

City of Toronto

2003

Financial Annual Report



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## A MESSAGE FROM TORONTO MAYOR DAVID MILLER



The City of Toronto remains fiscally strong, although we continue to face funding challenges. We are seeking out creative financial solutions that will allow us to prevent the deterioration of City services and operations, while we continue to build for Toronto's future.

We are working with the other orders of government to establish new growth-based sources of revenue and new legislative powers for the City of Toronto. Also, through public meetings known collectively as Listening to Toronto, we are hearing from people all over the city about their priorities. These two things together ensure that we don't just have a healthy bottom line, we have a healthy city.

I will continue to work with Council to ensure that every tax dollar is well spent, and that Toronto has the tools it needs to succeed.

Mayor David Miller  
City of Toronto

## PROFILE TORONTO

Toronto is positioned as a leading economic engine and the corporate capital of Canada. Located in the core of the golden horseshoe, the City of Toronto is situated on the northwest shore of Lake Ontario. As Canada's largest city, Toronto is the center of the Greater Toronto Area (GTA) and continues to support the growth of culture, entertainment and finance in the nation.

Toronto holds more national and international top-ranked companies than any other city in Canada, with more than 80,000 businesses, calling Toronto home. With these businesses, Toronto generates more than \$98 billion of Canada's Gross Domestic Product. Beyond that, the City contributes nine billion dollars more in revenues to other orders of government than is received by its residents and businesses each year.

The Toronto region economy is one of the most diverse economies in North America, characterized by highly specialized knowledge-based jobs. The main drivers in Toronto's economy are financial/business services and manufacturing.

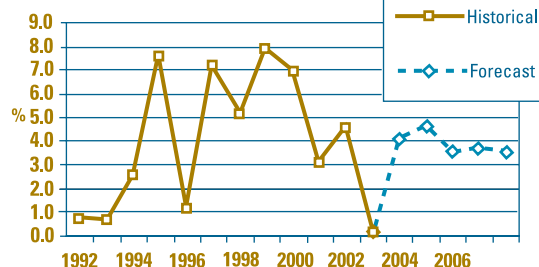
Manufacturing represents 20% of regional output. This is followed by financial/business services (19%), wholesale and retail trade (13%), information technology (6%), health care (4%), education (3%), hotel and food (2%), and others making up the balance.

Toronto's economy had a remarkable expansion for eight years following the mid 1990s. In 2003, however, economic growth in the Toronto region slowed significantly. In fact, the Toronto area briefly dipped into recession (defined as two consecutive quarters of negative growth) in the second and third quarter of 2003. This is largely explained by the following events that occurred in the year:

- the outbreak of Severe Acute Respiratory Syndrome (SARS) in the Toronto region
- the power outage that affected Southern Ontario and the Northeastern states
- weaker than expected economic recovery in the United States
- a build-up of inventories in early 2003, reducing output subsequently
- the rapid appreciation of the Canadian dollar

In Toronto, the unemployment rate for City residents has been volatile over the last 18 months, and reached the highest level since 1998 (annual averages: 8.6% in 2003, 6.3% in 2000, 8.2% in 1998). This has a direct

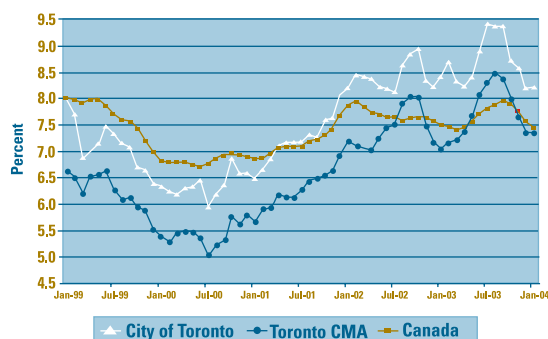
### GDP Growth Rate Toronto CMA



GDP at Basic Prices, 1997 \$Million

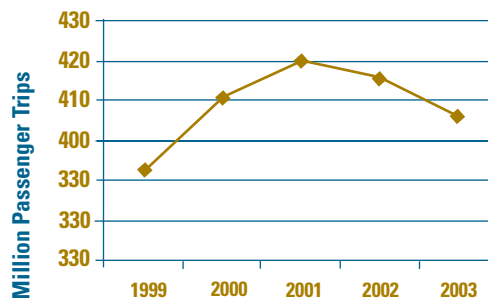
Source: City of Toronto Economic Development Division/Conference Board of Canada

### Unemployment Rate



Note: Data are seasonally Adjusted, Three Month Moving Averages  
Source: City of Toronto Economic Development Division

### TTC Annual Ridership



Source: Toronto Transit Commission



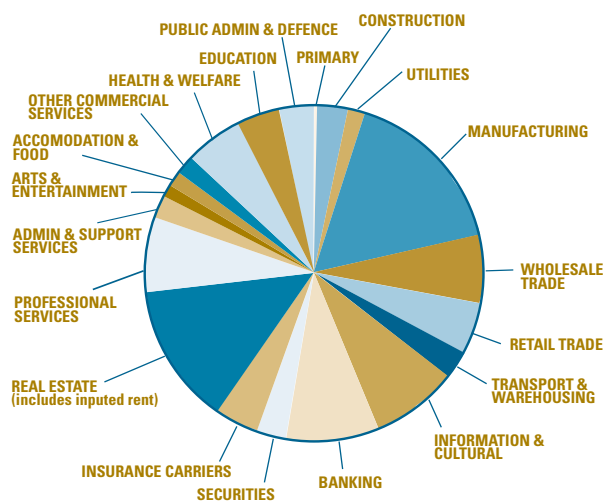
impact on certain City services such as transit ridership. While the downtown office vacancy rate increased to the highest level since the 1998 amalgamation (11.1%), it is still lower than the GTA average (11.3%).

Interest rates in Canada and the U.S. have dropped to the lowest level in more than 40 years. Stimulated by low mortgage rates, housing starts in the City have increased from 5,000 per year in 1996 to almost 15,000 in 2003, and are capturing an increasing share of the regional housing starts.

Within the larger greater Toronto area, the economic growth of the City has been lagging behind the rest of the region, particularly in the last three years when employment in the City has declined. Despite the small setbacks in 2003, the economic growth of the Toronto Census Metropolitan Area (CMA) is forecasted to continue to lead the country's other major metropolitan areas.

The Conference Board of Canada projects that the Toronto CMA's economic growth over the next five years will average 3.6% annually, second only to Calgary (projected at 3.8%). This growth rate is much closer to the long-term sustainable growth rate for the City's economy.

**CITY OF TORONTO  
2003 TOTAL ECONOMIC OUTPUT**



## FACTS

### City Government

- \$7.8 billion capital and operating budget
- 45 members of Council (including the Mayor)
- 45,000 employees (including agencies, boards and commissions such as TTC, police services)

### Population and Location

- 2.5 million population
- 632 square kilometres
- one-third of Canada's population lives within a one-day drive of Toronto
- Half of the United States population lives within a one-day drive of Toronto

### Economy

- The engine of the Canadian economy, generating \$98 billion to GDP in 2003
- Expected to lead the Canadian economic growth in next two years
- North America's second-largest stock exchange
- Half of Canadian companies on Fortune's Global 500 are located in Toronto
- One of the most advanced telecommunications centres in North America
- Toronto is located in the largest flat rate calling area in the world, and has the most fibre optic cable of any city in North America
- Home to 90 per cent of Canada's foreign banks, top law firms and advertising agencies
- Home to 80 percent of Canada's top public accountants and high-tech companies

