

# TORONTO STAFF REPORT

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June 28, 2005

To: Audit Committee  
From: Deputy City Manager and Chief Financial Officer  
Subject: 2004 Audited Consolidated Financial Statements

Purpose:

To present the City of Toronto's 2004 Consolidated Financial Statements.

Financial Implications and Impact Statement:

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

Recommendation:

It is recommended that the 2004 Consolidated Financial Statements be approved.

Discussion:

On an annual basis, as required by the *Municipal Act*, the City prepares and publishes an annual financial statement that consolidates all of the operations for which the City is responsible. The consolidated financial statements are intended to outline to the public, the City's debenture holders and the credit rating agencies how the revenues raised by the City during the previous year were spent and to describe the state of the City's finances at the end of the fiscal year.

To ensure that the financial statements have integrity and can be relied upon, they are audited by the City's auditor Ernst & Young LLP. The financial statements must be prepared in accordance with the generally accepted accounting principles as set by the Canadian Institute of Chartered Accountant's (CICA) Public Sector Accounting Board (PSAB).

The Consolidated Financial Statements encompass the following individual statements:

| <u>Name</u>   | <u>Purpose</u>   |
|---|--|
| <b>Consolidated Statement of Financial Position</b>   | provides a summary of the City's financial assets and liabilities (the net resources the City has for future services and/or what future revenues need to be raised to pay for past transactions).                                 |
| <b>Consolidated Statement of Financial Activities</b> | outlines funds raised by the City in the year and what those funds were used for. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities. |
| <b>Consolidated Statement of Cash Flows</b>           | summarizes how the City's cash position changed during the year by highlighting the City's sources and uses of cash.   |
| <b>Analysis of Current Operations</b>                 | outlines funds raised by the City in the year for current operations and what those funds were used for and how they compared to the budget.   |
| <b>Analysis of Capital Operations</b>                 | outlines funds raised by the City in the year for capital operations and what those funds were used for and how they compared to the budget.   |
| <b>Analysis of Reserves and Reserve Funds</b>         | summarizes funds raised by the City in the year for reserve funds and what those funds were used for and how they compared to the budget.  |

The consolidated financial statements combine the financial results of the City's departments with the financial results of the agencies, boards, commissions and government business enterprises that the City effectively controls. There are 79 entities that are included in the financial statements and these are listed in note 1 to the Financial Statements. The remaining notes to the financial statements provide further detail about the City's financial results and are an integral part of the statements.

Under PSAB rules, only the Consolidated Statement of Financial Position, Consolidated Statement of Financial Activities and Consolidated Statement of Cash Flow are required statements. However, to aid the reader's understanding of the financial statements, schedules have been prepared for current operations, capital operations and reserves and reserve funds.

The Consolidated Statement of Financial Position is sometimes referred to as the municipal equivalent of the private sector's balance sheet. However, there is one important distinction in that the net book value of the City's physical or "fixed" assets (land, infrastructure, buildings and equipment) are not disclosed. Instead, this statement focuses on the City's financial assets and

financial liabilities. The difference between the two is the City's net liabilities position and represents the net amount that must be financed in future budgets.

The City's net liabilities are broken down in the "Municipal Position" portion of the statement. The net liability is divided between the funds (assets) the City has set aside for future purposes and the gross amount of the City's debt that are intended to be funded in the future. The City has three funds:

The Operating Fund is primarily made up of the City's financial interest in its government business enterprises which consist of Toronto Hydro, Toronto Parking Authority, TEDCO and Enwave. It also includes the net financial interest in the City's agencies, boards and commissions (ABCs) of which the TTC, Toronto Community Housing Corporation (TCHC) and the Toronto Atmospheric Fund are the most prominent. The smallest portion of the fund represents the previous year's City surplus. The Capital Fund represents the net position of the City's capital projects. If the fund is in a deficit position, as it is in 2004, it indicates that the financing (such as a debt issuance) for these projects has yet to occur.

The Reserves and Reserve Funds represent past revenues and contributions that have been set aside for future use. The majority of these funds are earmarked for future capital financing and for stabilizing the peaks and valleys of operating expenditures and revenue levels from year to year. A break down of the City's reserves and reserve funds can be found in Appendix 1 to the financial statements.

In addition to the reserves and reserve funds, the City also has received funds for specific purposes that have been deferred until related expenditures occur in the future. For example, developer charges and parkland dedication fees received are not recognized as revenues until such time as the projects for which the funds were raised are constructed. These funds are not included in the Municipal Position. A breakdown of the City's deferred revenues can be found in note 5 to financial statements.

The Consolidated Statement of Financial Activities is sometimes considered to be the municipal equivalent to the private sector's income statement. However, like the Statement of Financial Position, there is an important distinction. Although the statements are on an accrual basis of accounting for most assets and liabilities, it is not "full" accrual accounting in that the cost of the City's physical assets are not amortized and depreciated over their useful life. Instead, the costs of the City's physical assets are expensed 100% in the year they were purchased or built.

The statement provides a summary of the source, allocation and use of the City's financial resources throughout the reporting period. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.

The focus of this statement is the net expenditure/revenue figure found in the middle of the statement. A net expenditure figure represents an amount that the City has to finance from sources other than operating revenue. A net revenue figure represents an amount that the City could use to repay past financing or could set aside in reserves for future use. The financing section of the statement below this figure outlines the new long-term debt the City has issued

(debentures) or assumed (employee benefits, solid waste obligation) in the year and the debt retired in the year.

2004 Highlights

- The City collected revenues of \$7.379 billion and spent \$7.752 billion for a net consolidated expenditure of \$373 million before long-term financing.
- As a result, the City's net financial liabilities increased from \$1.6 billion to \$1.97 billion.
- The level of unfinanced capital expenditure was increased by \$140 million.
- Cash and investments increased by \$216 million to a total of \$2.438 billion.
- The City's investment in its government business enterprises increased by \$76 million in 2004 to total \$1.035 billion.
- Net long-term debt to third parties increased by \$204 million to stand at \$1.681 billion at the end of the year.
- Mortgage debt obligations of Toronto Community Housing Corporation declined by \$24.5 million to a total of \$992.6 million at year end.
- The employee benefit liability increased \$186 million to \$1.978 billion.

Analysis

Current Operations

*Budget to Actual Comparison*

| Net revenues          | 2004<br><i>(in thousands of dollars)</i> |           |            |
|-----------------------|--|-----------|------------|
|                       | Budget                                   | Actual    | Difference |
| Property tax revenues | 3,070,841                                | 3,096,416 | 25,575     |
| User charges          | 1,782,545                                | 1,681,994 | (100,551)  |
| Government transfers  | 1,617,969                                | 1,527,933 | (90,036)   |
| Other revenues        | 445,612                                  | 623,957   | 178,345    |
|                       | 6,916,967                                | 6,930,300 | 13,333     |
| Expenditures          | 6,579,276                                | 6,627,847 | (48,571)   |
| Net revenues          | 337,691                                  | 302,453   | (35,238)   |

Revenues for certain ABC's including the TTC, Exhibition Place and the Zoo are budgeted as a single amount under user charges and amount to \$777 million. Actual revenues for these entities totalled \$806 million and comprise both user charges (\$722 million) and other revenues (\$84 million). This accounts for \$54 million of the unfavourable variance in user charges. Other principal reasons for the unfavourable results in user charges are a \$31 million shortfall in the sale of water and a \$7 million reduction in paid waste tonnage at solid waste transfer stations. In addition to the \$84 million favourable variance in other revenues

described above, these revenues also include earnings from government business enterprises of \$112 million which were not budgeted. Note 4 and Appendix 2 to the financial statements provide more detail on the City's investments in government business enterprises and results of their operations during the year.

Government transfers were under budget due to reduced spending in cost shared social assistance and child care programs.

| <b>Expenditures</b>                | <b>2004</b>                      |                  |                   |
|------------------------------------|----------------------------------|------------------|-------------------|
|                                    | <i>(in thousands of dollars)</i> |                  |                   |
|                                    | <b>Budget</b>                    | <b>Actual</b>    | <b>Difference</b> |
| General government                 | 439,777                          | 518,169          | (78,392)          |
| Protection to persons and property | 1,115,219                        | 1,232,623        | (117,404)         |
| Transportation                     | 1,366,887                        | 1,340,054        | 26,833            |
| Environmental services             | 538,377                          | 536,389          | 1,988             |
| Health services                    | 286,347                          | 302,864          | (16,517)          |
| Social and family services         | 1,575,337                        | 1,488,463        | 86,874            |
| Social housing                     | 685,065                          | 628,977          | 56,088            |
| Recreational and cultural services | 536,834                          | 544,099          | (7,265)           |
| Planning and development           | 35,433                           | 36,209           | (776)             |
| <b>Total</b>                       | <b>6,579,276</b>                 | <b>6,627,847</b> | <b>(48,571)</b>   |

The City budgets for employee benefits on a cash basis but reports these costs on an accrual basis in these financial statements. As a result, the 2004 budget does not include \$186 million of employee benefit costs that have been incurred but are payable in future years whereas the actual expenditures reported in these financial statements include these costs. In addition, there are \$48 million in WSIB claims, retiree benefits, sick leave pay-outs and employee separation costs that have been allocated to programs and included in actual costs reported in these financial statements. There is no corresponding program expenditure budget for these costs as they relate primarily to pre-amalgamation events and are fully financed from reserves. The reserves are in turn replenished from budgeted reserve transfers that are part of the financing section of the statement of financial activities.

General government expenditures include the costs of Council, CAO, Auditor General, Facilities & Real Estate, Finance, Clerks, Human Resources, Corporate Communications, Information & Technology, Legal, consolidated grants, computer leases, miscellaneous non-program costs and the allowance for property tax appeals. The two principal reasons for 2004 actuals exceeding budget are tax write-offs exceeding budget by \$24 million and GST recoveries budgeted at \$26 million but allocated to specific programs upon receipt.

Also included in general government expenditures are \$33 million in self-insured general insurance claims. Unlike employee benefits mentioned above, these costs have not been allocated to programs. However, similar to employee benefits, these costs do not have a corresponding expenditure budget as they are financed from the self-insurance reserve. This

reserve is in turn replenished from a budgeted reserve transfer that is part of the financing section of the statement of financial activities.

Protection to persons and property includes the costs of Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act (POA) Courts. Actual costs were higher than budget due to a negotiated settlement for additional employee benefits for firefighters of \$29 million and expensed in 2004.

Social and family services expenditures were under budget due to the demand for social assistance, shelter and support beds being less than expected and a reduction in the number of subsidized child care spaces. Social housing costs were lower than budget as a result of improved TCHC financial results.

Recreational and cultural services includes parks, recreation, cultural services, the Library Board, and other related City ABCs (e.g. Exhibition Place, Toronto Zoo and Hummingbird Centre). The unfavourable variance in the program is primarily due to the Library where book purchases are accounted for by the Library as a capital expenditure but budgeted as an operating expenditure by the City. The actual cost of \$14.4 million is recorded as a transfer to the capital fund in the financing section of the statement.

#### *Adjustments to prior year's results*

Certain comparative figures have been restated as described in notes 4 and 18 to the consolidated financial statements and are reflected in the analyses which follow in this report.

