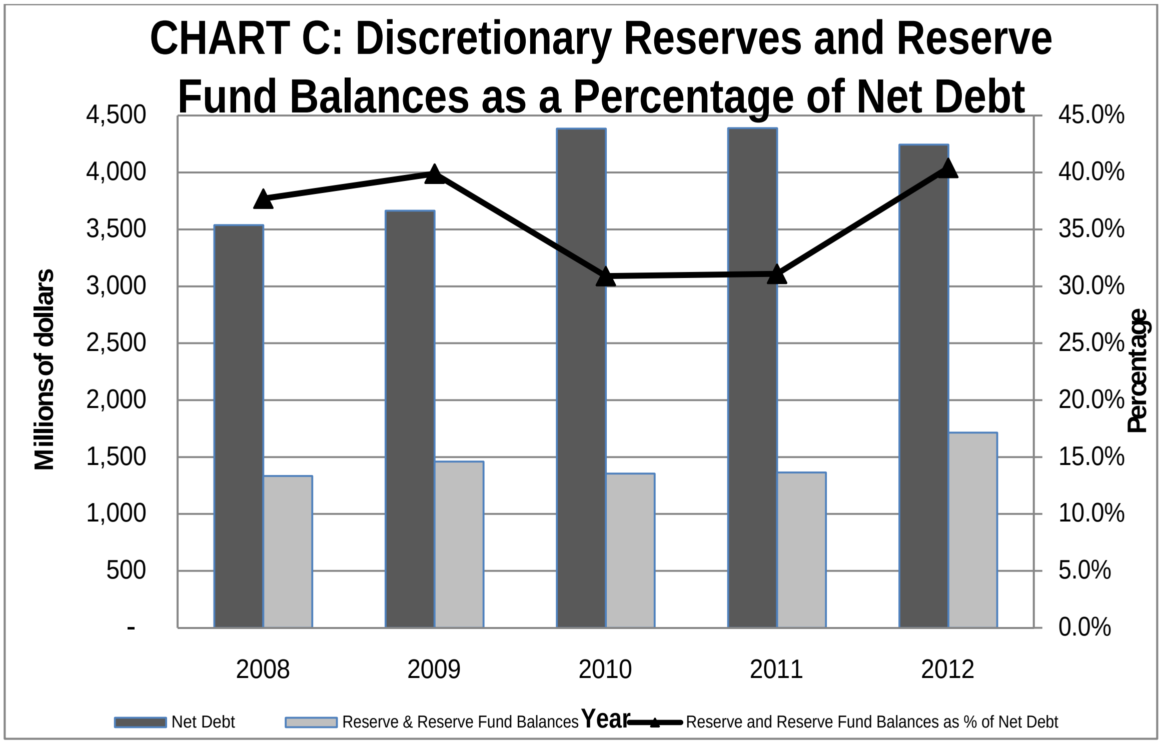
Chart A provides the breakdown of long-term liability growth by debt type.



Information on the mortgage liabilities of TCHC is provided in Note 12, the provincial loan and the City's debenture debt is outlined in Note 13, while further detail about the City's employee benefit liabilities is provided in Note 14 of the Consolidated Financial Statements.



To put the City's net liability (i.e. Net Debt) 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 government business enterprises). The net liability as a percentage of own source revenues has gone from 52.2% to 50.7% over the last five years which is a marked improvement.



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 69.4 % of Net Debt (2011: 56.2%).

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 9 (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.

Comparison to Other Jurisdictions

Table 3 provides a comparison of key financial indicators for a selection of large Canadian cities – 2011 figures.

Table 3

2011 *($ millions)*						
	Toronto	**Montreal**	**Ottawa**	**Calgary**	**Edmonton**	**Vancouver**
Investments	3,488	2,416	943	2,333	1,346	729
Investments in GBE's*	1,716	-	352	1,944	2,351	-
Interest bearing long-term debt	4,038	8,785	1,304	3,229	1,974	620
(Net Debt) / Net Financial Assets **	(4,389)	(4,808)	(1,098)	(180)	1,429	(419)

*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 6 to the Consolidated Financial Statements.