## TORONTO CITY COUNCIL 2003



MAYOR DAVID MILLER



Ward 1  
Suzan Hall



Ward 2  
Rob Ford



Ward 3  
Doug Holyday



Ward 4  
Gloria Lindsay Luby



Ward 5  
Peter Milczyn



Ward 6  
Mark Grimes



Ward 7  
Giorgio Mammoliti



Ward 8  
Peter Li Preti



Ward 9  
Maria Augimeri



Ward 10  
Michael Feldman



Ward 11  
Frances Nunziata



Ward 12  
Frank Di Giorgio



Ward 13  
Bill Saunderson



Ward 14  
Sylvia Watson



Ward 15  
Howard Moscoe



Ward 16  
Karen Stintz



Ward 17  
Cesar Palacio



Ward 18  
Adam Giambrone



Ward 19  
Joe Pantalone



Ward 20  
Olivia Chow



Ward 21  
Joe Mihevc



Ward 22  
Michael Walker



Ward 23  
John Filion



Ward 24  
David Shiner



Ward 25  
Clifford Jenkins



Ward 26  
Jane Pitfield



Ward 27  
Kyle Rae



Ward 28  
Pam McConnell



Ward 29  
Case Ootes



Ward 30  
Paula Fletcher



Ward 31  
Janet Davis



Ward 32  
Sandra Bussin



Ward 33  
Shelley Carroll



Ward 34  
Denzil Minnan-Wong



Ward 35  
Gerry Altobello



Ward 36  
Brian Ashton



Ward 37  
Michael Thompson



Ward 38  
Glenn De Baeremaeker



Ward 39  
Mike Del Grande



Ward 40  
Norman Kelly



Ward 41  
Bas Balkissoon



Ward 42  
Raymond Cho

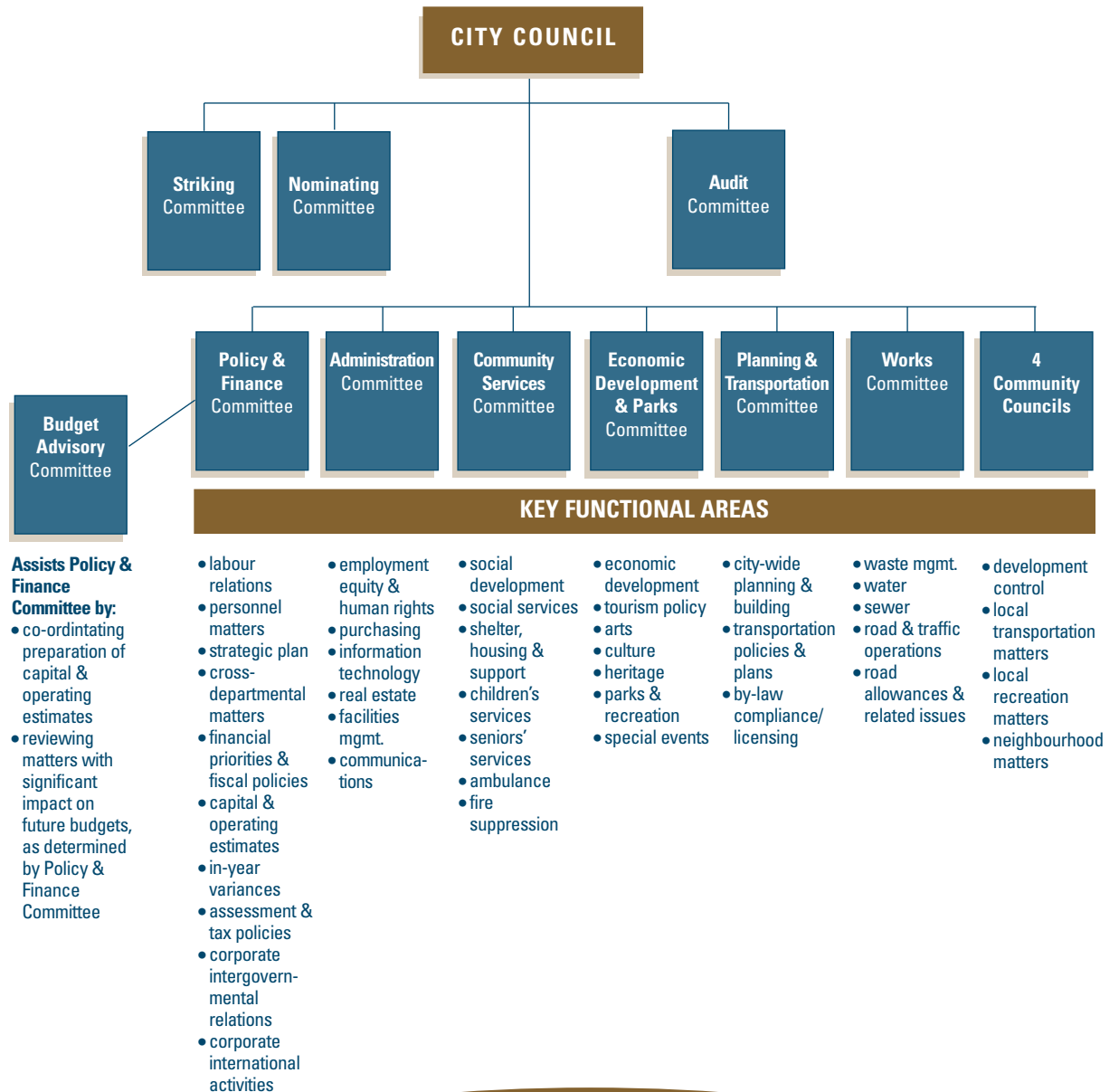


Ward 43  
David Soknacki



Ward 44  
Gay Cowbourne

## COUNCIL AND COMMITTEE STRUCTURE



Note: With the exception of the Board of Health, which reports directly to Council, Special Purpose Bodies report through Policy & Finance Committee for budget purposes and through the standing committee with responsibility for the relevant policy field for all other matters.



## A MESSAGE FROM THE CHIEF ADMINISTRATIVE OFFICER



I am pleased to present the City of Toronto 2003 Financial Annual Report. This Report for 2003 demonstrates the City's commitment to the highest standards of performance measurement, accountability, transparency and service delivery.

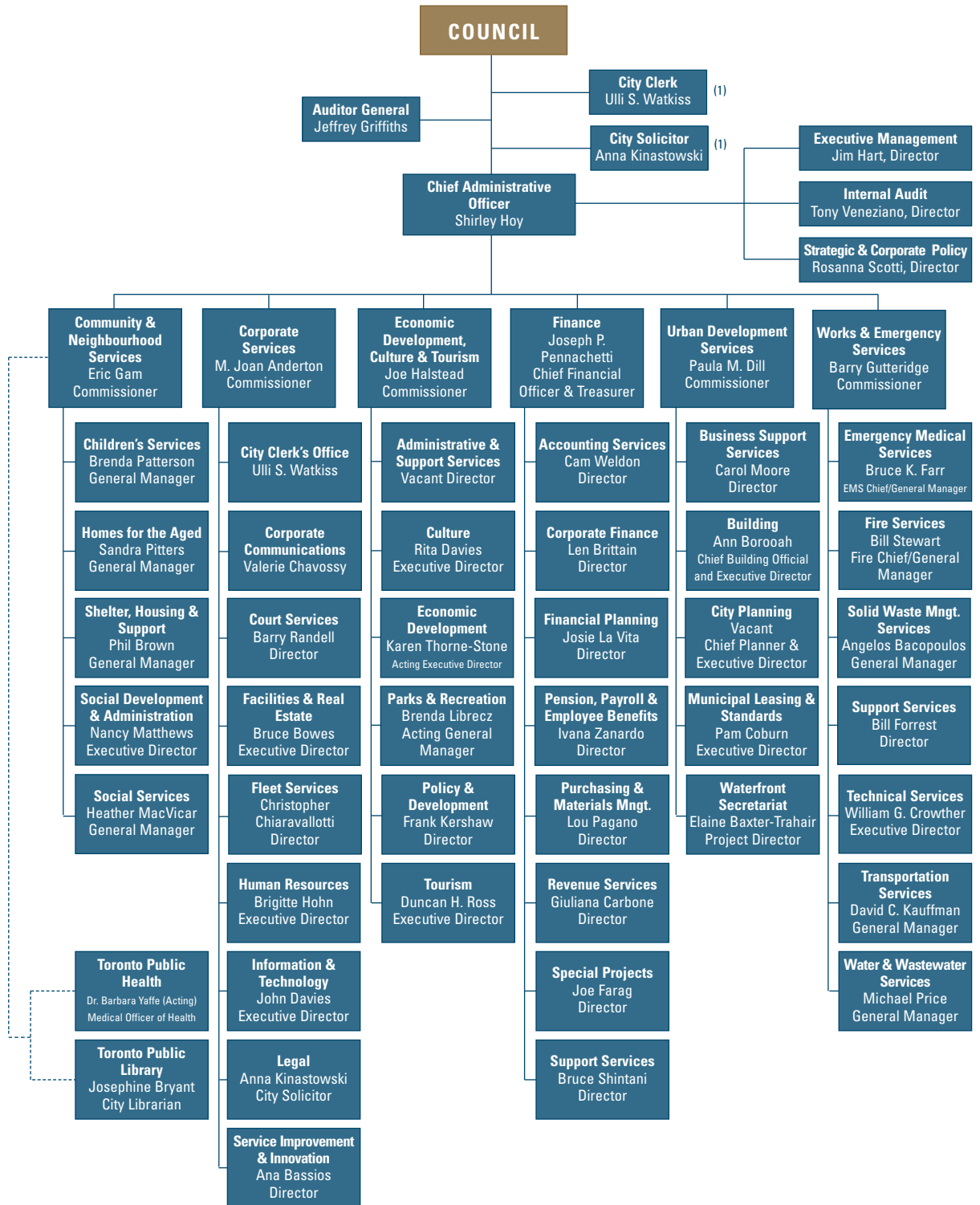
Over the past year we have implemented more rigorous financial controls to achieve greater confidence and credibility in the City's administrative processes. Council implemented the position of the Auditor General, reporting directly to City Council through the Audit Committee, and the Internal Audit Division within the Chief Administrator's Office.

Staff has implemented a Corporate Accountability Framework that will result in an environment where accountability and responsibility are paramount in our actions. Corporate-wide standards have been developed to ensure fairness, equity, transparency and accountability in the City's administrative processes.

In our budget preparations, we will continue to highlight continuous improvement initiatives, outline service delivery levels and the associated costs, and provide performance measures for the many programs delivered by the City. Multi-year service plans will continue to focus on innovation, effectiveness and efficiency in planning and providing service to the public.

Shirley Hoy  
Chief Administrative Officer

## ADMINISTRATIVE STRUCTURE



## A MESSAGE FROM THE CHIEF FINANCIAL OFFICER AND TREASURER



With the close of 2003, the City of Toronto has registered a positive financial performance for the sixth year since amalgamation, despite numerous challenges. Unique 2003 events, such as the Severe Acute Respiratory Syndrome (SARS) outbreak and the August power blackout posed a challenge which resulted in lower program revenues, but they were offset by continuous improvement initiatives and a discretionary spending freeze.

In September 2002, Moody's Investors Service upgraded the City's credit rating for long-term debt from Aa2 to Aa1. All three credit rating agencies confirmed their ratings in 2003 and rank Toronto as superior to many large urban centres in the rest of Canada and the world.

These ratings acknowledge the City's financial strength, including a strong and diversified economy, good fiscal management, strong financial controls, modest debt levels, and the re-emergence of the provincial government as a partner in the funding for transit infrastructure.

### 2003 financial highlights include:

- Cash and investments increased by \$281 million to a total of \$2.222 billion.
- The City's investment in its government business enterprises increased by \$123 million to a total of \$942 million.
- Toronto Community Housing Corporation's mortgage debt declined by \$18.8 million.
- Reserve and reserve fund balances increased by \$42 million to \$933 million.

### Other financial results relating to the City's liabilities include:

- The City collected revenues of \$7.247 billion and spent \$7.384 billion for a net consolidated expenditure of \$138 million before long-term financing. As a result, the City's net financial liabilities increased from \$1.5 billion to \$1.64 billion.
- Interest bearing net long-term debt to third parties increased by \$134 million to stand at \$1.477 billion at the end of the year.
- The employee benefit liability increased by \$137 million to \$1.792 billion.

Although the City's financial position is strong, these results reflect a growing trend that the City is less and less able to meet its rising program costs from its primary source of revenue: property taxation.

In 2003 the City began to develop a Long-term Fiscal Plan, which is to be used as a blueprint for future financial planning and discussions with funding partners. A New Deal with other orders of government must provide the City with the appropriate and sustainable funding tools to meet the rising costs of programs.

In summary, the City of Toronto Finance Department will continue to implement service efficiencies and best practices, together with improved financial controls and accountability, and prudent financial planning, to better serve all Toronto taxpayers.

## TREASURER'S REPORT

On an annual basis, as required by the Municipal Act, the City prepares and publishes an annual financial statement that consolidates all of its operations. The Consolidated Financial Statements show the state of the City's finances at the end of each fiscal year.

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). To ensure that the statements are in compliance, they are subjected to external audit by an independent auditor.

### The Consolidated Financial Statements encompass the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Provides a summary of the City's financial assets and liabilities
Consolidated Statement of Financial Activities	Provides a summary of funds raised by the City and the use of such funds in the year. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.
Consolidated Statement of Cash Flow	Summarizes how the City's cash and short-term investments changed during the year by highlighting the City's sources and uses of cash.
Analysis of Current Operations	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.
Analysis of Capital Operations	Provides a summary of 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.
Analysis of Reserves and Reserve Funds	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 (ABCs) and government business enterprises that the City effectively controls. There are 75 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 understanding of the financial statements, schedules have been prepared for current operations, capital operations and reserves and reserve funds.