Net government business enterprise earnings for 2003 have been restated for Toronto Hydro changes in accounting policies and a third party metering error affecting 2003 results. This had a favourable impact of \$17,353,000 on the value of the City's investment in Toronto Hydro as at December 31, 2003. In addition, PSAB requirements relating to the Reporting Entity were updated for 2004 and, upon review, the approach to accounting for other changes in investments in government business enterprises was changed. Additional investments in Enwave and dividends received from Toronto Hydro are no longer reported as both operating revenues and a capital expenditure. These are now reported directly as investments in government business enterprises on the Statement of Financial Position and increase the value of these investments for additional investments or decrease the values of these investments for dividends received. Details of these changes are described further in note 4 to the consolidated financial statements.

Project financing loans provided to Toronto Community Housing Corporation ("TCHC") have also been restated. Loans were previously expensed when advanced in accordance with cash flow requirements for budget purposes. These loans are now recorded as a City receivable and then eliminated upon consolidation with the accounts of TCHC. Details of this restatement are provided in note 18 to the consolidated financial statements.

*Comparison to the prior year*

Net revenues for 2004 have declined when compared with 2003.

| <b>Net revenues</b>   | <i>(in thousands of dollars)</i> |             |                   |
|-----------------------|----------------------------------|-------------|-------------------|
|                       | <b>2004</b>                      | <b>2003</b> | <b>Difference</b> |
| Property tax revenues | 3,096,416                        | 2,983,563   | 112,853           |
| User charges          | 1,681,994                        | 1,635,996   | 45,998            |
| Government transfers  | 1,527,933                        | 1,547,682   | (19,749)          |
| Other revenues        | 623,957                          | 581,758     | 42,199            |
|                       | 6,930,300                        | 6,748,999   | 181,301           |
| Expenditures          | 6,627,847                        | 6,407,681   | 220,166           |
| Net revenues          | 302,453                          | 341,318     | (38,865)          |

Property tax revenues increased in 2004 due to 3% and 1 ½% tax rate increases in the residential and commercial classes and an increase in supplementary taxes of \$9.5 million. Other revenues increased primarily because of an increase in gross investment earnings.

| <b>Expenditures</b>                | <i>(in thousands of dollars)</i> |             |                   |
|------------------------------------|----------------------------------|-------------|-------------------|
|                                    | <b>2004</b>                      | <b>2003</b> | <b>Difference</b> |
| General government                 | 518,169                          | 478,387     | 39,782            |
| Protection to persons and property | 1,232,623                        | 1,149,021   | 83,602            |
| Transportation                     | 1,340,054                        | 1,322,586   | 17,468            |
| Environmental services             | 536,389                          | 537,799     | (1,410)           |
| Health services                    | 302,864                          | 286,938     | 15,926            |
| Social and family services         | 1,488,463                        | 1,451,508   | 36,955            |
| Social housing                     | 628,977                          | 656,785     | (27,808)          |
| Recreational and cultural services | 544,099                          | 491,526     | 52,573            |
| Planning and development           | 36,209                           | 33,131      | 3,078             |
| Total                              | 6,627,847                        | 6,407,681   | 220,166           |

Overall, the increase in costs of 3.4% over 2003 levels is generally attributable to wage increases and inflation as service delivery levels were essentially unchanged.

## Capital Operations

### *Budget to Actuals Comparisons*

|                                    | <i>(in thousands of dollars)</i> |                        |                        |
|------------------------------------|----------------------------------|------------------------|------------------------|
| <b>Net Expenditures</b>            | <b>2004<br/>Budget</b>           | <b>2004<br/>Actual</b> | <b>2003<br/>Actual</b> |
| Expenditures                       | 1,505,590                        | 1,123,689              | 952,825                |
| Revenues                           | 667,778                          | 404,920                | 388,918                |
| Debentures                         | 490,017                          | 375,000                | 300,000                |
| Operating fund transfers           | 183,064                          | 163,402                | 515,732                |
| Net reserve/reserve fund transfers | 137,408                          | 35,197                 | 38,701                 |
| Landfill obligations               | -                                | 4,795                  | (5,643)                |
| Total revenues and financing       | 1,478,267                        | 983,314                | 1,237,708              |
| Net expenditures (financing)       | 27,323                           | 140,375                | (284,883)              |

Capital expenditure levels continue to be well under budget. Several uncontrollable factors impacted the implementation of the 2004 capital program in accordance with plans. Principal among these were delays in obtaining firm funding commitments for cost-shared projects from other levels of governments, late closings of land acquisition transactions and approval of specifications from the Province.

### Current Accounts

Note 2 provides details about the City's investment portfolios and their yields. Note 3 provides more information on the City's note receivable from Toronto Hydro. Information about the City's government business enterprises can be found in note 4 and Appendix 2 to the financial statements.

### *Taxes Receivable*

Taxes receivable includes all outstanding taxes, items that have been added to the tax roll, such as utilities arrears, drainage charges, local improvement charges, and the accumulated penalties and interest charges against such taxes, less any allowance for uncollectable taxes. A breakdown of this receivable is noted below:

|                                       | <i>(in millions of dollars)</i> |             |
|---------------------------------------|---------------------------------|-------------|
| <b>Taxes Receivable</b>               | <b>2004</b>                     | <b>2003</b> |
| Current year                          | 154.5                           | 168.9       |
| Prior year                            | 25.7                            | 36.4        |
| Previous years                        | 39.6                            | 35.7        |
| Interest/penalty                      | 29.5                            | 29.6        |
| Less: allowance for doubtful accounts | (23.3)                          | (23.6)      |
| Net receivables                       | 226.0                           | 247.0       |



*Accounts Payable*

The breakdown of accounts payable and accrued liabilities at December 31, 2004 with 2003 comparatives is as follows:

|  | <i>(in millions of dollars)</i> |                |
|--|---------------------------------|----------------|
| <b>Accounts Payable</b>                  | <b>2004</b>                     | <b>2003</b>    |
| Local Board trade payables               | 306.8                           | 300.5          |
| City trade payables and accruals         | 748.3                           | 737.9          |
| Payable to school boards                 | 291.7                           | 174.2          |
| Provision for assessment appeals         | 263.9                           | 244.4          |
| Credit balances on property tax accounts | 75.2                            | 61.0           |
| Payroll liabilities                      | 68.2                            | 62.7           |
| <b>Total</b>                             | <b>1,754.1</b>                  | <b>1,580.7</b> |

The increase in amounts payable to school boards represents amounts being held on deposit and being invested on their behalf.

*Accounts Receivable*

The breakdown of accounts receivable and accrued amounts owed to the City at December 31, 2004 with 2003 comparatives is as follows:

|                             | <i>(in millions of dollars)</i> |              |
|-----------------------------|---------------------------------|--------------|
| <b>Accounts Receivable</b>  | <b>2004</b>                     | <b>2003</b>  |
| Government of Canada        | 54.1                            | 14.1         |
| Government of Ontario       | 36.6                            | 1.2          |
| Other municipal governments | 1.3                             | 1.0          |
| School board                | 3.8                             | 8.8          |
| Water fees                  | 103.7                           | 100.7        |
| Other                       | 413.4                           | 389.2        |
| <b>Total</b>                | <b>612.9</b>                    | <b>515.0</b> |

Increases in amounts due from the federal and provincial levels of government are attributed to new funding available for infrastructure and transit expenditures.

## Significant Trends

Significant trend information is provided below for key financial indicators over the last five years.

### *Financial Activities*

#### **Capital and Operating**

(in thousands of dollars)

| <b>Consolidated Net Expenditures</b> | <b>Avg. Annual Increase</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> | <b>2000</b> |
|--------------------------------------|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenues                             | 3.85%                       | 7,378,993   | 7,230,705   | 7,084,372   | 6,745,486   | 6,345,333   |
| Expenditures                         | 4.25%                       | 7,751,536   | 7,360,506   | 7,081,194   | 6,845,850   | 6,563,672   |
| Net (expenditures) revenues          | <b>A</b>                    | (372,543)   | (129,801)   | 3,178       | (100,364)   | (218,339)   |

(in thousands of dollars)

| <b>Financing</b>  |              | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> | <b>2000</b> |
|---|--------------|-------------|-------------|-------------|-------------|-------------|
| Net new debentures and mortgages net of repayment       |              | 198,003     | 138,826     | 3,670       | 72,692      | 37,814      |
| Increase in unfunded liabilities                        |              | 190,820     | 131,612     | 135,182     | 170,633     | 87,791      |
| Increase (decrease) in inventories and prepaid expenses |              | 1,536       | 18,483      | (6,454)     | (14,048)    | 8,535       |
| Total financing and inventory change                    | <b>B</b>     | 390,359     | 288,921     | 132,398     | 229,277     | 134,140     |
| Increase (decrease) in Fund balances                    | <b>(A+B)</b> | 17,816      | 159,120     | 135,576     | 128,913     | (84,199)    |

The trend of expenditure levels exceeding revenues continued in 2004 and has been financed with the issuance of increasingly higher levels of debenture debt (\$198 million total net) and increases in unfunded liabilities (\$190.8 million). The increase in employee benefit liabilities, while not requiring cash funding in the current year, will require higher tax levies in future years in the absence of a new deal and the realization of other sources of revenue.

*Revenues*

The table below demonstrates that property taxes continue to be the slowest growing revenue source for the City. During this period, assessment growth has been minimal. Gains made by new construction have been offset by conversions of non-residential to residential (which is taxed at a much lower rate) and by property tax appeals on market value assessments. In addition, the City has been limited by provincial legislation from extending tax rate increases on the commercial, industrial and multi-residential assessment base to 50% of the tax rate increase applied to residential assessment. The commercial, industrial and multi-residential assessment base represents approximately 61% of the City's tax revenue base. As a result more reliance has been placed on user fees, government grants and other sources of revenue to meet expenditures.

(in thousands of dollars)

| <b>Consolidated Revenues</b> | <b>Avg. Annual Increase</b> | <b>2004</b>      | <b>2003</b>      | <b>2002</b>      | <b>2001</b>      | <b>2000</b>      |
|------------------------------|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| Property taxes               | 2.62%                       | 3,096,416        | 2,983,563        | 2,968,475        | 2,970,485        | 2,795,450        |
| User charges                 | 4.44%                       | 1,681,994        | 1,635,996        | 1,625,970        | 1,525,665        | 1,145,721        |
| Senior government transfers  | 4.68%                       | 1,600,688        | 1,636,202        | 1,576,589        | 1,403,198        | 1,339,393        |
| Other                        | 5.93%                       | 999,895          | 974,944          | 913,338          | 846,138          | 794,769          |
| <b>Total</b>                 | <b>3.86%</b>                | <b>7,378,993</b> | <b>7,230,705</b> | <b>7,084,372</b> | <b>6,745,486</b> | <b>6,345,333</b> |

Included in other revenues are earnings from government business enterprises, investment income, revenues from the sale of land and contributions from deferred revenue.