**Net Debt / Net Financial Assets is a measure on the Statement of Financial Position, and not a summary of items in this table.

The City compares favourably on its investment level. Edmonton compares favourably on its net financial position largely because of its significant investment in Epcor, which exceeds its total long-term debt. Epcor is a subsidiary of Edmonton, involved in electricity transmission and distribution, water, wastewater and infrastructure.

Analysis of Key Asset and Liability Accounts

Accounts Receivable

The breakdown of accounts receivable at December 31, 2012 with 2011 comparatives is as follows:

	(in $'000s)	
Accounts Receivable	**2012**	**2011**
Government of Canada	326,193	316,132
Government of Ontario	297,752	228,338
Other municipal governments	44,971	26,346
School board	9,608	9,382
Utility fees	144,468	133,565
Other fees and charges	367,890	455,441
Total	**1,190,882**	**1,169,204**

Accounts receivable balances increased $21.7M in 2012. The increase consists primarily of the following:

- higher receivable from Government of Canada ($10.1M) due to the following:

	($ millions) **Increase (Decrease)**
Receipt of Infrastructure Stimulus Funds in 2012	(24.5)
Canada Strategic Infrastructure Fund (CSIF)-claims submitted not yet paid	9.0
Harmonized Sales Tax (HST) Rebates re: City and TTC	22.0
Other increases and decreases	3.6
Total	**10.1**

- higher receivable from Government of Ontario ($69.4M) due primarily to the following:

	($ millions) **Increase**
Light Rail Vehicle (LRV) Funding	36.7
Ministry of Transportation – Move Ontario (York Spadina Extension)	26.2
Other increases and decreases	6.5
Total	**69.4**

- Increase in receivable from York Region ($18.6M), due primarily to higher receivable from York Region for their subway contribution ($15.9M) and increase in Capital cost sharing ($2.9M) for water infrastructure.

- Increase in Utility fees receivable ($10.9M) is primarily attributable to average increase in water rates of 9% which resulted in higher receivable and higher accrual amount at year end due to more accrual days as a result of timing of billing cut off date. Offset by

- Decrease in other fees and charges ($87.6M) due primarily to the repayment of the Corus loan ($128.5M).

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 as follows:

Taxes Receivable	2012	2011
	(in thousands of dollars)	
Current year	157,045	171,704
Prior year	27,891	29,981
Previous years	32,271	32,559
Interest/penalty	39,537	38,317
Less: allowance for doubtful accounts	(31,866)	(28,352)
Net receivables	**224,878**	**244,209**

Other Assets (Note 4)
Other assets are mainly loans receivable from various organizations and TCHC's equity in joint ventures. Other Assets increased by $10M to $162M (2011: $152M) due primarily to:

- Build Toronto issuing Vendor-take-back-mortgages in connection with land sale transactions in 2012 for $34.7M primarily regarding Cordova ($12.2M), 10 York Street ($14M), and 4620 Finch Avenue ($8.7M);
- Increase in TCHC's wholly owned subsidiary Regent Park Development Corporation's ("RPDC") equity interest in joint venture of a co-tenancy agreement with the developer Parliament and Gerrard Development Corporation ("PGDC") for the construction of certain properties in Regent Park for $8.2M; partially offset by
- Decrease in TCHC loans recoverable from PGDC for $31.2M due to loan substantially repaid by the co-tenancy PGDC upon completion and sale of Paint Box condominiums in Regent Park in October 2012.

Investments (Note 5)
Investments increased by $926M to $4.4B (2011: $3.5B) due primarily to the proceeds on sale of Enwave, dividends received from Build Toronto and TPLC, and increases in reserves and reserve funds.