### Consolidated Statement of Financial Position

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 liability position and represents the net amount that must be financed in future budgets.

The City's net liabilities are detailed 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:



**Operating and Capital 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, Toronto Economic Development Corporation (TEDCO) and Enwave. The fund includes the net financial interest in the City's agencies, boards and commissions (ABCs) of which the Toronto Transit Commission (TTC) is the most prominent. The smallest portion of the fund represents the previous year's City surplus.

**Capital Fund**

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 2003, it indicates that the financing (such as a debt issuance) for these projects has yet to occur.

**Reserves and Reserve Funds**

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 deferred revenues that are funds that the City has received in advance for specific purposes that will 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. A breakdown of the City's deferred revenues can be found in Note 5 to the Financial Statements.

**Consolidated Statement of Financial Activities**

The Consolidated Statement of Financial Activities is often viewed as 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, they are not based upon "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 are 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, reserves 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.

## 2003 HIGHLIGHTS

The City collected revenues of \$7.247 billion and spent \$7.384 billion for a net consolidated expenditure of \$138 million before long-term financing. As a result, the City's net financial liabilities increased by \$138 million from \$1.5 billion to \$1.64 billion.

- The level of unfinanced capital expenditure was reduced by \$261 million.
- Cash and investments increased by \$281 million to a total of \$2.222 billion.
- The City's investment in its government business enterprises increased by \$123 million to total \$942 million.
- Interest bearing net long-term debt to third parties increased by \$134 million to stand at \$1.477 billion at the end of the year.
- TCHC's mortgage debt declined by \$18.8 million to a total of \$1.017 billion at year's end.
- Employee benefit liabilities increased \$137 million to \$1.792 billion.

## ANALYSIS

### Current Operations – Budget to Actual Comparison

The City was able to generate net revenues that were in excess of budget despite the impacts of the SARS outbreak and the Province-wide electricity blackout in August 2003.

Net Revenues	2003 (in thousands of dollars)		Difference
	Budget	Actual	
Property tax revenues	3,007,261	2,983,563	(23,698)
User charges	1,647,001	1,619,057	(27,944)
Government transfers	1,613,853	1,564,621	(49,232)
Other revenues	453,621	597,840	144,219
	6,721,736	6,765,081	43,345
Expenditures	6,400,504	6,407,681	(7,177)
Net revenues before Long-term financing	321,232	357,400	36,168

**Property taxes** were lower than expected primarily because of a shortfall in payments-in-lieu-of-taxes (PILs) from other orders of government. SARS and the August 2003 blackout had negative impacts on the City's user charges particularly transit fares and recreational fees. Government transfers were under budget due to reduced spending in cost shared social assistance and child care programs.

**Other revenues** were in excess of budget due to stronger than expected investment earnings (as a result of a larger investment base and a slightly higher rate of return) and because earnings from the City's government business enterprises are not reflected in the budget figures. Note 2 of the Financial Statements provides more information on the City's investments and results. Note 4 and Appendix 2 to the Financial Statements provide more detail on the City's government business enterprise results.

Expenditures	2003 (in thousands of dollars)		
	Budget	Actual	Difference
General government	436,593	478,387	(41,794)
Protection to persons and property	1,041,627	1,149,021	(107,394)
Transportation	1,319,002	1,322,586	(3,584)
Environmental services	527,783	537,799	(10,016)
Health services	264,195	286,938	(22,743)
Social and family services	1,572,963	1,451,508	121,455
Social housing	700,467	656,785	43,682
Recreational and cultural services	504,004	491,526	12,478
Planning and development	33,870	33,131	739
Total	6,400,504	6,407,681	(7,177)

**Employee benefits** are budgeted for by the City on a cash basis. As a result, the 2003 budget does not include \$137 million of employee benefit costs that have been incurred but are payable in future years whereas the actual expenditure figures include these costs. In addition, there is a further \$63 million in WSIB claims, retiree benefits, sick leave pay-outs and employee separation costs that have been allocated to the actual cost of programs for which there is no corresponding program expenditure budget. These costs were largely incurred prior to amalgamation, and are 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, Clerk's, Human Resources, Corporate Communications, Information & Technology, Legal, consolidated grants, computer leases, miscellaneous non-program costs and the allowance for property tax appeals. The departmental expenditures were largely under budget due to the spending freeze imposed in the last four months of 2003. The allowance for property tax appeals was under budget by \$19.3 million as the number of outstanding assessment appeals has been reduced.

Self-insured general insurance claims which are also included in general government amounted to \$33 million. Unlike the employee benefits mentioned above, these costs have not been allocated to the programs. However, like the 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** expenditures include the cost of Police, Fire, Building Services, Conservation Authority levies and the Provincial Offences Act (POA) Courts. Actual costs were higher than budget largely due to employee benefit liability charges to Police (resulting from the recent actuarial review) and wage settlements to Fire.

**Environmental services** expenditures include the cost of the Solid Waste program which increased due to higher landfill costs (Michigan) and the waste diversion program necessitated by the closing of the Keele Valley Landfill site in 2002.

**Health Services** combines Emergency Medical Services and the Toronto Public Health Service. Extra costs were incurred in this program to respond to SARS.

**Social and family services** expenditures were under budget due to less demand on social assistance, shelter and support beds 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, Hummingbird Centre).

## Comparison to the prior year

Net revenues	<i>(in thousands of dollars)</i>		
	2003 Actual	2002 Actual	Difference
Property tax revenues	2,983,563	2,968,475	15,088
User charges	1,619,057	1,625,970	(6,913)
Government transfers	1,564,621	1,446,026	118,595
Other revenues	597,840	561,531	36,309
	6,765,081	6,602,002	163,079
Expenditures	6,407,681	6,114,130	293,551
Net revenues before long-term financing & transfers	357,400	487,872	(130,472)

Property tax revenue increases from assessment growth and a 3% tax rate increase on residential properties were offset in part by reduced payment-in-lieu of taxes revenue from other orders of governments. Revenue from user fees in transit and recreational facilities declined as a result of SARS and the blackout. Revenue from government transfers increased in 2003 over 2002 due to several factors, including: increases in cost-shared social and health services spending; a special one-time grant from the province; transfers for exceeding Ontario Works placement target and SARS related expenditures.

Expenditures	<i>(in thousands of dollars)</i>		
	2003 Actual	2002 Actual	Difference
General government	478,387	454,758	23,629
Protection to persons and property	1,149,021	1,068,385	80,636
Transportation	1,322,586	1,234,538	88,048
Environmental services	537,799	491,041	46,758
Health services	286,938	256,202	30,736
Social and family services	1,451,508	1,406,782	44,726
Social housing	656,785	676,180	(19,395)
Recreational and cultural services	491,526	492,788	(1,262)
Planning and development	33,131	33,456	(325)
Total	6,407,681	6,114,130	293,551

Other revenues increased primarily because of improved government business enterprise earnings and increases in investment income.

Overall costs increased by 4.8% over 2002. The increase is generally attributable to wage increases and inflation as level of service delivery was essentially unchanged. Part of the increase in environmental services is related to the closure of the Keele Valley Landfill Site resulting in higher waste transportation and diversion costs. In transportation, the TTC hired additional drivers and experienced a full year's operating cost on the new Sheppard subway line that opened during 2002. In addition, the severe winter conditions in the first quarter of 2003 resulted in higher than expected winter control costs. Social housing costs decreased because of improved operating results at TCHC.



## Capital Fund Budget to Actual Comparison

Capital	<i>(in thousands of dollars)</i>		
	2003 Budget	2003 Actual	2002 Actual
Expenditures	1,423,123	976,753	967,064
Revenues	668,498	388,918	380,832
Long - term debt and mortgages	439,574	300,000	152,078
Operating fund transfers	165,015	515,732	199,654
Net reserve/reserve fund transfers	148,478	38,701	(17,927)
Landfill obligations		(5,643)	29,806
Total revenue & financing	1,421,565	1,237,708	744,443
Net increase (decrease) in Fund balances	1,558	(260,955)	222,621

Capital expenditure levels were comparable to the previous year but continue to be well under budget.

The large increase in operating fund transfers is due to consolidation entries made to properly recognize the ABCs' self-funded share of their capital expenditures. The individual ABC financial statements are prepared on a commercial basis of accounting and must be converted to the City's government based accounting under PSAB rules. Upon consolidation in previous years, the ABCs' net investment in capital assets were accounted for in the Capital Fund as unfinanced capital projects.

Correspondingly, the ABCs' internal financing for these assets remained in the Operating Fund and no transfers between the two funds were made. This overstates both the Operating Fund and the unfinanced portion of the Capital Fund, but as they offset, the municipal position is unaffected. The transfers made in 2003 move the ABC funds from the Operating Fund to finance their balances in the Capital Fund. This ensures the individual fund balances are properly stated.

## Current Accounts

Note 2 of the Financial Statements provides details about the City's investments and their yields. Note 3 provides more information on 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 at year end. These not only include property taxes, but also include 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>	
	2003	2002
Current year	168.9	155.5
Prior year	36.4	40.4
Previous years	35.7	32.3
Interest/penalty	29.6	27.9
Less: allowance for doubtful accounts	(23.6)	(30.7)
Net receivables	247.0	225.4

**Accounts Payable**

A comparison of accounts payable and accrued liabilities at December 31, 2003 with the previous year is shown below:

	<i>(in millions of dollars)</i>	
	2003	2002
Local Board trade payables	140.5	213.6
City trade payables & accruals	894.1	838.3
Payable to school board	174.2	221.3
Provision for assessment appeals	244.4	239.3
Credit balances on property tax accounts	61.0	104.0
Payroll liabilities	62.7	111.9
Total	1,576.9	1,728.4

**Accounts Receivable**

A comparison of accounts receivable and accrued amounts owed to the City at December 31, 2003 with the previous year is shown below:

	<i>(in thousands of dollars)</i>	
	2003	2002
Government of Canada	14,135	15,667
Government of Ontario	1,188	40,673
Other municipal governments	1,020	1,491
School board	8,824	289,018
Water fees	100,677	106,720
Other	389,182	379,257
Total	515,026	832,826

The large school board receivable in 2002 related to capital advances paid by the City to the School Board in 2002 and prior years. In 2003, these funds were repaid when the School Board obtained new financing from the new Ontario Financing Authority.

## Significant Trends

Significant trend information is provided below for selected key financial indicators over the last four years. Normally, a five-year trend is provided, however the 1999 results have not been included because of a number of significant one-time retroactive adjustments that were made in 2000 to account for the incorporation of Toronto Hydro and the consolidation of the TCHC. In addition, the employee benefit liability was not recognized until 2000. These extraordinary entries and additional disclosures distort revenue and expenditure comparisons for 2000 and 1999. Future reports will include five-year trends.