*Financial Position*

(in thousands of dollars)

| <b>Net Liabilities</b>                             | <b>2004</b>      | <b>2003</b>      | <b>2002</b>      | <b>2001</b>      | <b>2000</b>      |
|--|------------------|------------------|------------------|------------------|------------------|
| Liabilities  | 7,335,200        | 6,615,416        | 6,431,411        | 6,236,701        | 5,603,089        |
| Financial Assets, inventories and prepaid expenses | 5,511,966        | 5,163,189        | 5,052,657        | 4,861,223        | 4,342,023        |
| <b>Net Liabilities</b>                             | <b>1,823,234</b> | <b>1,452,227</b> | <b>1,378,754</b> | <b>1,375,478</b> | <b>1,261,066</b> |

As mentioned earlier in this report, the City’s physical or “fixed” assets, including land, buildings, equipment and infrastructure, are not disclosed in these financial statements but needs to be considered in any review of the City’s financial position. The City’s net liabilities have increased by an average annual rate of 3.7 % over the last five years and is attributable to increases in long-term debt to third parties and in employee benefit liabilities. The following table illustrates this:

*(in thousands of dollars)*

| <b>Long-Term Debt</b>        | <b>Avg.<br/>Annual<br/>Increase</b> | <b>2004</b>      | <b>2003</b>      | <b>2002</b>      | <b>2001</b>      | <b>2000</b>      |
|------------------------------|-------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Third Party Debt:            |                                     |                  |                  |                  |                  |                  |
| Debentures                   | 8.61%                               | 1,505,361        | 1,301,457        | 1,158,827        | 1,171,388        | 1,089,201        |
| Provincial loan              | -3.18%                              | 175,331          | 175,331          | 183,750          | 183,750          | 200,000          |
| TCHC Mortgages               | -1.53%                              | 992,571          | 1,017,078        | 1,035,843        | 1,041,603        | 1,055,800        |
|                              | 3.37%                               | 2,673,263        | 2,493,866        | 2,378,420        | 2,396,741        | 2,345,001        |
| Employee Benefit Liabilities | 9.50%                               | 1,977,775        | 1,791,750        | 1,654,495        | 1,549,119        | 1,376,549        |
| <b>Total</b>                 | <b>5.76%</b>                        | <b>4,651,038</b> | <b>4,285,616</b> | <b>4,032,915</b> | <b>3,945,860</b> | <b>3,721,550</b> |

Additional information on the mortgage obligations of Toronto Community Housing Corporation can be found in Note 7 in the financial statements. Note 8 provides additional information about the provincial loan and the City’s debenture debt. Further detail about the City’s employee benefits liabilities can be found in Note 9 to the financial statements.

*(in thousands of dollars)*

| <b>Reserves and Reserve Funds</b> | <b>2004</b>    | <b>2003</b>    | <b>2002</b>    | <b>2001</b>    | <b>2000</b>    |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Reserves                          | 178,801        | 269,685        | 319,558        | 235,316        | 238,906        |
| Reserve Funds                     | 700,128        | 663,478        | 571,834        | 551,986        | 442,118        |
| <b>Total</b>                      | <b>878,929</b> | <b>933,163</b> | <b>891,392</b> | <b>787,302</b> | <b>681,024</b> |

The City’s reserves and reserve funds generally represent “stabilization” reserves that are used to smooth expenditure and revenue variances from one year to the next and “capital” reserves that are used to fund a portion of the City’s capital program. Appendix 1 to the financial statements provides a breakdown of the City’s reserves and reserve funds.

Comparison to Other Jurisdictions (2003)

The table provides a comparison of key financial indicators for a selection of large Canadian cities. As financial results for some of the comparative cities are still being finalized, 2003 results are presented.

|  | <i>(in millions of dollars)</i> |                |                 |                 |               |                  |
|--|---------------------------------|----------------|-----------------|-----------------|---------------|------------------|
|  | <u>Toronto</u>                  | <u>Calgary</u> | <u>Edmonton</u> | <u>Montreal</u> | <u>Ottawa</u> | <u>Vancouver</u> |
| Investments  | 2,138                           | 899            | 996             | 1,252           | 576           | 437              |
| Investment in<br>GBEs *  | 1,940                           | 1,127          | 1,608           | -               | 411           | -                |
| Interest<br>bearing long-<br>term debt **                        | (2,494)                         | (1,302)        | (367)           | (5,778)         | (755)         | (463)            |
| Net financial<br>assets<br>(liabilities)<br><i>(not a total)</i> | (1,595)                         | 382            | 2,164           | (6,267)         | (223)         | (42)             |

\* *Government Business Enterprises. In other Canadian municipalities as compared above, these types of investments are primarily in electric utility systems and other utility systems such as natural gas and water. Details of Toronto's investments are provided in Note 4 to the Consolidated Financial Statements and includes the note receivable from Toronto Hydro.*

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.

Conclusions:

The City's net financial liabilities increased in 2004 largely due to increases in long-term debt and unfunded employee benefit liabilities. In absence of new revenue sources, the City will need to rely increasingly on debt to finance its capital program and to implement significant property tax increases to finance the operating program. As a result, this unsustainable financial position must be addressed through a new deal which must include new revenue sources which grow with the economy.

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Joseph P. Pennachetti

Deputy City Manager and Chief Financial Officer

List of Attachments:

Appendix A: 2004 Consolidated Financial Statements

# **2004 Consolidated Financial Statements**

December 31, 2004



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## **Audited Financial Statements**

## Management's Report

The management of the City of Toronto is responsible for the integrity, objectivity and accuracy of the financial information presented in the accompanying consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles established by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board. A summary of the significant accounting policies is disclosed in Note 1 to the financial statements.

To meet its responsibility, management maintains comprehensive financial and internal control systems designed to ensure the proper authorization of transactions, the safeguarding of assets and the integrity of the financial data. The City employs highly qualified professional staff and deploys an organizational structure that effectively segregates responsibilities, and appropriately delegates authority and accountability.

The Audit Committee, a sub committee of City Council, reviews and approves the financial statements before they are submitted to Council. In accordance with Council's directive, the Auditor General oversees the work of the external auditors performing financial statement attest audits. While it is important to recognize that the external audit is an independent process, the Auditor General's role is to ensure that all significant audit issues are appropriately addressed and resolved. In this context, the Auditor General participates in all significant meetings held between the external auditors and management.

The 2004 consolidated financial statements have been examined by the City of Toronto's external auditors, Ernst & Young LLP, Chartered Accountants, and their report precedes the financial statements.

Toronto, Canada  
April 23, 2005

Joseph P. Pennachetti  
Chief Financial Officer

Shirley Hoy  
City Manager

# Auditors' Report

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

We have audited the consolidated statement of financial position of the **City of Toronto** as at December 31, 2004 and the consolidated statements of financial activities and cash flows for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2004 and the results of its financial activities and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
April 29, 2005.

Chartered Accountants

## Consolidated Statement of Financial Position

as at December 31, 2004

(with comparative figures as at December 31, 2003)



|   | 2004<br>(\$000)    | 2003<br>(\$000)<br>(RESTATED)<br>(Notes 4 and 18) |
|---|--------------------|---|
| <b>FINANCIAL ASSETS</b>                                 |                    |   |
| Cash  | 65,187             | 84,073  |
| Accounts receivable                                     | 612,938            | 515,026   |
| Property taxes receivable                               | 225,963            | 246,989   |
| Other assets  | 2,839              | 5,427   |
| Investments (Note 2)                                    | 2,372,396          | 2,137,955   |
| Note receivable – Toronto Hydro Corporation (Note 3)    | 980,231            | 980,231   |
| Receivable from Toronto District School Board (Note 8)  | 72,703             | 91,309  |
| Investments in government business enterprises (Note 4) | 1,035,397          | 959,403   |
| <b>Total Financial Assets</b>                           | <b>5,367,654</b>   | <b>5,020,413</b>                                  |
| <b>FINANCIAL LIABILITIES</b>                            |                    |   |
| Accounts payable and accrued liabilities                | 1,754,130          | 1,580,663   |
| Deferred revenue (Note 5)                               | 709,192            | 543,889   |
| Other liabilities                                       | 122,607            | 111,810   |
| Landfill closure and post-closure liabilities (Note 6)  | 98,233             | 93,438  |
| Mortgages payable (Note 7)                              | 992,571            | 1,017,078   |
| Net long-term debt (Note 8)                             | 1,680,692          | 1,476,788   |
| Employee benefit liabilities (Note 9)                   | 1,977,775          | 1,791,750   |
| <b>Total Financial Liabilities</b>                      | <b>7,335,200</b>   | <b>6,615,416</b>                                  |
| <b>NET FINANCIAL LIABILITIES</b>                        | <b>(1,967,546)</b> | <b>(1,595,003)</b>                                |
| <b>NON-FINANCIAL ASSETS</b>                             |                    |   |
| Inventories and prepaid expenses                        | 144,312            | 142,776   |
| <b>NET LIABILITIES</b>                                  | <b>(1,823,234)</b> | <b>(1,452,227)</b>                                |
| <b>MUNICIPAL POSITION</b>                               |                    |   |
| <b>FUND BALANCES</b>                                    |                    |   |
| Operating fund (Schedule 1)                             | 2,339,225          | 2,126,800   |
| Capital fund (Schedule 2)                               | (364,820)          | (224,445)   |
| Reserves and reserve funds (Schedule 3)                 | 878,929            | 933,163   |
| <b>TOTAL FUND BALANCES</b>                              | <b>2,853,334</b>   | <b>2,835,518</b>                                  |
| Amounts to be recovered in future years (Note 10):      |                    |   |
| From reserves and reserve funds on hand                 | (294,386)          | (297,810)   |
| From future revenues                                    | (4,382,182)        | (3,989,935)                                       |
| <b>TOTAL AMOUNTS TO BE RECOVERED</b>                    | <b>(4,676,568)</b> | <b>(4,287,745)</b>                                |
| <b>TOTAL MUNICIPAL POSITION</b>                         | <b>(1,823,234)</b> | <b>(1,452,227)</b>                                |

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

## Consolidated Statement of Financial Activities

for the year ended December 31, 2004

(with comparative figures for the year ended December 31, 2003)



|   | 2004<br>BUDGET       | 2004<br>ACTUALS  | 2003<br>ACTUALS                           |
|---|----------------------|------------------|---|
|   | (\$000)<br>(Note 15) | (\$000)          | (\$000)<br>(RESTATED)<br>(Notes 4 and 18) |
| <b>REVENUES</b>   |                      |                  |   |
| Residential and commercial property taxation                          | 2,987,712            | 3,016,817        | 2,913,398                                 |
| Taxation from other governments                                       | 83,129               | 79,599           | 70,165                                    |
| User charges  | 1,782,545            | 1,681,994        | 1,635,996                                 |
| Funding transfers from other governments                              | 1,768,213            | 1,600,688        | 1,636,202                                 |
| Net government business enterprise earnings (Note 4)                  | -                    | 112,215          | 111,072                                   |
| Other   | 1,006,610            | 887,680          | 863,872                                   |
| <b>TOTAL REVENUES</b>   | <b>7,628,209</b>     | <b>7,378,993</b> | <b>7,230,705</b>                          |
| <b>EXPENDITURES</b>   |                      |                  |   |
| General government  | 569,795              | 573,703          | 513,182                                   |
| Protection to persons and property                                    | 1,208,930            | 1,287,582        | 1,219,913                                 |
| Transportation  | 1,987,721            | 1,888,948        | 1,730,864                                 |
| Environmental services  | 879,843              | 757,179          | 744,670                                   |
| Health services   | 300,708              | 310,547          | 298,484                                   |
| Social and family services  | 1,619,822            | 1,520,593        | 1,480,709                                 |
| Social housing  | 783,945              | 722,452          | 729,455                                   |
| Recreation and cultural services                                      | 648,656              | 632,941          | 589,152                                   |
| Planning and development  | 85,446               | 57,591           | 54,077                                    |
| <b>TOTAL EXPENDITURES (Note 12)</b>                                   | <b>8,084,866</b>     | <b>7,751,536</b> | <b>7,360,506</b>                          |
| <b>NET EXPENDITURES AND<br/>INCREASE IN NET FINANCIAL LIABILITIES</b> | <b>(456,657)</b>     | <b>(372,543)</b> | <b>(129,801)</b>                          |
| <b>FINANCING</b>  |                      |                  |   |
| New long-term debt and mortgages issued                               | 490,017              | 375,000          | 300,000                                   |
| Principal repayments on long-term debt and mortgages                  | (135,357)            | (154,952)        | (143,847)                                 |
| Interest earned on sinking funds                                      | -                    | (22,045)         | (17,327)                                  |
| Changes in solid waste landfill obligations                           | -                    | 4,795            | (5,643)                                   |
| Changes in employee benefit liabilities                               | -                    | 186,025          | 137,255                                   |
| <b>NET INCREASE IN AMOUNTS TO BE RECOVERED<br/>IN FUTURE YEARS</b>    | <b>354,660</b>       | <b>388,823</b>   | <b>270,438</b>                            |
| <b>INCREASE IN NON-FINANCIAL ASSETS</b>                               | <b>-</b>             | <b>1,536</b>     | <b>18,483</b>                             |
| <b>INCREASE (DECREASE) IN FUND BALANCES</b>                           | <b>(101,997)</b>     | <b>17,816</b>    | <b>159,120</b>                            |
| <b>FUND BALANCES – BEGINNING OF YEAR</b>                              | <b>957,745</b>       | <b>2,835,518</b> | <b>2,676,398</b>                          |
| <b>FUND BALANCES - END OF YEAR</b>                                    | <b>855,748</b>       | <b>2,853,334</b> | <b>2,835,518</b>                          |