Investment in government business enterprises (GBEs) (Note 6)
Investment in government business enterprises increased by $59M to $1.78B (2011 - $1.72B). Although the sale of Enwave resulted in a $68M reduction in the City's investment in GBEs, this was more than offset by a $128M increase in the value of Toronto Hydro, which included an IFRS adjustment of $97M.

Additional information regarding the City’s GBEs as at December 31, 2012, including 2012 transactions for all GBEs with the City and condensed financial results, are provided in Note 6 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable (Note 8)
The breakdown of accounts payable and accrued liabilities at December 31, 2012 with 2011 comparatives is as follows:

	(in thousands of dollars)	
Accounts Payable	**2012**	**2011**
Local Board trade payables	725,041	670,123
City trade payables and accruals	942,575	952,771
Payable to school boards	330,762	260,470
Provision for tax appeals & rebates	389,639	487,309
Credit balances on property tax accounts	66,885	41,657
Wages accruals	221,169	203,992
Total	**2,676,071**	**2,616,322**

- Local board trade payables were higher ($54.9M) in 2012 primarily due to increases in Toronto Transit Commission (TTC) trade payables for $41.2M.
- Payable to school boards was higher ($70.3M) in 2012 primarily due to higher net tax levy for Toronto District School Board of $68.2M and outstanding payable of Education Development Charges to school boards in 2012 of $2.2M.
- The provision for tax assessment appeals decreased by approximately $97.7M primarily as a result of a settlement of property assessment appeals for six large bank tower properties in the City, which resulted in smaller than anticipated property tax reductions for these properties and a related reduction in the provision for other business properties under appeal.
- Credit balances on property tax accounts was higher ($25.2M) due primarily to the increase in taxes paid under appeal ($87.5M), offset by credits to TCHC properties resulting from conversion from taxable/Payments-in-lieu-of-taxes to exempt ($62.7M).
- Wage accruals were higher by $17.2M primarily due to accruals for outstanding union settlements offset by lower payroll accruals in 2012.

Deferred Revenue (Note 9)
Deferred Revenue increased by $154M to $1.57B (2011: $1.42B) primarily as a result of:

- increase in funds received for Development Charges, Building Code and Planning Act of $141.2M;
- increase in Obligatory Reserve Funds of $125.1M for Water & Wastewater due to higher contributions as compared to withdrawals for capital purchases; offset by
- decrease in Obligatory Reserve Funds of $111.3M for Public Transit due to withdrawals for transit capital purchases.

Other Liabilities (Note 10)
Other Liabilities increased by $43M to $599M (2011: $556M), mainly as a result of:

- an increase in the property and liability claims provision ($30.1M);
- increases in Toronto Transit Commission (TTC) unsettled accident claims ($12M);
- increase in Build Toronto environmental liabilities ($6.8M); offset by
- decrease in funds held in deposit for Exhibition Place and National Trade Centre of $6.3M.

Net Long-Term Debt, excluding TCHC Mortgages (Note 13)
Net long-term debt increased by $435.1M to $3.70B (2011: $3.26B) as follows:

	(in $ millions) Increase / (Decrease)
Issuance of Debt – City	743.7
– TCHC	58.0
– City's agencies and corporations	-
Debt Repayment – City	(231.6)
Debt Repayment – TCHC	(63.7)
Interest earned on sinking funds	(71.3)
Total	**435.1**

Details on debt issuances are provided on page 9 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. Actuarial valuations are undertaken every three years to calculate the liabilities, 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.

The gross employee benefits liability (identified as "Total employee accrued benefit obligation" in Note 14 of the Consolidated Financial Statements) decreased by $175M to $3B (2011 - $3.18B), primarily due to the following:

- decrease in the non-OMERS pension plan liabilities ($97M) as the financial situation of each of the five pension plans improved in 2012;
- decrease in sick leave benefits ($8M);
- decrease in workers' compensation benefits ($31M) as a result of better than anticipated experience; and
- decrease in post-employment benefits ($39M) as a result of better than anticipated experience.