### Financial Activities

#### Capital and Operating

		<i>(in thousands of dollars)</i>			
Consolidated Net Expenditures	Avg. Annual Increase	2003	2002	2001	2000
Revenues	4.53%	7,246,787	7,084,372	6,745,486	6,345,333
Expenditures	4.00%	7,384,434	7,081,194	6,845,850	6,563,672
Net (expenditures) revenues	A	(137,647)	3,178	(100,364)	(218,339)

The net expenditure level has averaged approximately \$113 million per year. This amount is largely attributable to the employee benefit liability that the City intends to fund from future revenues. The remainder is due to capital expenditures that were funded by new long-term debt which has been deferred since 2000 to 2003/04. Financing over this time period is displayed below.

		<i>(in thousands of dollars)</i>			
Financing		2003	2002	2001	2000
Net new debentures and mortgages net of repayment		138,826	3,670	72,692	37,814
Increase in unfunded liabilities		131,612	135,182	170,633	87,791
Increase (decrease) in inventories and prepaid expenses		18,483	(6,454)	(14,048)	8,535
Total financing and inventory change	B	288,921	132,398	229,277	134,140
Increase (decrease) in Fund balances	(A+B)	151,274	135,576	128,913	(84,199)

The table below demonstrates that property taxes have been 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 properties (which is taxed at a much lower rate) and by current value property tax appeals. In addition, the City has been prohibited by provincial legislation from extending tax rate increases to the commercial, industrial and multi-residential assessment base which represents 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 the City's expenditures.

Consolidated Revenues	Avg. Annual Increase	<i>(in thousands of dollars)</i>			
		2003	2002	2001	2000
Property taxes	2.20 %	2,983,563	2,968,475	2,970,485	2,795,450
User charges	4.58 %	1,619,057	1,625,970	1,525,665	1,415,721
Senior government transfers	7.27 %	1,653,141	1,576,589	1,403,198	1,339,393
Other	7.64 %	991,026	913,338	846,138	794,769
Total	4.53 %	7,246,787	7,084,372	6,745,486	6,345,333

#### Financial Position

Net Liabilities	<i>(in thousands of dollars)</i>			
	2003	2002	2001	2000
Liabilities	6,643,754	6,431,411	6,236,701	5,603,089
Financial Assets & Inventory	5,145,836	5,053,657	4,861,223	4,342,023
Net Liabilities	1,497,918	1,378,754	1,375,478	1,261,066



The City's net liability has increased by an average annual rate of 5.9 % over the last four years. However, most of the increase is not attributable to interest bearing long-term debt to third parties but to employee benefit liabilities, as illustrated below.

Net Long-Term Debt	Avg. Annual Increase	<i>(in thousands of dollars)</i>			
		2003	2002	2001	2000
Third Party Debt:					
Debentures*	6.10 %	1,301,457	1,158,827	1,171,388	1,089,201
Provincial loan	(4.30 %)	175,331	183,750	183,750	200,000
TCHC Mortgages	(1.24 %)	1,017,078	1,035,843	1,041,603	1,055,800
	2.07 %	2,493,866	2,378,420	2,396,741	2,345,001
Employee Benefit Liabilities	9.18 %	1,791,750	1,654,495	1,549,119	1,376,549
Total	4.82 %	4,285,616	4,032,915	3,945,860	3,721,550

\* Net after funds held in City's sinking funds

More information on the TCHC mortgages can be found in Note 7 to 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.

Reserves and Reserve Funds	<i>(in thousands of dollars)</i>			
	2003	2002	2001	2000
Reserves	269,685	319,558	235,316	238,906
Reserve Funds	663,478	571,834	551,986	442,118
Total	933,163	891,392	787,302	681,024

Approximately 70% of the City's reserves and reserve funds represent "stabilization" reserves that are used to smooth expenditure and revenue variances from one year to the next. The remaining reserves and reserve funds are "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.

**SUMMARY:**

The financial results for 2003 demonstrate clearly the need for a new financial deal with the provincial and federal governments. The City has been unable to meet its rising program costs from its main source of revenue: property taxes. Property tax revenue growth has been limited by marginal assessment growth, assessment appeals and a freeze on commercial, industrial and multi-residential tax rates. As a result, the City has relied more heavily on user fees and other sources of revenue. However, further increases in these alternate sources of revenue are now reaching their limit.

Although the City's net financial liability increased largely due to an increase in its unfunded employee benefit liability in 2003, there is a real risk that the City's financial condition will worsen if the City has to rely on more debt to finance its capital program. In the 2004 budget, as a one-time measure, the City diverted its Toronto Hydro income from a source of capital financing to an operating budget revenue which is not sustainable in the future.

Increasing cost and consumer demand pressures are being placed on the City's programs that cannot be offset by the City's own revenue generating capacity. Thus, the City will have to face significant program service adjustments unless a new financial deal from the other orders of government is forthcoming.

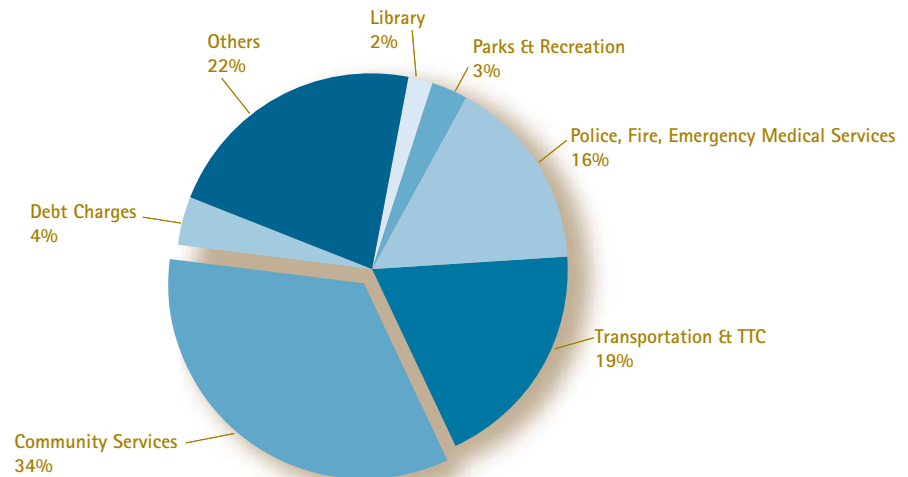
## FINANCIAL CONDITION

### 2003 BUDGET OVERVIEW

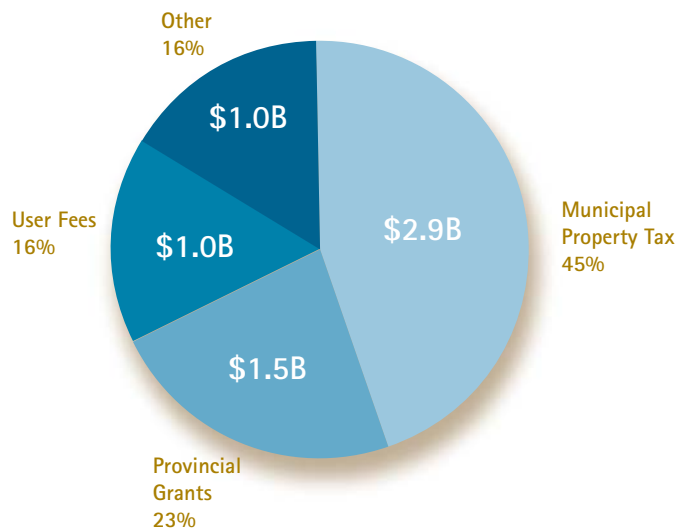
#### CITY OF TORONTO 2003 – WHERE THE MONEY GOES . . . AND COMES FROM

*(Gross Expenditures) - \$6.4 Billion Tax-Supported Operating Budget:*

#### Expenditures by Major Program (Gross Expenditures \$6.4 Billion)



#### Revenues by Major Source (\$6.4 Billion)



## Budget Components (Property Taxes \$2.90 Billion)

### Special Purpose Bodies 35%

- Toronto Public Library
- Exhibition Place
- Theatres
- Toronto Zoo
- Arena Boards of Management
- Toronto & Region Conservation Authority
- Association of Community Centers
- Toronto Transit Commission
- Toronto Police Service & Board

### Provincially Mandated 25%

- Children's Services
- Homes for the Aged
- Shelter, Housing & Support
- Social Development & Admin
- Social Services
- Court Services
- Emergency & Medical Services
- Toronto Public Health

### Directly Controlled 29%

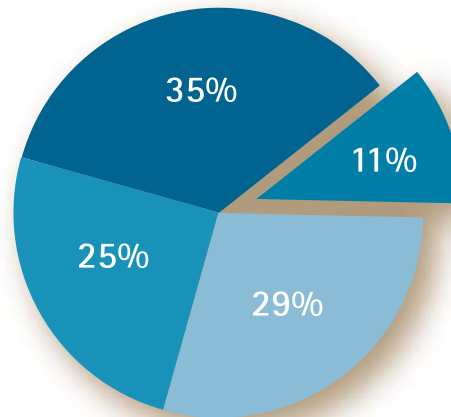
- Emergency Preparedness Management
- Culture
- Customer & Business Support

- Urban Development Services
- Economic Development
- Parks & Recreation
- Tourism