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

## Consolidated Statement of Cash Flows

for the year ended December 31, 2004  
(with comparative figures for the year ended December 31, 2003)



|  | 2004      | 2003                                      |
|--|-----------|---|
|  | (\$000)   | (\$000)<br>(RESTATED)<br>(Notes 4 and 18) |
| <b>OPERATIONS</b>  |           |   |
| Net expenditures for the year                                  | (372,543) | (129,801)                                 |
| Uses of cash:  |           |   |
| Increase in accounts receivable                                | (97,912)  | -   |
| Increase in property taxes receivable                          | -         | (21,602)                                  |
| Decrease in accounts payable and accrued liabilities           | -         | (120,428)                                 |
| Decrease in other liabilities                                  | -         | (50,496)                                  |
| Decrease in landfill post-closure liabilities                  | -         | (5,643)                                   |
|  | (97,912)  | (198,169)                                 |
| Sources of cash:   |           |   |
| Decrease in accounts receivable                                | -         | 317,800                                   |
| Decrease in other assets                                       | 2,588     | 10,028                                    |
| Decrease in property taxes receivable                          | 21,026    | -   |
| Increase in accounts payable and accrued liabilities           | 173,467   | -   |
| Increase in deferred revenue                                   | 165,303   | 135,209                                   |
| Increase in other liabilities                                  | 10,797    | -   |
| Increase in other landfill post-closure liabilities            | 4,795     | -   |
| Increase in employee benefit liabilities                       | 186,025   | 137,255                                   |
|  | 564,001   | 600,292                                   |
| Net increase in cash from operations                           | 93,546    | 272,322                                   |
| <b>INVESTING</b>   |           |   |
| Net increase in investments                                    | (234,441) | (257,104)                                 |
| Net increase in investments in government business enterprises | (75,994)  | (130,000)                                 |
| Net decrease in receivable from Toronto District School Board  | 18,606    | 23,380                                    |
| Net decrease in cash from investing                            | (291,829) | (363,724)                                 |
| <b>FINANCING</b>   |           |   |
| New long-term debt and mortgages issued                        | 375,000   | 300,000                                   |
| Principal repayments on long-term debt and mortgages           | (154,952) | (143,847)                                 |
| Interest earned on sinking funds                               | (22,045)  | (17,327)                                  |
| Principal repayments on debt by Toronto District School Board  | (18,606)  | (23,380)                                  |
| Net increase in cash from financing                            | 179,397   | 115,446                                   |
| <b>NET INCREASE (DECREASE) IN CASH</b>                         | (18,886)  | 24,044                                    |
| <b>CASH BEGINNING OF YEAR</b>                                  | 84,073    | 60,029                                    |
| <b>CASH END OF YEAR</b>  | 65,187    | 84,073                                    |

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

## Analysis of Consolidated Current Operations – Schedule 1

for the year ended December 31, 2004

(with comparative figures for the year ended December 31, 2003)



|   | <b>2004<br/>BUDGET</b> | <b>2004<br/>ACTUALS</b> | <b>2003<br/>ACTUALS</b>                   |
|---|------------------------|-------------------------|---|
|   | (\$000)<br>(Note 15)   | (\$000)                 | (\$000)<br>(RESTATED)<br>(Notes 4 and 18) |
| <b>EXPENDITURES</b>                       |                        |                         |   |
| <b>General government</b>                 |                        |                         |   |
| Council                                   | 17,894                 | 17,348                  | 16,891                                    |
| Administration                            | 318,432                | 376,392                 | 367,846                                   |
| Ontario property assessment               | 29,200                 | 29,004                  | 27,447                                    |
| Allowance for property tax appeals        | 74,251                 | 95,425                  | 66,203                                    |
|   | <u>439,777</u>         | <u>518,169</u>          | <u>478,387</u>                            |
| <b>Protection to persons and property</b> |                        |                         |   |
| Fire                                      | 298,749                | 347,522                 | 297,741                                   |
| Police                                    | 712,869                | 774,841                 | 748,643                                   |
| Building services                         | 73,609                 | 76,363                  | 71,445                                    |
| Other                                     | 29,992                 | 33,897                  | 31,192                                    |
|   | <u>1,115,219</u>       | <u>1,232,623</u>        | <u>1,149,021</u>                          |
| <b>Transportation</b>                     |                        |                         |   |
| Transit                                   | 1,034,284              | 1,011,631               | 1,010,221                                 |
| Road/traffic signals maintenance          | 332,603                | 328,423                 | 312,365                                   |
|   | <u>1,366,887</u>       | <u>1,340,054</u>        | <u>1,322,586</u>                          |
| <b>Environmental services</b>             |                        |                         |   |
| Water                                     | 154,536                | 174,116                 | 153,093                                   |
| Wastewater                                | 175,635                | 163,984                 | 181,097                                   |
| Solid waste                               | 208,206                | 198,289                 | 203,609                                   |
|   | <u>538,377</u>         | <u>536,389</u>          | <u>537,799</u>                            |
| <b>Health services</b>                    |                        |                         |   |
| Ambulance                                 | 119,590                | 139,229                 | 130,339                                   |
| Public health services                    | 166,757                | 163,635                 | 156,599                                   |
|   | <u>286,347</u>         | <u>302,864</u>          | <u>286,938</u>                            |
| <b>Social and family services</b>         |                        |                         |   |
| Social assistance                         | 1,116,336              | 1,045,260               | 1,022,741                                 |
| Long-term care                            | 171,525                | 169,507                 | 163,239                                   |
| Child care assistance                     | 287,476                | 273,696                 | 265,528                                   |
|   | <u>1,575,337</u>       | <u>1,488,463</u>        | <u>1,451,508</u>                          |
| <b>Social housing</b>                     |                        |                         |   |
|   | <u>685,065</u>         | <u>628,977</u>          | <u>656,785</u>                            |
| <b>Recreation and cultural services</b>   |                        |                         |   |
| Parks                                     | 109,732                | 107,788                 | 100,653                                   |
| Recreation                                | 176,113                | 187,729                 | 171,465                                   |
| Other                                     | 250,989                | 248,582                 | 219,408                                   |
|   | <u>536,834</u>         | <u>544,099</u>          | <u>491,526</u>                            |
| <b>Planning and development</b>           |                        |                         |   |
| Planning                                  | 26,319                 | 25,389                  | 23,469                                    |
| Business development                      | 9,114                  | 10,820                  | 9,662                                     |
|   | <u>35,433</u>          | <u>36,209</u>           | <u>33,131</u>                             |
| <b>Total Expenditures</b>                 | <u>6,579,276</u>       | <u>6,627,847</u>        | <u>6,407,681</u>                          |

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

## Analysis of Consolidated Current Operations – Schedule 1

for the year ended December 31, 2004

(with comparative figures for the year ended December 31, 2003)



|   | 2004<br>BUDGET<br>(\$000)<br>(Note 15) | 2004<br>ACTUALS<br>(\$000) | 2003<br>ACTUALS<br>(\$000)<br>(RESTATED)<br>(Notes 4 and 18) |
|---|--|----------------------------|--|
| <b>REVENUES</b>   |  |                            |  |
| Residential and commercial property taxation                          | 2,987,712                              | 3,016,817                  | 2,913,398  |
| Taxation from other governments                                       | 83,129                                 | 79,599                     | 70,165   |
| User charges:   |  |                            |  |
| Transit fares   | 667,316                                | 685,425                    | 661,263  |
| Water sales   | 507,332                                | 476,101                    | 474,750  |
| Fines   | 137,600                                | 133,126                    | 128,048  |
| Licenses and permits  | 91,406                                 | 92,750                     | 86,532   |
| Fees and service charges  | 378,891                                | 294,592                    | 285,403  |
| Government transfers:   |  |                            |  |
| Social assistance   | 681,456                                | 623,899                    | 656,770  |
| Child care assistance   | 197,039                                | 185,659                    | 178,178  |
| Health services   | 94,317                                 | 89,957                     | 85,350   |
| Social housing  | 355,755                                | 354,844                    | 358,159  |
| Other   | 289,402                                | 273,574                    | 269,225  |
| Investment income   | 158,992                                | 125,437                    | 65,987   |
| Net government business enterprises earnings (Note 4)                 | -                                      | 112,215                    | 111,072  |
| Other   | 286,620                                | 386,305                    | 404,699  |
| <b>Total Revenues</b>   | <b>6,916,967</b>                       | <b>6,930,300</b>           | <b>6,748,999</b>   |
| <b>NET REVENUES FOR THE YEAR</b>                                      | <b>337,691</b>                         | <b>302,453</b>             | <b>341,318</b>   |
| <b>FINANCING AND TRANSFERS</b>  |  |                            |  |
| Principal repayments on long-term debt and mortgages                  | (135,357)                              | (154,952)                  | (143,847)  |
| Interest earned on sinking funds                                      | -                                      | (22,045)                   | (17,327)   |
| Changes in employee benefit liabilities                               | -                                      | 186,025                    | 137,255  |
| Transfers from (to) reserves  | (31,921)                               | 44,997                     | (30,796)   |
| Transfers from (to) reserve funds                                     | (26,379)                               | 17,813                     | 43,112   |
| Transfers to capital fund   | (183,064)                              | (163,402)                  | (515,732)  |
| <b>Total Financing and Transfers</b>                                  | <b>(376,721)</b>                       | <b>(91,564)</b>            | <b>(527,335)</b>   |
| <b>Increase in Non-Financial Assets</b>                               | <b>-</b>                               | <b>1,536</b>               | <b>18,483</b>  |
| <b>NET INCREASE (DECREASE) IN OPERATING FUND BALANCE FOR THE YEAR</b> | <b>(39,030)</b>                        | <b>212,425</b>             | <b>(167,534)</b>   |
| <b>OPERATING FUND BALANCE – BEGINNING OF YEAR</b>                     | <b>39,030</b>                          | <b>2,126,800</b>           | <b>2,294,334</b>   |
| <b>OPERATING FUND BALANCE – END OF YEAR</b>                           | <b>-</b>                               | <b>2,339,225</b>           | <b>2,126,800</b>   |