Although the gross employee benefit liability decreased by $175M, the unamortized actuarial loss of $403M in 2011 decreased by $435M resulting in a small unamortized gain of $32M in 2012. As a result, net employee benefit liabilities increased by $260M to $3.0B (2011 - $2.8B). The change in unamortized losses and gains of $435M is due to:

a) A full valuation of City and Police non-pension employee benefit liabilities undertaken as at December 31, 2012. Due to various cost savings initiatives undertaken, as well as favourable experience compared to expected experience for both benefit costs and salaries, there was a sizeable actuarial gain since the last valuation. This has resulted in a lower value for each of the elements of the liability, as shown in the prior paragraph, and has resulted in the unusual circumstance of a net actuarial gain, which provides for a net liability that exceeds the gross liability. As actuarial gains and losses are amortized over the estimated average remaining service life of the employee group, these actuarial gains and losses will be recognized over the next 13.2 to 15.1 years.

b) In addition to the valuation of non-pension liabilities, the TTC pension plan experienced a large surplus in 2012, which has resulted in a change in the valuation allowance for the plan of approximately $192M.

Tangible Capital Assets (Note 15)
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, 2012 with 2011 comparatives, is presented in Note 15 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

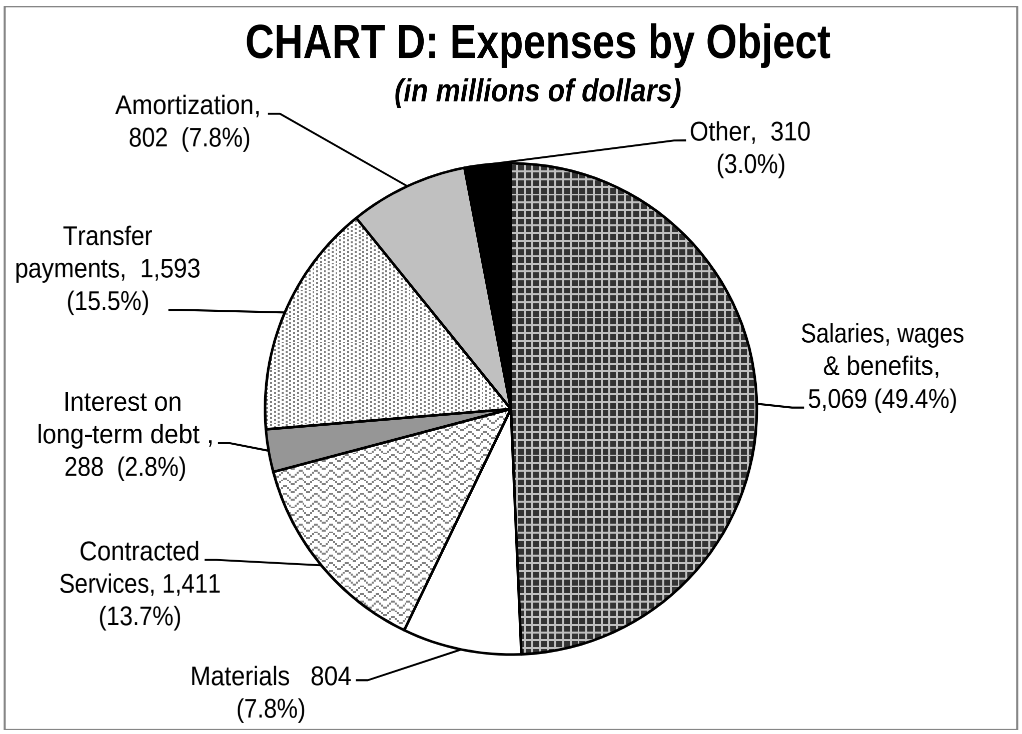
During the year, consolidated asset additions totalled $2.3B, with the most significant portion being:

- Building and Building Improvements of $345M (consisting of $180M at the TCHC, $33M at the TTC, $7M at the Toronto Public Library and $125M at the City);
- Transit Infrastructure of $319M; and,
- Machinery and Equipment purchases of $315M consisting of:
    - Infrastructure equipment ($164M) mainly related to Water and Wastewater treatment plant equipment and Road Traffic Signals;
    - General equipment ($151M) such as Green Lane Landfill gas and leachate collection systems, computer hardware, water meters, security systems, police and transit equipment.