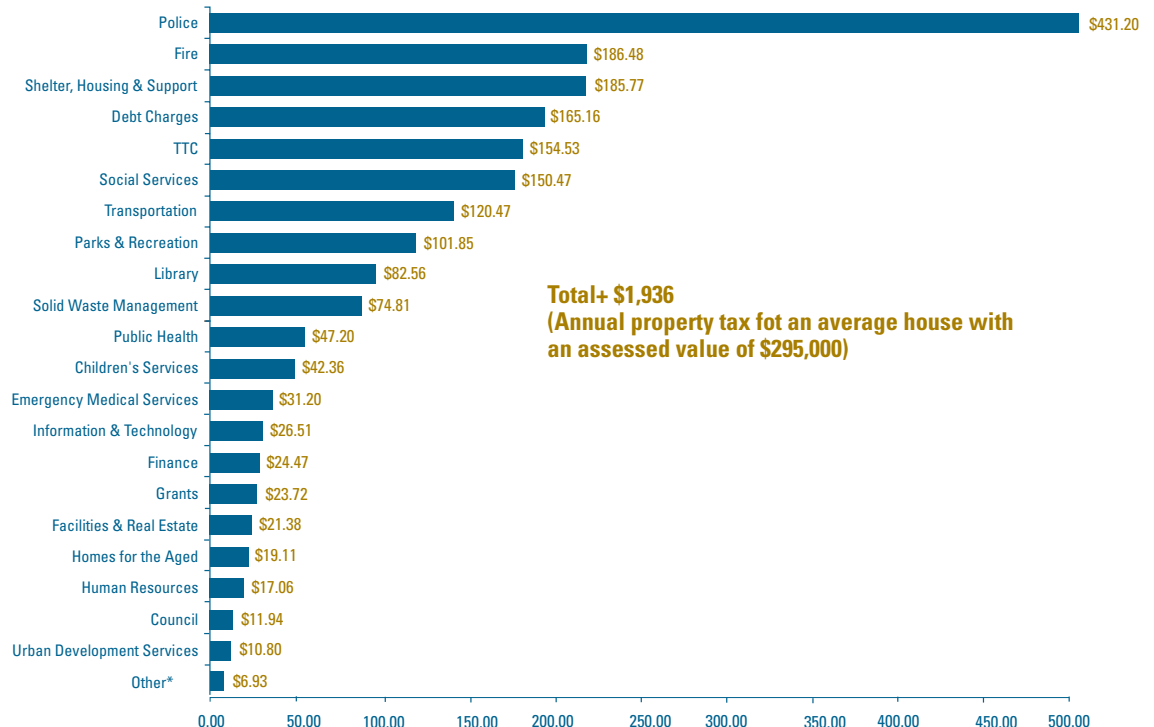
- Yonge Dundas Square
- Solid Waste Management
- Fire
- Transportation

### Capital Financing & Corporate Accounts 11%

- City Clerk's
- Service Improvement & Innovation
- Corporate Communications
- Facilities & Real Estate
- Fleet Management Services
- Human Resources
- Information & Technology
- Legal
- Finance
- Auditor General
- Chief Administrator's Office
- Council
- Mayor's Office
- Consolidated Grant Program
- Capital & Corporate Financing
- Non-Program



## How Your City Tax Dollars Worked For You In 2003





## FISCAL SUSTAINABILITY

The City of Toronto presently maintains relatively low debt levels and high credit ratings through prudent spending decisions and sound financial management. Since the 1998 amalgamation, the City has been able to hold the line on property taxes – cumulative property tax increases between 1998 and 2003 (12.8 percent for homeowners and zero percent for commercial, industrial and multi-residential property owners) are below the rate of inflation (15.1 percent).

The City was able to balance its budget by using several one-time revenues every year. These include one-time Provincial support, funds freed up as a result of the Ontario Municipal Employee Retirement System (OMERS) pension contribution holiday and prior-year surpluses. Although faced with one-time transition costs, wage harmonization and service level harmonization costs, the City achieved \$153 million in amalgamation savings and \$36 million in efficiency savings, totalling \$190 million of permanent annual reductions.

Performance measures are monitored annually through the budget process. The City has embarked on multi-year business plans, program reviews and prioritization, the goals of which are to ensure that key services are delivered in the most efficient and effective manner. As well, the City has introduced rigorous contract management, purchasing and financial controls to ensure that proper checks and balances are in place.

These measures include a new Corporate Financial Policy and Procedures Manual, and mandatory business cases for consulting contracts with measurable standards and acceptance criteria. Accountability and transparency have been further enhanced with the creation of both a new Auditor General's office and Internal Audit function.

Toronto will continue to benefit from the improved planning processes and internal administrative and financial controls; however, the current financial condition is not sustainable. The City faces the daunting challenge of funding the significant capital expenditures required to maintain and rehabilitate the City's infrastructure, as well as to meet growth requirements.

Provincial legislation continues to restrict the City's access to the entire assessment base for budgetary tax increases. Besides, Toronto's business education property tax rates as set by the Province remain higher than those of the surrounding areas, which

limits the City's competitiveness. The City has significant liabilities related to future requirements, including employee benefits. These liabilities will put pressure on the City's operating budget as the City increases its reserves to meet its obligations.

Large urban centres in the United States and Europe, when compared to Toronto, have more diverse sources of revenue and are less dependent on property taxes. They receive more financial assistance from the other orders of government, and have more flexible legislative tools. The City requires a New Deal to meet its funding responsibilities. Toronto needs the fiscal resources and provincial legislative tools to fulfil its financial responsibilities. The environmental sustainability, the quality of life and the nation's economic competitiveness depend on overcoming the challenges facing the nation's largest city.

In early 2004 the City has seen some positive developments from the two other orders of government:

- The Federal Government has implemented effective February 1, 2004, a permanent GST rebate for municipalities, increasing the rebate from 57.1% to 100%. The benefit to the City has been estimated to be approximately \$50 million annually.
- The announcement of a \$1.05 billion, five-year tripartite agreement between the Federal Government, Provincial Government and the City of Toronto to cost share specified transit capital expenditures. The Government of Canada's contribution will come from the Canada Strategic Infrastructure Fund. This agreement will provide an average \$70 million per year from each government over five years to improve, modernize and expand the TTC and help provide better transit service to the TTC's 1.3 million daily riders.
- The announcement of adjustments to the municipal rules under the Ontario Property Tax System for 2004, allowing tax rate increases on the non-residential classes for 2004 to be no more than 50 percent of the rate for the residential tax class, thus providing partial relief from the budgetary levy restrictions imposed by Bill 140 for 2004 only.
- The announcement of a tripartite agreement between the Federal Government, Provincial Government and GO Transit with a total investment of \$1.05 billion for 12 projects scheduled to be implemented over seven years

2004–2010. Each of the two other orders of government is responsible for \$385 million in funding (with the Federal contribution coming from the Canada Strategic Infrastructure Fund). The municipalities in the GTA and Golden Horseshoe, including Toronto, are expected to contribute a total of \$235 million of the \$1.05 billion. This initiative will improve the access, efficiency and capacity of GO Transit.

- The 2004 City budget included a provision for \$20 million in revenue as a down-payment for future gas tax revenues from the Province.

The tripartite agreements in which the other orders of government share the capital project costs for the TTC and GO transit will cover only a portion of their total multi-billion multi-year capital requirements for the state-of-good-repair and expansion plans. Both transit bodies still require significant additional funding to meet the needs of their long-term business plans.

The above announcements and changes are a positive start, yet the City still faces a significant funding gap estimated to be hundreds of millions of dollars every year. Hence, the City continues to urge the other orders of government to negotiate a New Deal with the City and other municipalities which would include:

- new sustainable revenue sources, such as a share of the provincial and federal gas tax
- the legislative tools and the autonomy to be able to deal with the challenges and opportunities facing the City
- a seat at the table – involving major hub cities including the City of Toronto as partners in Federal and Provincial policy, program and budget deliberations on issues that have a direct impact on major urban centres.

## PHYSICAL INFRASTRUCTURE

Beside monetary assets, the City owns a significant amount of physical assets. They include roads, expressways, bridges, street lighting and traffic signal controls, water and wastewater distribution pipes, reservoirs, pumping stations, subways, trains, buses, civic centres, recreation facilities, public housing buildings, parkland and other lands. This infrastructure, excluding land, is currently estimated to be worth in excess of \$52 billion. The City's capital program is driven largely by the costs of maintaining its physical assets in a state of good repair.

## City's Infrastructure is Substantial

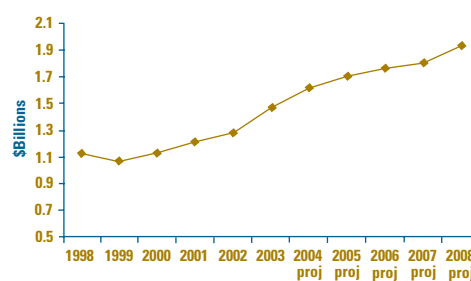
	Estimated Asset Value
Transportation Infrastructure	\$9.5 Billion
Water & Wastewater Infrastructure	\$21.2 Billion
Public Transit System	\$8.9 Billion
Buildings, Facilities & Fleet	\$6.0 Billion
Housing Infrastructure	\$6.0 Billion
Parkland & Other Land	To Be Determined
	\$52.0 Billion ++

Due to fiscal constraints, the City's current spending in the capital program is less than ideal. Insufficient funding to the state of good repair for all programs has created backlogs worth hundreds of million of dollars. In addition, capital requirements resulting from population growth and demographic changes further exacerbate capital underfunding. The City's 2002 Official Plan projects an increase in population of up to a million people in the City of Toronto, raising the population to 3.5 million people in 30 years. More buses, housing, recreation centres, etc. are required, which puts pressures on the capital and operating budgets.

## CAPITAL FINANCING AND DEBT

The City borrows to fund capital expenditures. (It cannot borrow to fund operating expenditures under the Municipal Act.). Toronto has enjoyed relatively low debt levels, however, there is a sizeable gap between future capital expenditure needs and on-going sustainable revenue sources. The City does not have the financial capacity for necessary growth related expenditures, e.g. TTC, Transportation,

### Cumulative Net Debt (Tax-Supported)

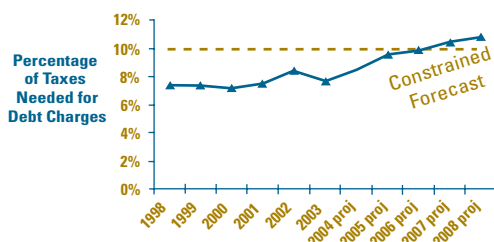


Note: Net Debt is Debt Net of Sinking Funds  
Based on 2004 - 2008 Capital Forecast

Housing, etc. As a result, debt will grow. Current estimates show that the City's net debt even under a constrained forecast (no new debt except for the TTC) will increase by more than 40% in the next five years.

Debt charges is the fourth largest component of the property tax bill (after police services, fire services and shelter, housing and support). In 1999, the City of Toronto implemented a debt service guideline such that the debt service cost should not exceed 10% of property tax revenues in a given year. Although only a guideline, this limit means that 90 cents on each tax dollar raised is available for operating purposes. However, given the current debt forecast, the guideline would likely be exceeded in 2007 if the City does not get new sustainable revenues to support the capital program.

#### Toronto's Revenue Flexibility Drops as Debt Charges Consume More of Each Tax Dollar



\* Based on 2004 Recommended Five-year Capital Plan; and assuming property tax increases at the forecasted rate of inflation

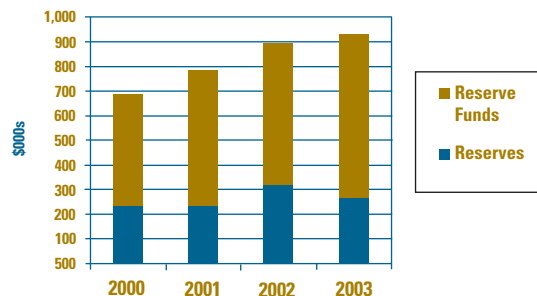
## RESERVES AND RESERVE FUNDS

Reserves and reserve funds are established because:

- the City is not able to deficit finance, so it needs to maintain some degree of "rainy day" funding, e.g. Social Assistance Stabilization;
- they allow "smoothing" of funding, e.g. municipal election expenses every three years, major equipment purchases and capital expenditures; and
- of other future funding needs, e.g. self insurance.