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



## Analysis of Consolidated Capital Operations – Schedule 2

for the year ended December 31, 2004

(with comparative figures for the year ended December 31, 2003)



|   | <b>2004<br/>BUDGET</b> | <b>2004<br/>ACTUALS</b> | <b>2003<br/>ACTUALS</b>            |
|---|------------------------|-------------------------|------------------------------------|
|   | (\$000)<br>(Note 15)   | (\$000)                 | (\$000)<br>(RESTATED)<br>(Note 18) |
| <b>EXPENDITURES</b>                       |                        |                         |                                    |
| <b>General government</b>                 | 130,018                | 55,534                  | 34,795                             |
| <b>Protection to persons and property</b> |                        |                         |                                    |
| Fire                                      | 24,682                 | 10,497                  | 15,981                             |
| Police                                    | 54,172                 | 32,628                  | 43,990                             |
| Other                                     | 14,857                 | 11,834                  | 10,921                             |
|   | <u>93,711</u>          | <u>54,959</u>           | <u>70,892</u>                      |
| <b>Transportation</b>                     |                        |                         |                                    |
| Transit                                   | 282,752                | 324,301                 | 235,460                            |
| Roads                                     | 338,082                | 224,593                 | 172,818                            |
|   | <u>620,834</u>         | <u>548,894</u>          | <u>408,278</u>                     |
| <b>Environmental services</b>             |                        |                         |                                    |
| Water                                     | 144,614                | 112,808                 | 108,948                            |
| Wastewater                                | 109,744                | 61,300                  | 82,147                             |
| Solid waste                               | 87,108                 | 46,682                  | 15,776                             |
|   | <u>341,466</u>         | <u>220,790</u>          | <u>206,871</u>                     |
| <b>Health services</b>                    |                        |                         |                                    |
| Ambulance                                 | 12,064                 | 6,920                   | 9,689                              |
| Public Health Services                    | 2,297                  | 763                     | 1,857                              |
|   | <u>14,361</u>          | <u>7,683</u>            | <u>11,546</u>                      |
| <b>Social and family services</b>         |                        |                         |                                    |
| Social assistance                         | 21,115                 | 14,552                  | 4,259                              |
| Long-term care                            | 13,738                 | 12,240                  | 21,466                             |
| Child care assistance                     | 9,632                  | 5,338                   | 3,476                              |
|   | <u>44,485</u>          | <u>32,130</u>           | <u>29,201</u>                      |
| <b>Social housing</b>                     | 98,880                 | 93,475                  | 72,670                             |
| <b>Recreation and cultural services</b>   |                        |                         |                                    |
| Parks                                     | 43,189                 | 20,094                  | 25,359                             |
| Recreation                                | 39,587                 | 29,405                  | 36,953                             |
| Other                                     | 29,046                 | 39,343                  | 35,314                             |
|   | <u>111,822</u>         | <u>88,842</u>           | <u>97,626</u>                      |
| <b>Planning and development</b>           |                        |                         |                                    |
| Planning                                  | 9,534                  | 4,290                   | 4,931                              |
| Business development                      | 40,479                 | 17,092                  | 3,297                              |
| Other                                     | -                      | -                       | 12,718                             |
|   | <u>50,013</u>          | <u>21,382</u>           | <u>20,946</u>                      |
| <b>Total Expenditures</b>                 | <u>1,505,590</u>       | <u>1,123,689</u>        | <u>952,825</u>                     |

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

## Analysis of Consolidated Capital Operations – Schedule 2

for the year ended December 31, 2004

(with comparative figures for the year ended December 31, 2003)



|   | <b>2004<br/>BUDGET</b> | <b>2004<br/>ACTUALS</b> | <b>2003<br/>ACTUALS</b>            |
|---|------------------------|-------------------------|------------------------------------|
|   | (\$000)<br>(Note 15)   | (\$000)                 | (\$000)<br>(RESTATED)<br>(Note 18) |
| <b>REVENUES</b>   |                        |                         |                                    |
| Government of Canada transfers                                      | 71,947                 | 12,661                  | 14,322                             |
| Province of Ontario transfers                                       | 78,297                 | 60,094                  | 74,198                             |
| Other municipalities  | -                      | 1,236                   | 120                                |
| Other   | 517,534                | 330,929                 | 300,278                            |
| <b>Total Revenues</b>   | <b>667,778</b>         | <b>404,920</b>          | <b>388,918</b>                     |
| <b>NET EXPENDITURES FOR THE YEAR</b>                                | <b>(837,812)</b>       | <b>(718,769)</b>        | <b>(563,907)</b>                   |
| <b>FINANCING AND TRANSFERS</b>                                      |                        |                         |                                    |
| New long-term debt and mortgages issued                             | 490,017                | 375,000                 | 300,000                            |
| Changes in solid waste landfill obligations (Note 6)                | -                      | 4,795                   | (5,643)                            |
| Transfers from operating fund                                       | 183,064                | 163,402                 | 515,732                            |
| Transfers from reserves   | 73,853                 | 15,822                  | 80,669                             |
| Transfers from (to) reserve funds                                   | 63,555                 | 19,375                  | (41,968)                           |
| <b>Total Financing and Transfers</b>                                | <b>810,489</b>         | <b>578,394</b>          | <b>848,790</b>                     |
| <b>NET INCREASE (DECREASE) IN CAPITAL FUND BALANCE FOR THE YEAR</b> | <b>(27,323)</b>        | <b>(140,375)</b>        | <b>284,883</b>                     |
| <b>CAPITAL FUND BALANCE – BEGINNING OF YEAR</b>                     | <b>27,323</b>          | <b>(224,445)</b>        | <b>(509,328)</b>                   |
| <b>CAPITAL FUND BALANCE – END OF YEAR</b>                           | <b>-</b>               | <b>(364,820)</b>        | <b>(224,445)</b>                   |

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

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



for the year ended December 31, 2004  
(with comparative figures for the year ended December 31, 2003)

|   | <b>2004<br/>BUDGET</b> | <b>2004<br/>ACTUALS</b> | <b>2003<br/>ACTUALS</b> |
|---|------------------------|-------------------------|-------------------------|
|   | (\$000)<br>(Note 15)   | (\$000)                 | (\$000)                 |
| <b>RESERVES</b>   |                        |                         |                         |
| <b>TRANSFERS FROM (TO) OTHER FUNDS</b>                    |                        |                         |                         |
| Reserve fund  | -                      | (30,065)                | -                       |
| Operating fund  | 31,921                 | (44,997)                | 30,796                  |
| Capital fund  | (73,853)               | (15,822)                | (80,669)                |
| <b>NET TRANSFERS TO OTHER FUNDS FOR THE YEAR</b>          | <b>(41,932)</b>        | <b>(90,884)</b>         | <b>(49,873)</b>         |
| <b>RESERVES BALANCE – BEGINNING OF YEAR</b>               | <b>319,558</b>         | <b>269,685</b>          | <b>319,558</b>          |
| <b>RESERVES BALANCE – END OF YEAR</b>                     | <b>277,626</b>         | <b>178,801</b>          | <b>269,685</b>          |
| <b>RESERVE FUNDS</b>                                      |                        |                         |                         |
| <b>REVENUES</b>   |                        |                         |                         |
| Sale of land  | 14,940                 | 6,570                   | 21,013                  |
| Investment income   | 28,524                 | 31,658                  | 33,100                  |
| Other   | -                      | 5,545                   | 38,675                  |
| <b>TOTAL REVENUES</b>                                     | <b>43,464</b>          | <b>43,773</b>           | <b>92,788</b>           |
| <b>TRANSFERS FROM (TO) OTHER FUNDS</b>                    |                        |                         |                         |
| Reserves  | -                      | 30,065                  | -                       |
| Operating fund  | 26,379                 | (17,813)                | (43,112)                |
| Capital fund  | (63,555)               | (19,375)                | 41,968                  |
| <b>NET TRANSFERS TO OTHER FUNDS</b>                       | <b>(37,176)</b>        | <b>(7,123)</b>          | <b>(1,144)</b>          |
| <b>NET INCREASE IN RESERVE FUNDS BALANCE FOR THE YEAR</b> | <b>6,288</b>           | <b>36,650</b>           | <b>91,644</b>           |
| <b>RESERVE FUNDS BALANCE – BEGINNING OF YEAR</b>          | <b>571,834</b>         | <b>663,478</b>          | <b>571,834</b>          |
| <b>RESERVE FUNDS BALANCE – END OF YEAR</b>                | <b>578,122</b>         | <b>700,128</b>          | <b>663,478</b>          |
| <b>TOTAL RESERVES AND RESERVE FUNDS</b>                   | <b>855,748</b>         | <b>878,929</b>          | <b>933,163</b>          |

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

**1. Significant Accounting Policies**

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

**Basis of Consolidation**

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures of the operating fund, capital fund, reserves and reserve funds of the City of Toronto (the "City") and, except for government business enterprises which are accounted for by the modified equity basis of accounting, include all organizations that are accountable for the administration of their financial affairs and resources to City Council ("Council") and are controlled by the City.

**Consolidated entities:**

*Agencies, Boards and Commissions*

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>❖ Exhibition Place</li> <li>❖ Heritage Toronto</li> <li>❖ Hummingbird Centre for the Performing Arts</li> <li>❖ North York Performing Arts Centre Corporation</li> <li>❖ St. Lawrence Centre for the Arts</li> <li>❖ Toronto Atmospheric Fund</li> <li>❖ Toronto Board of Health</li> </ul> | <ul style="list-style-type: none"> <li>❖ Toronto Community Housing Corporation</li> <li>❖ Toronto Licensing Commission</li> <li>❖ Toronto Police Services Board</li> <li>❖ Toronto Public Library Board</li> <li>❖ Toronto Transit Commission</li> <li>❖ Toronto Zoo</li> <li>❖ Yonge-Dundas Square</li> </ul> |
|--|--|

*Arenas:*

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>❖ Forest Hill Memorial</li> <li>❖ George Bell</li> <li>❖ Leaside Memorial Community Gardens</li> <li>❖ McCormick Playground</li> </ul> | <ul style="list-style-type: none"> <li>❖ Moss Park</li> <li>❖ North Toronto Memorial</li> <li>❖ Ted Reeve</li> <li>❖ William H. Bolton</li> </ul> |
|---|---|

*Community Centres:*

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>❖ 519 Church Street</li> <li>❖ Applegrove</li> <li>❖ Cecil Street</li> <li>❖ Central Eglinton</li> <li>❖ Community Centre 55</li> </ul> | <ul style="list-style-type: none"> <li>❖ Eastview Neighbourhood</li> <li>❖ Harbourfront</li> <li>❖ Ralph Thornton</li> <li>❖ Scadding Court</li> <li>❖ Swansea Town Hall</li> </ul> |
|--|---|

*Business Improvement Areas:*

- |                       |                             |                              |
|-----------------------|-----------------------------|------------------------------|
| ❖ Bloor Annex         | ❖ Gerrard India Bazaar      | ❖ Parkdale Village           |
| ❖ Bloor by the Park   | ❖ Greektown on the Danforth | ❖ Pape Village               |
| ❖ Bloorcourt Village  | ❖ Harbord Street            | ❖ Queen Broadview Village    |
| ❖ Bloordale Village   | ❖ Hillcrest Village         | ❖ Roncesvalles Village       |
| ❖ Bloor West Village  | ❖ Junction Gardens          | ❖ Rosedale-Summerhill        |
| ❖ Bloor-Yorkville     | ❖ Kennedy Road              | ❖ St. Clair Gardens          |
| ❖ Church-Wellesley    | ❖ Kingsway                  | ❖ St. Clair Avenue West      |
| ❖ Corso Italia        | ❖ Lakeshore Village         | ❖ St. Lawrence Neighbourhood |
| ❖ The Danforth        | ❖ Liberty Village           | ❖ Upper Village (Toronto)    |
| ❖ Dovercourt Village  | ❖ Little Italy              | ❖ Upper Village (York)       |
| ❖ Downtown Yonge      | ❖ Long Branch               | ❖ Village of Islington       |
| ❖ Eglinton Hill       | ❖ Mimico by the Lake        | ❖ Weston                     |
| ❖ Eglinton Way        | ❖ Mimico Village            | ❖ Yonge-Lawrence Village     |
| ❖ Forest Hill Village | ❖ Old Cabbagetown           | ❖ York-Eglinton              |

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

**Government Business Enterprises**

The following entities are accounted for in these consolidated financial statements as government business enterprises using the modified equity basis of accounting. Under the modified equity basis, the accounting principles of government business enterprises are not adjusted to conform to the City's accounting principles and inter-organizational transactions and balances are not eliminated.