During the year, amortization of tangible capital assets decreased by $12.7M to 801.8M (2011 - $814.5M), mainly as a result of a decrease in TTC amortization of $23M and increase in City amortization of $10.3M.

Consolidated Expenses
Gross consolidated expenses for 2012 totalled $10.28B (2011: $10.56B). The decrease in expenses of $0.3B was generated primarily by service efficiencies and base budget reductions by both the City programs and agencies.

Chart D breaks down the gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 49.4% 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 4 provides a comparison of 2012 Consolidated Net Revenue by program versus budget, and also shows 2011 actuals. The table also provides a comparison of expense by type or category of service.

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 4

Consolidated Net Revenue by Program (in thousands of dollars)	2012 Budget	2012 Actual	Difference: Positive / (Negative) Variance	Change	2011 Actual
Revenues					
Property Taxation	3,737,936	3,750,325	12,389	0.3%	3,583,368
Municipal Land Transfer Tax	294,224	349,798	55,574	18.9%	324,065
Taxation from other governments	92,200	106,600	14,400	15.6%	98,596
User Charges	2,809,407	2,797,655	(11,752)	(0.4%)	2,615,642
Funding transfers from other governments	3,342,820	3,054,218	(288,602)	(8.6%)	3,148,351
Gain on Sale of Enwave	-	96,611	96,611	-	-
Government Business Enterprise Earnings	-	180,097	180,097	-	188,041
Investment Income	170,732	246,760	76,028	44.5%	248,397
Development Charges	203,430	141,133	(62,297)	(30.6%)	94,952
Rent and Concessions	324,537	395,470	70,933	21.9%	386,073
Other	647,899	584,536	(63,363)	(9.8%)	604,560
Total	**11,623,185**	**11,703,203**	**80,018**	**0.7%**	**11,292,045**
Expenses					
General Government	1,045,230	873,889	171,341	16.4%	1,193,486
Protection to persons and property	1,620,477	1,558,447	62,030	3.8%	1,667,615
Transportation	3,183,228	2,828,174	355,054	11.2%	2,642,260
Environmental services	1,059,491	810,859	248,632	23.5%	834,088
Health services	407,442	397,210	10,232	2.5%	399,207
Social and family services	2,136,223	1,999,896	136,327	6.4%	2,032,670
Social Housing	899,167	850,026	49,141	5.5%	804,577
Recreational and cultural services	922,692	861,716	60,976	6.6%	847,271
Planning and development	122,425	96,533	25,892	21.1%	143,636
Total	**11,396,375**	**10,276,750**	**1,119,625**	**9.8%**	**10,564,810**
ANNUAL SURPLUS	**226,810**	**1,426,453**	**1,199,643**	**528.9%**	**727,235**

Table 4 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 2012, property taxes made up 39.7% (2011 – 39.8%) of the City's operating revenue.

Municipal Land Transfer Tax (MLTT) exceeded budget by $56M primarily due to higher than anticipated home sales and average home prices.

Taxation from other governments (Payment in Lieu (PIL) of Taxes) revenue exceeded budget by $14M due to lower than expected appeals and other billing adjustments along with an increase in overall levies issued in 2012.

Funding Transfers from other governments were under budget by $288M primarily due to:

- Under-spending in TTC projects for the Toronto-York Spadina Subway Extension by $208.6M; and
- Ontario Works operating subsidies were lower by $59.7M, due mainly to lower subsidies than budget for Ontario Works Financial Assistance Program.