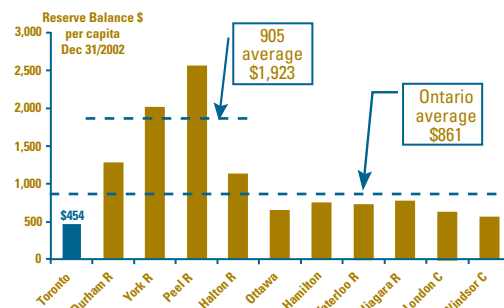
As at December 31, 2003, the City had \$933.2 million in reserves and reserve funds, comprising \$269.7 million in Reserves and \$663.5 in Reserve Funds. The total 2003 year-end balance represents an increase of \$41.8 million (or 4.7%) compared to the previous year.

#### Reserves & Reserve Funds Balances as at December 31



Although there was an increase in reserves and reserve funds in 2003 from 2002, the City's overall fund balance on a per capita basis is much lower than most Ontario municipalities, as shown in the preceding figure. The City of Toronto's reserve fund balance per capita (as at December 31, 2002) was just over half of the Ontario average and less than one-quarter of the average of the surrounding (905) areas.

#### Reserves and Reserve Fund per Capita



\* For regional governments, figures are for consolidated upper and lower tiers  
Includes Obligatory Reserve Funds reported as Deferred Revenues  
Source: MARS, Ministry of Municipal Affairs & Housing

In addition, it has been determined that a number of reserves are underfunded in relation to the liabilities for which the funds were established. The City is in the process of establishing a long-term reserve strategy to address and mitigate the inadequacy, including determining needs and establishing contribution policies.

#### Deferred Revenues

Funds that are set aside for specific purposes by legislation, regulation or agreement and may only be used in the conduct of certain programs or the completion of specific work are reported as Deferred Revenues (previously Obligatory Reserve Funds). These include Development Charges, Parkland

Acquisition, Homes for the Aged, and Social Housing, to name a few. These amounts are recognized as liabilities in the year the funds are deposited, and received into revenue in the fiscal year the related expenditures are incurred or services performed. The balance of such funds as at December 31, 2003 was \$382.2 million (2002: \$297.6 million)

## MUNICIPAL PERFORMANCE MEASUREMENT PROGRAM (MPMP)

Toronto performs relatively well when compared with other Ontario municipalities on a number of municipal service indicators, as evidenced by attestations from outside bodies.

A report by the Canadian Taxpayer's Federation in 2003 confirmed that "Toronto fares well when compared to the municipalities on its borders". The Toronto Star reported that Toronto managed its ratepayers' dollars better than most other cities in the province.

### Toronto Fares Well in Many Performance Measures

2002 MPMP Measures (Samples only)	Toronto	Municipal Average
Governance and corporate management costs as a % of total operating costs	2.3%	3.9%
Operating costs for Fire Services per \$1,000 of assessment	\$1.44	\$1.52
Operating costs for Conventional Transit per regular service trip	\$2.01	\$3.61
Operating costs for Wastewater Treatment and Disposal per megalitre of wastewater treated	\$194	\$229
Operating costs for Police Services per household	\$640	\$441

Source: MPMP, various municipal websites

The Municipal Performance Measurement Program (MPMP), introduced by the Province in 2000, compares Ontario municipalities in 25 performance measures (33 including component measures, of which 32 were applicable to Toronto). In 2002, approximately 63 percent of the measures have the maximum possible result, an improved result, or a stable result relative to 2001. As well, two-thirds of Toronto's 2002 MPMP results are better than the municipal average.

The table lists five 2002 selected performance measures under the Municipal Performance

Measurement Program (MPMP). The first four measures show that Toronto was more efficient than the Ontario municipal average in areas of Governance and Corporate Management Cost, Fire Service, Conventional Transit as well as Waste water Treatment and Disposal.

The last item shows that Toronto has a Police Service Operating Cost per Household much higher than the Ontario municipal average. This can be explained by the fact that Toronto is an international city requiring specialized services at elevated levels that may not be available or necessary in other municipalities.

Toronto's position as the centre of business, culture, entertainment, corporate headquarters and sporting activities in the Greater Toronto Area, together with its ethnically and culturally diverse population, pose special demands on the police service.

In addition, there are a number of other groups that also benefit from police services that are not recognized in the calculation of the performance measure, such as an estimated daily influx of 286,900 vehicles and 351,300 persons from the surrounding areas during morning rush hours, approximately 16 million tourists per year and the business sectors.

## REVENUES

### Property Tax

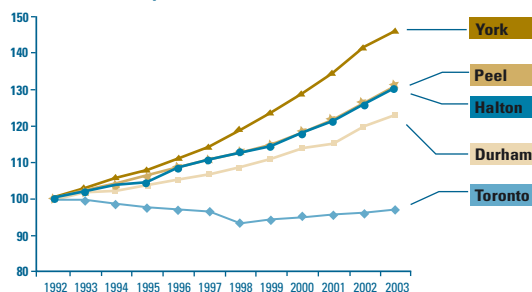
Property tax revenue is the City's single largest source of revenue. In 2003, the City collected \$2.9 billion from residential and business property owners, which represented over 40% of the total operating revenues including rate-supported revenues.

Over the last eleven years, the Greater Toronto Area experienced quite remarkable growths in population and property assessment, during a period when the economy recovered from the recession of the 1990's. The Toronto region, the third fastest-growing CMA in Canada between 1996 and 2001, contains five of the country's 25 fastest-growing municipalities: Caledon, Markham, Vaughan, Richmond Hill and Brampton, all having 5-year population growth rates in excess of 20%.

The bulk of the new construction and the associated assessment increase are located in the surrounding (905) areas. For example, York Region's total assessment increased by more than 46% during this period, as shown in the chart. By comparison, the



### Unlike the 90's Sizable Assessment Growth, Toronto is Still Behind 1992



Source: MMAH's MARS, MPAC, Annual Financial Reports of the respective regions and survey. Exclusive PILs

\* For regional governments, figures are for consolidated upper and lower tiers

City of Toronto saw a gradual decline in assessment from 1992 to 1998, and there has been only a minimal increase since then. In fact, Toronto's property assessment has not yet returned to its 1992 level.

Up until 2004, Toronto has been the only municipality in the Greater Toronto Area that is prohibited by provincial legislation (Bill 140 – Continued Protection for Property Taxpayers Act, 2000) from increasing property tax levies on businesses for budgetary reasons. The primary implication of this legislation is a restriction from passing on municipal levy increases to the commercial, industrial and multi-residential classes in those municipalities (such as Toronto, Ottawa and Hamilton) where tax ratios of commercial, industrial and multi-residential property tax rates relative to those for the residential class exceed the provincial threshold ratios.

This means that instead of accessing the full assessment base, the City could increase tax rates only on the residential class. While each one percent property tax increase would generate \$28 million if the whole assessment base could be accessed, under the previous arrangement the City could raise only \$11 million from the residential class.

In March 2004, the Ontario Government announced adjustments to the municipal rules under the Ontario Property Tax System for 2004, which amongst other things, allowed tax rate increases on the non-residential classes for 2004 to be no more than 50 percent of the rate for the residential tax class, and thus would provide partial relief from the budgetary levy restrictions imposed by Bill 140.

### User Fees

User fees are the City's second largest source of revenue. In 2003 total user fee revenues including water and wastewater charges were \$1.6 billion, representing 22% of total operating revenues.

The City's current user fee structures, such as transit fares, public swimming and skating fees, and water and wastewater rates, are at levels generally comparable to, and competitive with, the surrounding municipalities. There is limited room for rate increases or significant additional sources of revenues.

### Other Revenues

The City receives other revenues such as transfer payments from other orders of government which are mainly for mandated programs such as social assistance, as well as other income such as parking fines and investment income.

Under the provincially mandated Local Services Realignment (LSR), costs for Social Assistance and Social Housing are pooled amongst the GTA municipalities, and then allocated to the City of Toronto and the other regions using a formula based on weighted property assessment. Included in this Other Revenues category are GTA Pooling revenues for these two programs, representing contributions from other regions in the GTA towards the Toronto's pooled costs.

### CREDIT RATING

The City of Toronto is recognized as an important participant in global financial markets. The City's credit rating remains among the highest of comparably sized or larger North American cities such as New York and Montreal.

Currently, the City of Toronto's credit ratings are:

- AA (stable) from the Dominion Bond Rating Service Ltd.(DBRS)
- AA with a stable outlook from Standard and Poor's Canada
- Aa1 with a stable outlook from Moody's Investor Service

In its rating considerations for the City of Toronto, DBRS recognized the City's strengths and challenges:



The following shows the City of Toronto's credit rating history:

	2003	2002	2001	2000	1999	1998	1997
DBRS	AA	AA	AA(high)	AA(high)	AA(high)	AA(high)	AAA
Standard and Poor's	AA	AA	AA+	AA+	AA+	AA+	AA+/AAA
Moody's Investors Service	Aa1	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2

#### Strengths:

- Strong and diversified economy
- Good fiscal management
- Ownership of Toronto Hydro Corporation
- Strong financial control

- Recent operating performances (surpluses) have not been strong, averaging 8% of operating revenues from 2000 to 2002

Moody's confirmed its debt ratings for the City, which was upgraded to Aa1 (stable outlook) from Aa2 in September 2002. In its review, Moody's wrote:

"The upgrade of Toronto's debt rating ... reflected strong fiscal performance and a re-emergence of the provincial government as a provider of funding for infrastructure. Further supporting the City's high rating is its sizable and diverse economy which amply supports its financial and debt obligations. .... Toronto has registered positive financial performance in its first four years as an amalgamated entity despite numerous challenges..."