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

**Trust Funds**

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

**Basis of Accounting**

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

**Capital Assets**

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

### **Use of Estimates**

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

### **Investments**

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

### **Environmental Provisions**

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

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

The estimated costs to maintain closed solid waste landfill sites are based on estimated future expenditures in current dollars, adjusted for estimated inflation, and are reported as a liability on the Consolidated Statement of Financial Position.

### **Deferred Revenue**

Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenditures are incurred or services performed.

### **Employee Benefits**

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

The costs of termination benefits and compensated absences are recognized when the event that obligates the City occurs; costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis.

The costs of other employee benefits are actuarially determined using the projected benefits method pro rated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance; accrued obligations and related costs of funded benefits are net of plan assets.

Past service costs from plan amendments related to prior period employee services are accounted for in the period of the plan amendment. The effects of a gain or loss from settlements or curtailments are expensed in the period they occur. Net actuarial gains and losses related to compensated absences are amortized over the average remaining service life of the related employee group. Employee future

benefit liabilities are discounted using current interest rates on long-term bonds. The costs of workplace safety and insurance obligations are actuarially determined and are expensed.

### Government Transfers

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

### Reserves and Reserve Funds

Reserves and reserve funds comprise funds set aside for specific purposes by Council and funds which are set aside for specific purposes by legislation, regulation or agreement. For financial reporting purposes, reserve funds set aside by legislation, regulation or agreement are reported as deferred revenue on the Consolidated Statement of Financial Position.

## 2. Investments

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

|                             | 2004             |                            | 2003             |                            |
|-----------------------------|------------------|----------------------------|------------------|----------------------------|
|                             | Cost<br>(\$000)  | Market<br>Value<br>(\$000) | Cost<br>(\$000)  | Market<br>Value<br>(\$000) |
| Federal government bonds    | 433,121          | 451,175                    | 494,777          | 511,662                    |
| Provincial government bonds | 447,872          | 477,448                    | 362,643          | 392,569                    |
| Municipal government bonds  | 391,019          | 419,438                    | 314,269          | 334,452                    |
| Money market instruments    | 654,835          | 657,598                    | 628,260          | 629,972                    |
| Other                       | 445,549          | 447,273                    | 338,006          | 335,731                    |
|                             | <u>2,372,396</u> | <u>2,452,932</u>           | <u>2,137,955</u> | <u>2,204,386</u>           |

The weighted average yield on the cost of the bond investment portfolio during the year was 5.17% (2003 - 5.58%). Maturity dates on investments in the portfolio range from 2005 to 2029. Included in the City's investment portfolio are City of Toronto debentures at coupon rates varying from 4.25% to 8.00% and with a carrying value of \$156,044,000 (2003 - \$108,181,000). Other investments include pooled fixed income and equity funds held by the Toronto Community Housing Corporation as at December 31, 2004 amounting to \$137,257,219 (2003 - \$131,198,526).

Investments are recorded at the lower of cost or market on a portfolio basis.

## 3. Note Receivable – Toronto Hydro Corporation

The note receivable from Toronto Hydro Corporation matures on May 6, 2008 and bears interest at a rate of 6.8% per annum (2003 – 6.8%). The City has the right to call up to \$330,000,000 of this note during any 12-month period.

#### 4. Investments in Government Business Enterprises

Government business enterprises consist of Toronto Hydro Corporation, Toronto Parking Authority, TEDCO and Enwave. The City holds an interest of approximately 43% (2003 - 43%) in Enwave and a 100% interest in the other government business enterprises. Details of the continuity of the book value of these investments are as follows:

|   | <b>2004</b>    | <b>2003</b>       |
|---|----------------|-------------------|
|   | <b>(\$000)</b> | <b>(\$000)</b>    |
|   |                | <b>(RESTATED)</b> |
| Balance - beginning of year, as previously reported   | 942,050        | 818,896           |
| Adjustment to results by Toronto Hydro Corporation for prior years                              | 17,353         | 10,507            |
| Balance beginning of year as restated   | 959,403        | 829,403           |
| Results of operations (Appendix 2)  | 112,215        | 111,072           |
| Dividends received (Appendix 2)   | (49,200)       | (5,000)           |
| Purchase of Enwave shares from other shareholder  | -              | 17,239            |
| Subscription to additional Enwave shares  | 9,281          | 6,689             |
|   | 1,031,699      | 959,403           |
| Subscription to additional Enwave shares, subsequent to<br>October 31 fiscal year end of Enwave | 3,698          | -                 |
| Balance - end of year   | 1,035,397      | 959,403           |

Comparative amounts for 2003 have been restated due to accounting changes adopted by Toronto Hydro Corporation during the year and an adjustment by Toronto Hydro Corporation for a third party metering error. The effect of these changes has been to increase net government business enterprise earnings for 2003 by \$6,846,000 to increase the opening operating fund balance by \$10,507,000 for the year ended December 31, 2003 and to increase investments in government business enterprises as at December 31, 2003, by \$17,353,000.

The Consolidated Statement of Financial Activities for the year ended December 31, 2003 has been restated to change the approach to accounting for additional investments in Enwave and the receipt of dividends from Toronto Hydro. As a result of this change, expenditures recorded in the capital fund and revenues included in the operating fund were reduced by \$23,928,000. In addition, the capital fund balance increased and the operating fund decreased by \$23,928,000..

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



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

|  | <b>2004</b>    | <b>2003</b>    |
|--|----------------|----------------|
|  | <b>(\$000)</b> | <b>(\$000)</b> |
| <b>Received by the City:</b>   |                |                |
| Interest on note receivable from Toronto Hydro Corporation (Note 3)    | 66,656         | 66,656         |
| Share of operating income from Toronto Parking Authority               | 36,266         | 29,256         |
| Interest on loans to TEDCO   | 20             | 31             |
| <b>Purchased by the City:</b>  |                |                |
| Streetlighting electricity and maintenance services from Toronto Hydro | 14,332         | 16,255         |

## 5. Deferred Revenue

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

|                        | <b>2004</b>    | <b>2003</b>    |
|------------------------|----------------|----------------|
|                        | <b>(\$000)</b> | <b>(\$000)</b> |
| Development Charges    | 149,179        | 124,590        |
| Community Services     | 115,546        | 105,887        |
| Parkland Acquisition   | 53,803         | 50,798         |
| Third Party Agreements | 58,970         | 35,485         |
| State of Good Repair   | 24,705         | 24,309         |
| Water / Wastewater     | 99,612         | 18,817         |
| Parking Authority      | 6,794          | 5,722          |
| Planning Act           | 8,101          | 5,020          |
| Donations              | 2,431          | 2,412          |
| Other                  | -              | 9,176          |
| <b>Total</b>           | <b>519,141</b> | <b>382,216</b> |

**6. Landfill Closure and Post-Closure Liabilities**

The Ontario Environmental Protection Act sets out the regulatory requirements for the closure and maintenance of landfill sites. Under this Act, the City is required to provide for closure and post-closure care of solid waste landfill sites. The costs related to these obligations are provided for over the estimated remaining life of active landfill sites based on usage.

The City has approximately 149 inactive landfill sites and retains responsibility for all costs relating to closure and post-closure care. The City closed its last remaining landfill site, Keele Valley, on December 31, 2002.

Closure of the Keele Valley landfill site involves covering the site with topsoil and vegetation, implementing drainage control and installing ground water and landfill gas monitoring wells. Completion of closure activities is expected by the end of 2005. Post-closure care activities for Keele Valley and other inactive sites are expected to occur for a minimum of 40 years and will involve surface and ground water monitoring, maintenance of drainage structures, monitoring leachate and landfill gas, and maintenance of the landfill cover.

The estimated liability for the care of landfill sites is the present value of future cash flows associated with closure and post-closure costs discounted using the City's average long-term borrowing rate of 5.5% (2003 – 6.0%).

The estimated present value of future expenditures for closure and post-closure care as at December 31, 2004 is \$98,232,940 (2003 - \$93,438,108).

In order to help reduce the future impact of these obligations, the City has established a reserve fund for the care of these sites and maintains a trust fund in satisfaction of requirements of the Ministry of the Environment. The balance in the solid waste management perpetual care reserve fund as at December 31, 2004 was \$31,938,000 (2003 - \$33,368,000) (Appendix 1) and the balance in the Keele Valley Site Post-Closure Trust Fund as at December 31, 2004 was \$6,744,000 (2003 - \$6,624,000) (Note 13).

**7. Mortgages Payable**

The mortgages payable are obligations of the Toronto Community Housing Corporation ("TCHC") which has provided a security interest in the housing properties owned by TCHC. These properties have a net book value of \$1,382,537,000 (2003 - \$1,420,834,000) and have not been reflected in the Consolidated Statement of Financial Position.

Interest rates of the mortgages range from 4.4% to 13.3%. Principal repayments relating to the mortgages outstanding as at December 31, 2004 are due as follows:

|            | <b>\$000</b>   |
|------------|----------------|
| 2005       | 26,181         |
| 2006       | 27,665         |
| 2007       | 29,356         |
| 2008       | 31,138         |
| 2009       | 32,924         |
| Thereafter | 845,307        |
|            | <u>992,571</u> |

## 8. Net Long-Term Debt

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

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

|   | <b>2004</b>      | <b>2003</b>      |
|---|------------------|------------------|
|   | <b>(\$000)</b>   | <b>(\$000)</b>   |
| Long-term debt issued by the City at various rates of interest ranging from 4.1% to 8.65% | 2,110,465        | 1,943,017        |
| Loans payable to the Province of Ontario at 2.76%   | 175,331          | 175,331          |
| Loan payable bearing interest at 8.05%  | 1,718            | 2,010            |
| Sinking fund deposits   | (606,822)        | (643,570)        |
|   | <u>1,680,692</u> | <u>1,476,788</u> |

Principal repayments relating to net long-term debt of \$1,680,692,000 outstanding as at December 31, 2004 are due as follows:

|            | <b>\$000</b>     |
|------------|------------------|
| 2005       | 221,362          |
| 2006       | 207,385          |
| 2007       | 190,253          |
| 2008       | 177,095          |
| 2009       | 167,837          |
| Thereafter | <u>716,760</u>   |
|            | <u>1,680,692</u> |

Included in net long-term debt are outstanding debentures of \$1,678,000,000 (2003 - \$1,615,000,000) for which there are sinking fund assets with a carrying value of \$627,680,000 (market value - \$668,187,000). Sinking fund assets are comprised of short-term notes and deposits, government and government-guaranteed bonds and debentures and corporate bonds. Government and government-guaranteed bonds and debentures include City of Toronto debentures with a carrying value of \$163,087,000 (market value - \$171,190,024).