Gain on Sale of Enwave of $96.6M (proceeds net of legal fees of $167.4M less the adjusted cost of investment of $70.8M) resulting from the City selling its shares in Enwave on October 31, 2012 which was not budgeted for.

Government Business Enterprise Earnings ($180M) 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 6 and Appendix 1 of the Consolidated Financial Statements.

Investment earnings were higher than budget by $76M due to more robust cash flow in 2012 related to the sale of Enwave, dividends received from Build Toronto and TPLC, increases in reserves and reserve funds, and the overall annual surplus achieved in 2012. This resulted in increased investment balances and additional income.

Development Charges applied to capital spending were under budget by $62.3M, due to under-spending on capital projects. As an obligatory reserve, development charge revenues are recognized as the funds are spent for the intended purposes.

Rent and Concessions were higher than budget by $71M due primarily to higher rental and concession revenues at TCHC, TTC and Board of Governors of Exhibition Place.

Other Revenues were lower than budget by $64M primarily due to:

- Lower than budgeted spending on Capital funded from obligatory reserve funds for Water/Wastewater, resulting in lower revenue than budgeted ($206M); offset by
- Third Party Sign Tax revenues higher than budget by $22M as the Supreme Court of Canada decision allowed for taxes to be applied to all signs regardless of the

date that they were installed. As the collection of these revenues was in doubt in prior years, this represented recognition of revenues from 2010 to 2012;

- Gain ($34.6M) on Land exchange transactions for 25 Berkeley Street and 271 Front Street East;
- Gain ($33.9) on Sherbourne Common Park property transferred to the City from TWRC at nominal value; and
- Proceeds ($41.2M) from the sale of the Union Station West Wing.

Expenses

Gross consolidated expenses for 2012 totalled $10.3B (2011: $10.6B). The decrease was generated by a large majority of City programs and agencies reporting favourable variances. A breakdown of other contributing factors by function is as follows:

- Costs for General Government was lower than budget by $171M, primarily due to :
  - The provision for tax assessment appeals decreased by approximately $97.7M primarily as a result of the settlement for property assessment appeals related to six large bank tower properties for taxation years 2001 to 2012 inclusive, which resulted in smaller than anticipated property tax reductions for these properties and a related reduction in the provision for other business properties under appeal;
  - Lower expenditure of $26.5M from the negotiated wage savings for CUPE Locals 416 and 79;
  - Lower than planned vacancy rebates resulting in savings of $5.5M and lower than planned number of households and multi-residential units receiving a solid waste management rebate resulting in savings of $3.9M; and
  - Lower spending of $20M on various State of Good Repairs projects related to major maintenance work at City facilities due to re-coordinating construction activities, re-tendering and change in future plans and other unforeseen conditions.

- Costs for protection to persons and property (Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act Courts) was $62M lower than budget, primarily due to:
  - Reduction in expenses of $64M representing the reduction in the deficits in the City's Police and Firefighters Pre-OMERS Pension Plans;
  - Lower spending as charges to non-program for pension deficit funding were $26M less than budget;
  - Lower spending of $8.7M in Municipal Licensing and Standards (MLS) and Building Inspection due primarily to salary and benefit savings arising from staff turnover and resulting vacancies; and
  - Various projects in Fire Services under spent by $9M due to delays in acquisition of suitable sites and further delays due to removal of additional contaminated soil and oil tanks (Midland and Eglinton) and delay due to change in station design (Chaplin Crescent Fire Station); partially offset by
  - PSAB adjustments for increased employee benefits ($46.5M) for Fire and Police Services.