Moody's summarized its opinion for the City as follows:

#### Strengths:

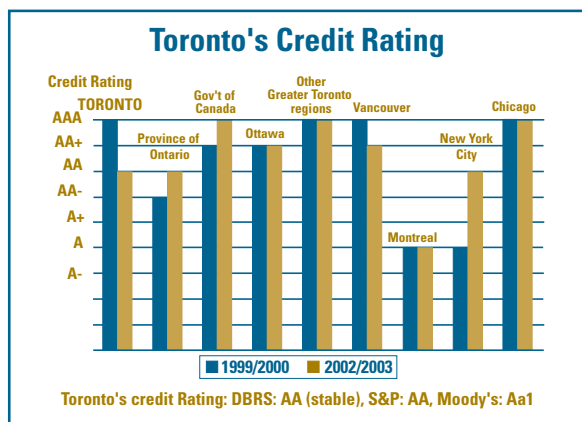
- Consistent, positive financial results
- The City has managed fiscal challenges (e.g. amalgamation, Local Services Realignment) effectively through service efficiencies and the annual savings generated by the amalgamation
- Modest debt burden; debt serving costs as a ratio of total revenues would remain easily manageable within the City's current fiscal framework
- Large, diversified economy

#### Challenges:

- Operating budget pressures
- Pressures for infrastructure spending
- Modest level of new construction /assessment growth

#### Challenges:

- Ongoing management of capital funding pressures
- Uncertainty regarding provincial and federal funding
- Heavy business property tax burden
- Exposure to economy-sensitive program expenditures
- Relatively high employee benefit liabilities



Standard and Poor's made the following observation in its annual Industry Report Card for Canadian Municipalities:

- Toronto's economy is the country's strongest and most diverse.
- Direct debt as a share of operating revenue was about 40% at the end of 2002, placing Toronto in an intermediate position with international peers
- Debt has been rising
- Liquidity levels are healthy

2003

Financial Annual Report

## 2003 CONSOLIDATED 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 financial statements.

The 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 deploys an organizational structure that effectively segregates responsibilities, appropriately delegates authority and accountability and employs highly qualified professional staff.

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 2003 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, 2004

Joseph P. Pennachetti  
Chief Financial Officer & Treasurer

Shirley Hoy  
Chief Administrative Officer

## 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, 2003 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, 2003 and the results of its financial activities and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Ernst & Young LLP*

Toronto, Canada,  
April 26, 2004.

Chartered Accountants

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as at December 31, 2003

*(with comparative figures as at December 31, 2002)*

	2003 (\$000)	2002 (\$000)
<b>FINANCIAL ASSETS</b>		
Cash and short-term investments	84,073	60,029
Accounts receivable	515,026	832,826
Property taxes receivable	246,989	225,387
Other assets	5,427	15,455
Investments (Note 2)	2,137,955	1,880,851
Note receivable – Toronto Hydro Corporation (Note 3)	980,231	980,231
Receivable from Toronto District School Board (Note 8)	91,309	114,689
Investments in government business enterprises (Note 4)	942,050	818,896
<b>Total Financial Assets</b>	<b>5,003,060</b>	<b>4,928,364</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	1,576,950	1,728,429
Deferred revenue (Note 5)	543,889	408,680
Other liabilities	143,861	162,306
Landfill post-closure liabilities (Note 6)	93,438	99,081
Mortgages payable (Note 7)	1,017,078	1,035,843
Net long-term debt (Note 8)	1,476,788	1,342,577
Employee benefit liabilities (Note 9)	1,791,750	1,654,495
<b>Total Liabilities</b>	<b>6,643,754</b>	<b>6,431,411</b>
<b>NET FINANCIAL LIABILITIES</b>	<b>(1,640,694)</b>	<b>(1,503,047)</b>
<b>NON-FINANCIAL ASSETS</b>		
Inventories and prepaid expenses	142,776	124,293
<b>NET LIABILITIES</b>	<b>(1,497,918)</b>	<b>(1,378,754)</b>
<b>MUNICIPAL POSITION</b>		
<b>FUND BALANCES</b>		
Operating fund (Schedule 1)	2,105,037	2,256,489
Capital fund (Schedule 2)	(248,373)	(509,328)
Reserves and reserve funds (Schedule 3)	933,163	891,392
<b>TOTAL FUND BALANCES</b>	<b>2,789,827</b>	<b>2,638,553</b>
Amounts to be recovered in future years (Note 10):		
From reserves and reserve funds on hand	(297,810)	(287,154)
From future revenues	(3,989,935)	(3,730,153)
<b>TOTAL AMOUNTS TO BE RECOVERED</b>	<b>(4,287,745)</b>	<b>(4,017,307)</b>
<b>TOTAL MUNICIPAL POSITION</b>	<b>(1,497,918)</b>	<b>(1,378,754)</b>

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



**CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES**

as at December 31, 2003

*(with comparative figures as at December 31, 2002)*

	2003 BUDGET (\$000)	2003 ACTUALS (\$000)	2002 ACTUALS (\$000)
<b>REVENUES</b>			
Residential and commercial property taxation	2,894,095	2,913,398	2,897,943
Taxation from other governments	113,166	70,165	70,532
User charges	1,647,001	1,619,057	1,625,970
Funding transfers from other governments	1,843,160	1,653,141	1,576,589
Net government business enterprise earnings (Note 4)	-	123,154	56,304
Other	982,377	867,872	857,034
<b>TOTAL REVENUES</b>	<b>7,479,799</b>	<b>7,246,787</b>	<b>7,084,372</b>
<b>EXPENDITURES</b>			
General government	510,514	537,110	514,646
Protection to persons and property	1,161,279	1,219,913	1,131,412
Transportation	1,937,854	1,730,864	1,651,657
Environmental services	833,982	744,670	678,874
Health services	281,170	298,484	269,459
Social and family services	1,633,102	1,480,709	1,444,790
Social housing	772,393	729,455	764,148
Recreation and cultural services	624,203	589,152	573,378
Planning and development	69,130	54,077	52,830
<b>TOTAL EXPENDITURES (Note 12)</b>	<b>7,823,627</b>	<b>7,384,434</b>	<b>7,081,194</b>
<b>NET REVENUES (EXPENDITURES) AND INCREASE (DECREASE) IN NET FINANCIAL LIABILITIES</b>	<b>(343,828)</b>	<b>(137,647)</b>	<b>3,178</b>
<b>FINANCING</b>			
New long-term debt and mortgages issued	439,574	300,000	152,078
Principal repayments on long-term debt and mortgages	(143,613)	(143,847)	(115,322)
Interest earned on sinking funds	-	(17,327)	(33,086)
Changes in solid waste landfill obligations	-	(5,643)	29,806
Changes in employee benefit liabilities	-	137,255	105,376
<b>NET INCREASE IN AMOUNTS TO BE RECOVERED IN FUTURE YEARS</b>	<b>295,961</b>	<b>270,438</b>	<b>138,852</b>
<b>INCREASE (DECREASE) IN NON-FINANCIAL ASSETS</b>	<b>-</b>	<b>18,483</b>	<b>(6,454)</b>
<b>INCREASE (DECREASE) IN FUND BALANCES</b>	<b>(47,867)</b>	<b>151,274</b>	<b>135,576</b>
<b>FUND BALANCES – BEGINNING OF YEAR</b>	<b>931,950</b>	<b>2,638,553</b>	<b>2,502,977</b>
<b>FUND BALANCES – END OF YEAR</b>	<b>884,083</b>	<b>2,789,827</b>	<b>2,638,553</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

as at December 31, 2003

*(with comparative figures as at December 31, 2002)*

	2003	2002
	(\$000)	(\$000)
<b>OPERATIONS</b>		
Net revenues (expenditures) for the year	(137,647)	3,178
Uses of cash:		
Increase in accounts receivable	-	(19,362)
Increase in property taxes receivable	(21,602)	-
Decrease in accounts payable and accrued liabilities	(151,479)	-
Decrease in other liabilities	(18,445)	(7,013)
Decrease in landfill post-closure liabilities	(5,643)	-
	(197,169)	(26,375)
Sources of cash:		
Decrease in accounts receivable	317,800	-
Decrease in other assets	10,028	3,604
Decrease in property taxes receivable	-	94,611
Increase in accounts payable and accrued liabilities	-	54,763
Increase in deferred revenue	135,209	30,099
Increase in other landfill post-closure liabilities	-	29,806
Increase in employee benefit liabilities	137,255	105,376
	600,292	318,259
Net increase in cash from operations	265,476	295,062
<b>INVESTING</b>		
Net increase in investments	(257,104)	(190,963)
Net increase in investments in government business enterprises	(123,154)	(56,304)
Net decrease in receivable from Toronto District School Board	23,380	21,991
Net decrease in cash from investing	(356,878)	(225,276)
<b>FINANCING</b>		
New long-term debt and mortgages issued	300,000	152,078
Principal repayments on long-term debt and mortgages	(143,847)	(115,322)
Interest earned on sinking funds	(17,327)	(33,086)
Principal repayments on debt by Toronto District School Board	(23,380)	(21,991)
Net increase (decrease) in cash from financing	115,446	(18,321)
<b>NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS</b>	24,044	51,465
<b>CASH AND SHORT-TERM INVESTMENTS – BEGINNING OF YEAR</b>	60,029	8,564
<b>CASH AND SHORT-TERM INVESTMENTS – END OF YEAR</b>	84,073	60,029

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

**ANALYSIS OF CONSOLIDATED CURRENT OPERATIONS – SCHEDULE 1**

as at December 31, 2003

*(with comparative figures as at December 31, 2002)*

	2003 BUDGET (\$000)	2003 ACTUALS (\$000)	2002 ACTUALS (\$000)
<b>EXPENDITURES</b>			
<b>General government</b>			
Council	17,490	16,891	15,835
Administration	305,896	367,846	318,101
Ontario property assessment	27,707	27,447	26,455
Allowance for property tax appeals	85,500	66,203	94,367
	436,593	478,387	454,758
<b>Protection to persons and property</b>			
Fire	274,655	297,741	300,615
Police	663,829	748,643	673,458
Building services	71,491	71,445	66,519
Other	31,652	31,192	27,793
	1,041,627	1,149,021	1,068,385
<b>Transportation</b>			
Transit	1,001,444	1,010,221	940,839
Road/traffic signals maintenance	317,558	312,365	293,699
	1,319,002	1,322,586	1,234,538
<b>Environmental services</b>			
Water	152,125	153,093	150,636
Wastewater	180,394	181,097	172,678
Solid waste	195,264	203,609	167,727
	527,783	537,799	491,041
<b>Health services</b>			
Ambulance	110,350	130,339	109,337
Public health services	153,845	156,599	146,865
	264,195	286,938	256,202
<b>Social and family services</b>			
Social assistance	1,115,745	1,022,741	994,816
Long-term care	160,951	163,239	155,975
Child care assistance	296,267	265,528	255,991
	1,572,963	1,451,508	1,406,782
<b>Social housing</b>	700,467	656,785	676,180
<b>Recreation and cultural services</b>			
Parks	95,059	100,653	95,493
Recreation	169,389	171,465	172,067
Other	239,556	219,408	225,228
	504,004	491,526	492,788
<b>Planning and development</b>			
Planning	25,596	23,469	22,095
Business development	8,274	9,662	11,361
	33,870	33,131	33,456
<b>Total Expenditures</b>	<b>6,400,504</b>	<b>6,407,681</b>	<b>6,114,130</b>