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

|                               | <b>2004</b>      | <b>2003</b>      |
|-------------------------------|------------------|------------------|
|                               | <b>(\$000)</b>   | <b>(\$000)</b>   |
| Property taxes                | 1,603,207        | 1,374,544        |
| Water billings                | 4,782            | 10,935           |
| Toronto District School Board | 72,703           | 91,309           |
|                               | <b>1,680,692</b> | <b>1,476,788</b> |

## 9. Employee Benefit Liabilities

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

|  | <b>2004</b>      | <b>2003</b>      |
|--|------------------|------------------|
|  | <b>(\$000)</b>   | <b>(\$000)</b>   |
| Future payments required for:                    |                  |                  |
| Pension liabilities, other than OMERS            | 103,763          | 87,646           |
| Sick leave benefits                              | 298,884          | 285,845          |
| Workplace Safety and Insurance Board obligations | 281,135          | 266,673          |
| Other employment and post-employment benefits    | 1,434,447        | 1,304,800        |
| Total employee benefit obligation                | 2,118,229        | 1,944,964        |
| Less: Unamortized actuarial loss                 | 140,454          | 153,214          |
| Employee benefit liabilities                     | <b>1,977,775</b> | <b>1,791,750</b> |

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

|                                | <b>2004</b>      | <b>2003</b>      |
|--------------------------------|------------------|------------------|
|                                | <b>(\$000)</b>   | <b>(\$000)</b>   |
| Balance – beginning of year    | 1,791,750        | 1,654,495        |
| Current service cost           | 144,906          | 113,842          |
| Interest cost                  | 112,198          | 107,086          |
| Cost of plan amendments        | 29,144           | 23,318           |
| Amortization of actuarial loss | 20,990           | 12,762           |
| Expected benefits paid         | (121,213)        | (119,753)        |
| Balance – end of year          | <u>1,977,775</u> | <u>1,791,750</u> |

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

|                                | <b>2004</b>    | <b>2003</b>    |
|--------------------------------|----------------|----------------|
|                                | <b>(\$000)</b> | <b>(\$000)</b> |
| Current period benefit cost    | 144,906        | 113,842        |
| Amortization of actuarial loss | 20,990         | 12,762         |
| Interest cost                  | 112,198        | 107,086        |
| Total expenditures             | <u>278,094</u> | <u>233,690</u> |

*Pension Plans*

The City makes contributions to the Ontario Municipal Employees' Retirement System plan ("OMERS"), a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit plan that specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. As result, the City does not recognize any share of the OMERS pension surplus or deficit. Due to past significant surpluses, OMERS declared a temporary contribution holiday for all active employees and participating employers, effective August 1, 1998 through to December 31, 2002. Contributions to the OMERS pension plan for current service recommenced in January 2003 at reduced rates and increased to full contribution rates in January 2004. Employer contributions for current service amounted to \$77,898,504 (2003 - \$20,705,000) and a matching employee contribution for the same amount during 2004.

The amount contributed for past service to OMERS for the year ended December 31, 2004 was \$161,202 (2003 - \$68,000) and is included as an expenditure on the Consolidated Statement of Financial Activities.

The City also sponsors five defined benefit pension plans that provide benefits to employees who were employed prior to the establishment of the OMERS pension plan. The plans cover closed groups of employees hired prior to July 1, 1968 and provide for pensions based on length of service and final average earnings.

The plans provide increases in pensions to retirees and their spouses to the extent that an actuarial surplus is available. As at December 31, 2004, there were 60 (2003 – 75) active members with an average age of 59. There were also 6,319 (2003 - 6,428) pensioners and 2,889 (2003 - 2,859) spousal beneficiaries in receipt of a pension, with an average age of 74. Pension payments and refunds during the year were approximately \$205,355,000 (2003 - \$207,172,000).

Employees contribute a portion (varying amounts ranging from 5% to 8 ½%) of their salary to the pension plans and the City contributes an equal amount. Member contributions cease upon completion of 35 years of service. Since August 1, 1998, a contribution holiday has been in effect for both the City and the members.

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

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

|  | <b>2004</b>    | <b>2003</b>    |
|--|----------------|----------------|
|  | <b>(\$000)</b> | <b>(\$000)</b> |
| Accrued benefit obligation – end of year | 412,829        | 413,677        |
| Pension plan assets - end of year        | 461,714        | 458,858        |
| Net pension assets                       | 48,885         | 45,181         |
| Unamortized actuarial losses             | 81,055         | 85,860         |
| Accrued benefit asset                    | 129,940        | 131,041        |

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

The remaining four plans are in a deficit position. The accrued benefit asset of two of these plans as at December 31 includes the following components:

|  | <b>2004</b>    | <b>2003</b>    |
|--|----------------|----------------|
|  | <b>(\$000)</b> | <b>(\$000)</b> |
| Accrued benefit obligation – end of year | 1,173,879      | 1,175,242      |
| Pension plan assets - end of year        | 1,081,147      | 1,084,969      |
| Net pension liability                    | 92,732         | 90,273         |
| Unamortized actuarial losses             | 269,631        | 290,550        |
| Accrued benefit asset                    | 176,899        | 200,277        |

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

The accrued pension liability of the two remaining pension plans as at December 31 is included in employee benefit liabilities on the Consolidated Statement of Financial Position and includes the following components:

|  | <b>2004</b>    | <b>2003</b>    |
|--|----------------|----------------|
|  | <b>(\$000)</b> | <b>(\$000)</b> |
| Accrued benefit obligation – end of year | 903,909        | 992,770        |
| Pension plan assets - end of year        | 728,279        | 737,684        |
| Net pension liability                    | 175,630        | 255,086        |
| Unamortized actuarial losses             | 71,867         | 167,440        |
| Accrued pension liability                | 103,763        | 87,646         |

Actuarial valuations for funding purposes for each of the five plans are carried out annually using the projected benefit method pro rated on service. The most recent actuarial funding reports were prepared as at December 31, 2003, with the results extrapolated to December 31, 2004. The accrued benefit obligation as at December 31, 2004 is based on actuarial valuations for accounting purposes as at December 31, 2004. The unamortized actuarial losses in the five plans are being amortized on a straight-line basis. As most of the members are no longer active, the actuarial losses are being amortized over a ten to fourteen year period, being the expected average remaining life expectancy of the inactive members.

The actuarial valuations were based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases and employee turnover and mortality. The assumptions used reflect the City's best estimates. The inflation rate is estimated at 3% per annum (2003 – 3% ) and the rate of compensation increase is estimated at 3.5% per annum (2003 – 4.0%) for determining the accrued benefit obligation and benefit cost. The discount rate used to determine the accrued benefit obligation is 5.6% (2003 – 6.0%) and benefit cost is 6% (2003 – 6.25%) per annum.

Pension plan assets are valued at market values. The expected rate of return on plan assets is 7% per annum net of all administrative expenses. The return on the market value of plan assets during the year was 9.9% (2003 - 12%).

Total expenditures (recoveries) related to the two pensions in an accrued pension liability position include the following components:

|   | <b>2004</b>    | <b>2003</b>    |
|---|----------------|----------------|
|   | <b>(\$000)</b> | <b>(\$000)</b> |
| Cost of plan amendments                                 | -              | 1,620          |
| Current period benefit cost                             | 15             | 369            |
| Amortization of actuarial losses                        | 13,267         | 14,640         |
| Interest cost on the average accrued benefit obligation | 57,342         | 60,581         |
| Expected return on average pension plan assets          | (49,227)       | (49,112)       |
| Net expenditures related to pension plans               | 21,397         | 28,098         |

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

*Vested Sick Leave Benefit Liability*

Under the sick leave benefit plan, employees are credited with a maximum of 18 days sick time per annum. Unused sick leave can accumulate and employees may become entitled to a cash payment, capped at one half of unused sick time to a maximum of 130 days when they leave the City's employment. The liability for the accumulated sick leave represents the extent to which sick leave benefits have vested and could be taken in cash by employees on termination. A sick leave reserve fund is established to help reduce the future impact of these obligations. As at December 31, 2004 the balance in the sick leave reserve fund is \$83,018,000 (2003 - \$88,416,000) and is included as part of Employee Benefits reserve fund in Appendix 1. Payments during the year amounted to \$7,510,000 (2003 - \$9,303,000).

*Workplace Safety and Insurance Board Obligations*

The City is a Schedule 2 employer under the Workplace Safety and Insurance Act and, as such, assumes responsibility for financing its workplace safety insurance costs. The accrued obligation represents the actuarial valuation of claims to be insured based on the history of claims with City employees. A Workers' Compensation reserve fund is established to help reduce the future impact of these obligations. As at December 31, 2004 the balance in the Workers' Compensation reserve fund is \$10,780,000 (2003 - \$23,997,000) and is included as part of Employee Benefits reserve fund in Appendix 1. Payments during the year by the City to the Workplace Safety and Insurance Board amounted to \$25,443,000 (2003 - \$24,438,000).

*Other Employment and Post-Employment Benefits*

The City provides health, dental, life insurance and long-term disability benefits to certain employees. The accrued liability represents the actuarial valuation of benefits to be paid based on the history of claims with City employees. An employee benefits reserve fund is established to help reduce the future impact of these obligations. As at December 31, 2004 the balance in the employee benefits reserve fund is \$144,431,000 (2003 - \$152,028,000) Appendix 1. Payments during the year amounted to \$15,740,000 (2003 - \$24,033,000).

Due to the complexities in valuing the plans, actuarial valuations are conducted on a periodic basis. The liabilities reported in these consolidated financial statements are based on the most recent actuarial valuations as at December 31, 2002, with the results extrapolated to December 31, 2004. Many of the estimates and assumptions used may change significantly with the next detailed valuation. The significant actuarial assumptions adopted in measuring the City's accrued benefit obligations and benefit costs for other retirement and post-employment benefits are as follows:

|   | 2004  | 2003  |
|---|-------|-------|
| Discount rate for accrued benefit obligation and benefit costs: |       |       |
| Post employment   | 5.5%  | 5.5%  |
| Post retirement, sick leave and WSIB                            | 6.0%  | 6.0%  |
| Rate of compensation increase                                   | 3%    | 3%    |
| Health care inflation – Hospital, dental care and other medical | 4.5%  | 4.5%  |
| Health care inflation – Drugs                                   | 12.0% | 12.0% |

The health care inflation rate for drugs is assumed to reduce to 5.5% over 10 years.