- Costs for Transportation (including Roads/Traffic signals maintenance and Transit) was $355M lower than budget primarily due to:
  - Lower spending in Transportation of $33.6M due to savings in salaries and benefits arising from vacancies ($5.4M), winter maintenance contract costs that were lower ($11.8M) as a result of mild winter weather in 2012, lower salt usage ($2.9M), lower than expected road and bridge maintenance work ($7.4M) and lower expenditures for utility cut repair contracts ($2.3M);
  - Lower spending at TTC of $25.6M due to lower market prices of diesel fuel, electricity and natural gas as well as lower consumption of energy and natural gas due to the milder weather earlier in 2012. In addition, expenses were lower as a result of reduced utilization of certain healthcare benefits and reduced accident claim settlement costs;
  - Lower spending at TTC of $188.9 on various repair and maintenance projects such as maintenance of the Surface Tracks ($14M), the Leslie Barns LRT Maintenance and Storage Facility ($104M), the ATC Re-signalling project ($45M), the Subway Asbestos removal project ($12M), the Yard and Road Maintenance Projects ($4.9M), Street Car overhaul project ($7M) and various projects on Signal systems ($2M); and,
  - Lower spending of $73.8M on various transportation projects related to roads, City Bridge rehab projects, Traffic Control projects and other infrastructure enhancements projects.

- Environmental services spending was lower than budget by $248M due primarily to:
  - Lower spending at Toronto Water of $129M related to various State of Good Repair maintenance projects for Water Services Repairs, Water Main and Sewer Rehabilitation and Replacements, Highland Creek and Ashbridges Wastewater Treatment Plant Upgrades. These projects were delayed due to complexity of engineering and designing of linear infrastructure, delayed tendering and prevailing ground/site conditions;
  - Lower spending of $33.9M at Toronto Water due to savings in salaries and benefits arising from unfilled vacancies ($20.8M); energy and utility efficiencies relating to lower electricity and natural gas prices, lower natural gas usage at Ashbridges Bay Wastewater Plant;
  - Lower spending at Solid Waste of $22.4M mainly attributable to various maintenance projects due to designing, planning and tendering delays, as well as projects being postponed pending provincial government decisions;
  - Savings of $12.4 at Solid Waste due to ongoing vacancies in collection and transfer services as well as lower collected tonnes of waste driven by recycling compliance and slow general economic recovery resulting in lower than budgeted expenditures for contracted collection and lower tonnage of waste being transferred, hauled and disposed at Green Lane landfill.

- Social and Family Services spending was lower than budget by $136M, due to the following:
  - Ontario Works (OW) financial benefits were under spent by $89.2M due to a lower than budgeted OW caseload (104,069 actual vs. 108,500 budgeted), caseload mix (higher proportion of singles as compared to families) and lower special diet expenditures;
  - Long-Term Care Homes & Services (LTCHS) were under spent by $11.1M due mainly to one-time savings of $9.2M related to Provincial funding delays which resulted in a reduction in claims for certain services required by individual residents and clients that are 100 percent subsidized;.
  - Children's Services were under spent by $13.8M due primarily to delayed capital spending related to minor construction projects, non-receipt of provincial funding, staff turnover.

- Social Housing spending was lower than budget by $49M, due primarily to Social Housing Administration gross savings of $44.1M related to:
  - Lower spending in Social Housing of $16.9M due mainly to reduction in property tax subsidy, garbage levy, and rent subsidies to social housing providers;
  - Lower spending in Affordable Housing projects of $16.2M and Housing and Homelessness Supports of $9.1M due to delays in funding; and
  - Operational savings of $1.9M in Hostel Services and other programs, primarily due to savings in purchased service shelters (motel rentals), and delay in hiring qualified staff.

- Recreational and cultural services was lower than budget by $61M due primarily to:
  - Lower spending of $14.1M attributed to salaries and benefit savings from unfilled seasonal and permanent positions, implemented efficiencies in various programs such as summer camps and recreation support functions, as well as under-spending in materials and supplies;
  - Lower spending of $32M on repairs and maintenance for Recreation projects and Park related IT projects; and
  - Lower spending of $11.2M on various repairs and maintenance work for buildings and streetscape improvements under Economic Development and Culture.