## 10. Amounts to be Recovered in Future Years

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

|  | 2004<br>(\$000)  | 2003<br>(\$000)  |
|--|------------------|------------------|
| TCHC mortgages (Note 7)                                | 992,571          | 1,017,078        |
| Net long-term debt (Note 8)                            | 1,680,692        | 1,476,788        |
| Employee benefit liabilities (Note 9)                  | 1,977,775        | 1,791,750        |
| Landfill closure and post-closure liabilities (Note 6) | 98,233           | 93,438           |
|  | <u>4,749,271</u> | <u>4,379,054</u> |
| Less amounts recoverable from school boards (Note 8)   | 72,703           | 91,309           |
|  | <u>4,676,568</u> | <u>4,287,745</u> |

## 11. Capital Fund

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

|  | 2004<br>(\$000)  | 2003<br>(\$000)  |
|--|------------------|------------------|
| Capital financing received in advance of expenditures                                | 214,803          | 260,549          |
| Capital expenditures yet to be financed  | (579,623)        | (484,994)        |
| <b>Capital Fund Balance</b> (Schedule 2)   | <u>(364,820)</u> | <u>(224,445)</u> |
| Capital expenditures yet to be financed are to be funded in future years as follows: |                  |                  |
| Long-term liabilities  | 530,294          | 396,962          |
| Developer recoveries and reserves  | 30,964           | 76,591           |
| Other  | 18,365           | 11,441           |
|  | <u>579,623</u>   | <u>484,994</u>   |

Approval has been received for future issuance of \$604,269,000 in long-term liabilities, which includes the \$530,294,000 noted above. The remaining \$73,975,000 in approved long-term debt is for capital expenditures yet to be incurred.

**12. Expenditures by Object**

Expenditures by object comprise the following:

|                              | <b>2004</b>      | <b>2003</b>      |
|------------------------------|------------------|------------------|
|                              | <b>(\$000)</b>   | <b>(\$000)</b>   |
| Salaries, wages and benefits | 3,542,407        | 3,319,439        |
| Materials                    | 2,018,063        | 1,970,613        |
| Contracted services          | 842,376          | 942,775          |
| Interest on long-term debt   | 111,873          | 108,916          |
| Transfer payments            | 330,729          | 153,589          |
| Other                        | 906,088          | 865,174          |
|                              | <b>7,751,536</b> | <b>7,360,506</b> |

**13. Trust Funds**

Trust funds administered by the City amounting to \$47,936,000 (2003 - \$47,095,000) have not been included on the Consolidated Statement of Financial Position nor have their operations been included on the Consolidated Statement of Financial Activities. Trust fund balances as at December 31 are as follows:

|   | <b>2004</b>    | <b>2003</b>    |
|---|----------------|----------------|
|   | <b>(\$000)</b> | <b>(\$000)</b> |
| Toronto Atmospheric Trust Fund            | 24,444         | 24,349         |
| Keele Valley Site Post-Closure (Note 6)   | 6,744          | 6,624          |
| Homes for the Aged – Residents            | 6,375          | 6,292          |
| Development Charges Trust – Railway Lands | 2,479          | 2,424          |
| Library Trusts                            | 1,722          | 1,970          |
| Police Trust Funds                        | 1,001          | 1,025          |
| Community Services Levies                 | 998            | 972            |
| Contract Aftercare                        | 948            | 933            |
| Waterpark Place                           | 891            | 870            |
| Candidates' Municipal Election Surpluses  | 654            | 40             |
| Development Charges Trust – Queen's Quay  | 446            | 436            |
| Ontario Home Renewal Program              | 397            | 413            |
| Heritage and Culture Trusts               | 348            | 341            |
| Lakeshore Pedestrian Bridge               | 204            | 199            |
| Children's Greenhouse – Allan Gardens     | 100            | -              |
| Other trust funds                         | 185            | 207            |
|   | <b>47,936</b>  | <b>47,095</b>  |

**14. Public Liability Insurance**

Exposures on public liability claims are covered by a combination of self-insurance and coverage with insurance carriers.

The insurance reserve fund, as reported on the Consolidated Statement of Financial Position as a part of reserve funds, is available to cover self-insured exposures, including public liability claims. The provision during the year for insurance claims amounted to \$13,078,000 (2003 - \$11,326,000) and is included in the various categories on the Consolidated Statement of Financial Activities.

**15. Budget Data**

Budget data for 2004 included in these consolidated financial statements represents budgets approved by Council except for reserves and reserve funds, which have been modified to reflect funding contributions contained in approved operating and capital budgets.

**16. Contingencies and Commitments**

The City is subject to various litigations and claims arising in the normal course of its operations. The final outcome of the outstanding claims cannot be determined at this time. However, management believes that the ultimate disposition of these matters will not materially exceed the amounts recorded in the accounts.

A class action was commenced against the former Toronto Hydro-Electric Commission and other Ontario municipal electric utilities under the Class Proceedings Act, 1992 seeking \$500,000,000 in restitution for late payment charges collected by them from their customers that were in excess of the interest limit stipulated in section 347 of the *Criminal Code*. This action is at a preliminary stage. Pleadings have closed but examinations for discovery have not been conducted and the classes have not been certified.

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

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

A class action claiming \$500,000,000 in damages, plus interest and costs was served on the Toronto Transit Commission on November 30, 2001. The claim is based on alleged exposure by workers to asbestos during construction work at the Sheppard Subway Station. The claim also names the Ministry of Labour and an environmental consultant company as defendants and alleges various violations of the Occupational Health and Safety Act and its regulations. The action has not proceeded to the stage involving the motion of certification.

Capital commitments outstanding as at December 31, 2004 include the purchase of 233 buses for delivery in 2005 and for which payments amounting to \$58,400,000 are to be made. Subsequent to December 31, 2004, a contract was awarded amounting to \$208,100,000 for the purchase of an additional 330 buses with delivery in 2006 and 2007.

The Ministry of the Environment has issued Certificates of Approval for eleven of the estimated 149 inactive landfill sites. Applications for Certificates of Approval at other inactive sites may be required prior to the commencement of any remediation work. It is not possible to quantify the effect, if any, of this request on these consolidated financial statements beyond those amounts recorded as landfill closure and post-closure liabilities (Note 6).

The City has provided unconditional loan guarantees to certain third parties amounting to \$40,190,000 (2003 - \$39,140,000), primarily related to possible defaults in financial agreements for certain construction projects.

As at December 31, 2004, the City is committed to future minimum annual operating lease payments for premises and equipment as follows:

|            | (\$000)        |
|------------|----------------|
| 2005       | 30,199         |
| 2006       | 17,215         |
| 2007       | 12,825         |
| 2008       | 9,862          |
| 2009       | 7,084          |
| Thereafter | 43,476         |
|            | <u>120,661</u> |

**17. Public Sector Salary Disclosure Act 1996**

The *Public Sector Salary Disclosure Act, 1996* (the "Act") requires the disclosure of the salaries and benefits of employees in the public sector who are paid a salary of \$100,000 or more in a year. The City complies with the Act by providing the information to the Ontario Ministry of Municipal Affairs and Housing for disclosure on the public website.

**18. Comparative Consolidated Financial Statements**

These consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2004 consolidated financial statements.

Included in the reclassified amounts is a restatement for project financing loans provided to TCHC, a consolidated entity. These loans were previously expensed by the City when advanced to TCHC. The effect of this change is to increase the operating fund balance as at December 31, 2003 by \$27,338,000, to decrease accounts payable and accrued liabilities by \$28,338,000 as at December 31, 2003 and to increase 2003 other operating revenues by \$1,000,000.

**Details of reserves and reserve funds**

|                       | <b>2004</b>    | <b>2003</b>    |
|-----------------------|----------------|----------------|
|                       | <b>(\$000)</b> | <b>(\$000)</b> |
| <b>RESERVES</b>       |                |                |
| Vehicle and Equipment | 79,423         | 46,989         |
| Working Capital       | 79,395         | 79,395         |
| Water and Wastewater  | 17,999         | 51,376         |
| Other reserves        | 1,984          | 91,925         |
|                       | <u>178,801</u> | <u>269,685</u> |
| <b>RESERVE FUNDS</b>  |                |                |
| Employee Benefits     | 238,264        | 264,509        |
| Stabilization         | 162,591        | 151,935        |
| Corporate             | 183,626        | 150,586        |
| Community Initiatives | 48,248         | 48,881         |
| State of Good Repair  | 67,399         | 44,764         |
| Other                 | -              | 2,803          |
|                       | <u>700,128</u> | <u>663,478</u> |
|                       | <u>878,929</u> | <u>933,163</u> |

## Notes to Consolidated Financial Statements – Appendix 2

December 31, 2004

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

| Fiscal Year Ended              | <u>Toronto Hydro</u> |                               | <u>Toronto Parking Authority</u> |         | <u>TEDCO</u> |        | <u>Enwave</u> |         | <u>Total</u> |           |
|--------------------------------|----------------------|-------------------------------|----------------------------------|---------|--------------|--------|---------------|---------|--------------|-----------|
|                                | December 31          |                               | December 31                      |         | December 31  |        | October 31    |         |              |           |
|                                | 2004                 | 2003<br>(RESTATED-<br>Note 4) | 2004                             | 2003    | 2004         | 2003   | 2004          | 2003    | 2004         | 2003      |
| <b>Financial Position</b>      |                      |                               |                                  |         |              |        |               |         |              |           |
| <b>Assets</b>                  |                      |                               |                                  |         |              |        |               |         |              |           |
| Current                        | 871,944              | 763,926                       | 15,893                           | 10,615  | 9,461        | 11,928 | 7,256         | 5,348   | 904,554      | 791,817   |
| Capital                        | 1,547,557            | 1,565,298                     | 107,722                          | 107,757 | 31,496       | 30,508 | 220,453       | 185,464 | 1,907,228    | 1,889,027 |
| Other                          | 169,353              | 168,493                       | 27,952                           | 19,048  | 32,770       | 32,998 | 8,617         | 4,672   | 238,692      | 225,211   |
|                                | 2,588,854            | 2,497,717                     | 151,567                          | 137,420 | 73,727       | 75,434 | 236,326       | 195,484 | 3,050,474    | 2,906,055 |
| <b>Liabilities</b>             |                      |                               |                                  |         |              |        |               |         |              |           |
| Current                        | 701,636              | 688,203                       | 23,213                           | 18,538  | 5,573        | 6,228  | 22,749        | 28,106  | 753,171      | 741,075   |
| Long-term                      | 1,065,796            | 1,039,780                     | -                                | -       | 55,845       | 57,578 | 51,762        | 29,876  | 1,173,403    | 1,127,234 |
|                                | 1,767,432            | 1,727,983                     | 23,213                           | 18,538  | 61,418       | 63,806 | 74,511        | 57,982  | 1,926,574    | 1,868,309 |
| <b>Net equity</b>              | 821,422              | 769,734                       | 128,354                          | 118,882 | 12,309       | 11,628 | 161,815       | 137,502 | 1,123,900    | 1,037,746 |
| <b>City's share (Note 4)</b>   | 821,422              | 769,734                       | 128,354                          | 118,882 | 12,309       | 11,628 | 69,614        | 59,159  | 1,031,699    | 959,403   |
| <b>Results of Operations</b>   |                      |                               |                                  |         |              |        |               |         |              |           |
| Revenues                       | 2,241,799            | 2,495,016                     | 97,856                           | 88,766  | 8,678        | 8,446  | 51,820        | 52,484  | 2,400,153    | 2,644,712 |
| Expenses                       | 2,140,911            | 2,392,589                     | 88,384                           | 78,965  | 7,997        | 9,296  | 49,090        | 49,779  | 2,286,382    | 2,532,099 |
| <b>Net income (loss)</b>       | 100,888              | 102,427                       | 9,472                            | 9,801   | 681          | (850)  | 2,730         | 2,705   | 113,771      | 112,613   |
| <b>City's share (Note 4)</b>   | 100,888              | 102,427                       | 9,472                            | 9,801   | 681          | (850)  | 1,174         | (306)   | 112,215      | 111,072   |
| <b>Dividends paid (Note 4)</b> | 49,200               | 5,000                         | -                                | -       | -            | -      | -             | -       | 49,200       | 5,000     |