- Planning and development was lower than budget by $26M due primarily to:
  - Lower spending by 4M in City Planning due to savings in salaries and benefits resulting from higher than expected staff turnover;
  - Lower capital spending for various Toronto Waterfront projects by $23.5M due to delay in the execution of the funding agreements.

Five Year Summary of Revenues

The five year summary of revenues outlined in Table 5, below, demonstrates that property taxes continue to be one the slowest growing revenue sources for the City. The City is limited by provincial legislation and Council policy from extending tax rate increases on the commercial, industrial and multi-residential assessment base (which is 54.5% of the City's tax revenue base) on the same basis as the residential base.

As a result of the slow growth of property tax revenue, more reliance has been placed on user fees, the Municipal Land Transfer Tax, senior government transfers and other sources of revenue to meet expenses and minimize property tax rate increases. The City undertook a User Fee Review in 2011 which allows the City to set user fee prices with the objective of full cost recovery, where appropriate.

Table 5
Consolidated Revenues – 5 year Summary

		(in thousands of dollars)				
Revenues	**Avg. Annual Increase**	**2012**	**2011**	**2010**	**2009**	**2008**
Property taxes	3.43%	3,856,925	3,681,241	3,646,675	3,520,450	3,369,949
Municipal land transfer tax (MLTT)	20.53%	349,798	324,065	278,980	183,892	165,743
Personal vehicle Tax (PVT)	N/A	-	723	42,766	51,717	14,992
User charges	7.33%	2,797,655	2,615,642	2,529,093	2,309,164	2,108,423
Government transfers	2.84%	3,054,218	3,148,351	3,173,242	2,993,468	2,731,174
GBE Earnings	(6.29%)	180,097	188,041	153,294	115,012	233,926
Investment Income	0.61%	246,760	248,397	265,990	282,217	240,738
Development Charges	25.84%	141,133	94,952	92,162	83,144	56,234
Rent and Concessions	2.69%	395,470	386,073	372,959	355,005	355,591
Other	10.25%	681,147	604,560	540,861	520,422	461,070
Total	**4.70%**	**11,703,203**	**11,292,045**	**11,096,022**	**10,414,491**	**9,737,840**
Percentage Increase		3.64%	1.77%	6.54%	6.95%	

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 2012, 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 2012 to help address them.

Highlights include:

- The completion of eight (8) Service Efficiency Studies with savings being realized in 2012 through to 2014 (Fleet Services, Shelter & Housing, Real Estate Services, Solid Waste Management, Toronto Public Library, TTC and Transportation Services);
- During 2012 and into 2013, a number of other Service Efficiency Studies were initiated with savings expected for future years;
- Continued cost containment, continuous improvements and other program review initiatives to ensure appropriate and efficient use of resources;
- Negotiated collective agreements/union contracts with CUPE Local 416 and CUPE Local 79 for four years (2012 to 2016) on favourable terms resulting in savings and liability reductions over the next four years (2012 to 2015);
- In 2012, the City put a funding plan in place to fund a $700M shortfall in TTC funding consisting of funds from operating budget surpluses, sale of assets and dividends from City's agencies and corporations. In 2013, a new non-debt capital financing strategy was established to fund additional TTC and transportation capital needs; and
- For 2012, the City continued to reduce tax rate ratios for business/non-residential properties. Council is on track to meet its objectives of reducing the tax ratio for commercial, industrial and multi-residential properties to 2.5 times the residential tax rate by 2020.

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SIGNATURE	SIGNATURE
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Roberto Rossini Deputy City Manager and Chief Financial Officer	Giuliana Carbone Treasurer

ATTACHMENTS

Appendix A: 2012 Consolidated Financial Statements
Appendix B: Key Issues/Risks Facing the City of Toronto
Appendix C: Glossary