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

**ANALYSIS OF CONSOLIDATED CURRENT OPERATIONS – SCHEDULE 1**

as at December 31, 2003

*(with comparative figures as at December 31, 2002)*

	<b>2003 BUDGET</b>	<b>2003 ACTUALS</b>	<b>2002 ACTUALS</b>
	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>
<b>REVENUES</b>			
Residential and commercial property taxation	2,894,095	2,913,398	2,897,943
Taxation from other governments	113,166	70,165	70,532
User charges:			
Transit fares	670,419	661,263	648,810
Water sales	476,930	474,750	465,401
Fines	130,396	128,048	125,248
Licenses and permits	89,281	86,532	82,251
Fees and service charges	279,975	268,464	304,260
Government transfers:			
Social assistance	687,035	656,770	602,207
Child care assistance	206,163	178,178	176,228
Health services	85,867	85,350	76,963
Social housing	365,628	358,159	351,616
Other	269,160	286,164	239,012
Investment income	65,016	70,987	55,147
Net government business enterprises earnings (Note 4)	-	123,154	56,304
Other	388,605	403,699	450,080
<b>Total Revenues</b>	<b>6,721,736</b>	<b>6,765,081</b>	<b>6,602,002</b>
<b>NET REVENUES FOR THE YEAR</b>	<b>321,232</b>	<b>357,400</b>	<b>487,872</b>
<b>FINANCING AND TRANSFERS</b>			
Principal repayments on long-term debt and mortgages	(143,613)	(143,847)	(115,322)
Interest earned on sinking funds	-	(17,327)	(33,086)
Employee benefit liabilities	-	137,255	105,376
Transfers to reserves	(26,350)	(30,796)	(64,913)
Transfers from (to) reserve funds	(25,254)	43,112	80,288
Transfers to capital fund	(165,015)	(515,732)	(199,654)
<b>Total Financing and Transfers</b>	<b>(360,232)</b>	<b>(527,335)</b>	<b>(227,311)</b>
<b>Increase (decrease) in Non-Financial Assets</b>	<b>-</b>	<b>18,483</b>	<b>(6,037)</b>
<b>NET INCREASE (DECREASE) IN OPERATING FUND BALANCE FOR THE YEAR</b>	<b>(39,000)</b>	<b>(151,452)</b>	<b>254,524</b>
<b>OPERATING FUND BALANCE – BEGINNING OF YEAR</b>	<b>39,000</b>	<b>2,256,489</b>	<b>2,001,965</b>
<b>OPERATING FUND BALANCE – END OF YEAR</b>	<b>-</b>	<b>2,105,037</b>	<b>2,256,489</b>

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

**ANALYSIS OF CONSOLIDATED CAPITAL OPERATIONS – SCHEDULE 2**

as at December 31, 2003

*(with comparative figures as at December 31, 2002)*

	2003 BUDGET (\$000)	2003 ACTUALS (\$000)	2002 ACTUALS (\$000)
<b>EXPENDITURES</b>			
<b>General government</b>	73,921	58,723	59,888
<b>Protection to persons and property</b>			
Fire	31,380	15,981	20,474
Police	68,293	43,990	30,496
Other	19,979	10,921	12,057
	119,652	70,892	63,027
<b>Transportation</b>			
Transit	327,860	235,460	236,390
Roads	290,992	172,818	180,729
	618,852	408,278	417,119
<b>Environmental services</b>			
Water	134,855	108,948	70,978
Wastewater	116,520	82,147	73,891
Solid waste	54,824	15,776	42,964
	306,199	206,871	187,833
<b>Health services</b>			
Ambulance	12,813	9,689	11,427
Public Health Services	4,162	1,857	1,830
	16,975	11,546	13,257
<b>Social and family services</b>			
Social assistance	22,655	4,259	14,523
Long-term care	31,175	21,466	22,951
Child care assistance	6,309	3,476	534
	60,139	29,201	38,008
<b>Social housing</b>	71,926	72,670	87,968
<b>Recreation and cultural services</b>			
Parks	41,497	25,359	25,270
Recreation	44,859	36,953	15,747
Other	33,843	35,314	39,573
	120,199	97,626	80,590
<b>Planning and development</b>			
Planning	9,622	4,931	1,899
Business development	6,181	3,297	13,502
Other	19,457	12,718	3,973
	35,260	20,946	19,374
<b>Total Expenditures</b>	1,423,123	976,753	967,064

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



**ANALYSIS OF CONSOLIDATED CAPITAL OPERATIONS – SCHEDULE 2**

as at December 31, 2003

*(with comparative figures as at December 31, 2002)*

	<b>2003 BUDGET</b>	<b>2003 ACTUALS</b>	<b>2002 ACTUALS</b>
	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>
<b>REVENUES</b>			
Government of Canada transfers	108,430	14,322	63,406
Province of Ontario transfers	120,877	74,198	67,157
Other municipalities	6,101	120	9,129
Other	433,090	300,278	241,140
<b>Total Revenues</b>	<b>668,498</b>	<b>388,918</b>	<b>380,832</b>
<b>NET EXPENDITURES FOR THE YEAR</b>	<b>(754,625)</b>	<b>(587,835)</b>	<b>(586,232)</b>
<b>FINANCING AND TRANSFERS</b>			
New long-term debt and mortgages issued	439,574	300,000	152,078
Solid waste landfill obligations (Note 6)	-	(5,643)	29,806
Transfers from operating fund	165,015	515,732	199,654
Transfers from (to) reserves	78,258	80,669	(19,329)
Transfers from (to) reserve funds	70,220	(41,968)	1,402
<b>Total Financing and Transfers</b>	<b>753,067</b>	<b>848,790</b>	<b>363,611</b>
<b>DECREASE IN NON-FINANCIAL ASSETS</b>	<b>-</b>	<b>-</b>	<b>(417)</b>
<b>NET INCREASE (DECREASE) IN CAPITAL FUND BALANCE FOR THE YEAR</b>	<b>(1,558)</b>	<b>260,955</b>	<b>(223,038)</b>
<b>CAPITAL FUND BALANCE – BEGINNING OF YEAR</b>	<b>1,558</b>	<b>(509,328)</b>	<b>(286,290)</b>
<b>CAPITAL FUND BALANCE – END OF YEAR</b>	<b>-</b>	<b>(248,373)</b>	<b>(509,328)</b>

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

## ANALYSIS OF CONSOLIDATED RESERVES AND CONSOLIDATED RESERVE FUNDS – SCHEDULE 3

as at December 31, 2003

(with comparative figures as at December 31, 2002)

	2003 BUDGET (\$000)	2003 ACTUALS (\$000)	2002 ACTUALS (\$000)
<b>RESERVES</b>			
TRANSFERS FROM (TO) OTHER FUNDS			
Operating fund	26,350	30,796	64,913
Capital fund	(78,258)	(80,669)	19,329
NET TRANSFERS FROM (TO) OTHER FUNDS FOR THE YEAR	(51,908)	(49,873)	84,242
RESERVES BALANCE – BEGINNING OF YEAR	319,558	319,558	235,316
RESERVES BALANCE – END OF YEAR	267,650	269,685	319,558
<b>RESERVE FUNDS</b>			
REVENUES			
Sale of land	27,509	21,013	7,822
Investment income	26,013	33,100	32,046
Other	36,043	38,675	61,670
TOTAL REVENUES	89,565	92,788	101,538
TRANSFERS FROM (TO) OTHER FUNDS			
Operating fund	25,254	(43,112)	(80,288)
Capital fund	(70,220)	41,968	(1,402)
NET TRANSFERS TO OTHER FUNDS	(44,966)	(1,144)	(81,690)
NET INCREASE IN RESERVE FUNDS BALANCE FOR THE YEAR	44,599	91,644	19,848
RESERVE FUNDS BALANCE – BEGINNING OF YEAR	571,834	571,834	551,986
RESERVE FUNDS BALANCE – END OF YEAR	616,433	663,478	571,834
TOTAL RESERVES AND RESERVE FUNDS	884,083	933,163	891,392

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### 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

- Toronto Community Housing Corporation
- Exhibition Place
- Heritage Toronto
- Hummingbird Centre for the Performing Arts
- North York Performing Arts Centre Corporation
- St. Lawrence Centre for the Arts
- Toronto Atmospheric Fund
- Toronto Board of Health
- Toronto Licensing Commission
- Toronto Police Services Board
- Toronto Public Library Board
- Toronto Transit Commission
- Toronto Zoo

##### Arenas:

- Forest Hill Memorial
- George Bell
- Leaside Memorial Community Gardens
- McCormick Playground
- Moss Park
- North Toronto Memorial
- Ted Reeve
- William H. Bolton

##### Community Centres:

- 519 Church Street
- Applegrove
- Cecil Street
- Central Eglinton
- Community Centre 55
- Eastview Neighbourhood
- Harbourfront
- Ralph Thornton
- Scadding Court
- Swansea Town Hall

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### Business Improvement Areas:

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

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.

### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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### 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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### 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:

	2003		2002	
	Cost	Market Value	Cost	Market Value
	(\$000)	(\$000)	(\$000)	(\$000)
Federal government bonds	445,720	457,825	577,731	601,884
Provincial government bonds	396,729	419,966	402,274	426,941
Municipal government bonds	275,960	289,901	314,514	329,794
Money market instruments	628,508	628,506	345,754	345,305
Other	391,038	389,997	240,578	229,103
	<u>2,137,955</u>	<u>2,186,195</u>	<u>1,880,851</u>	<u>1,933,027</u>

The weighted average yield on the cost of the bond investment portfolio during the year was 5.58% (2002 - 5.14%). Maturity dates on investments in the portfolio range from 2004 to 2029. Included in the City's investment portfolio are City of Toronto debentures at coupon rates varying from 5.15% to 8.00% and with a carrying value of \$108,181,000 (2002 - \$107,732,000). Investments other than government bonds consist of pooled investment funds held by the Toronto Community Housing Corporation as at December 31, 2003 amounting to \$131,198,526 (2002 - \$113,879,000) and term deposits and bankers' acceptances.

## 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 (2002 - 6.8%). The City has the right to call up to \$330,000,000 of this note during any 12-month period.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### 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% (2002 - 31%) 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:

	2003 (\$000)	2002 (\$000)
Balance - beginning of year	818,896	762,592
Adjustment to results reported by TEDCO for prior year	-	(139)
Balance - beginning of year, as restated	818,896	762,453
Results of operations (Appendix 2)	105,696	55,293
Dividends received (Appendix 2)	(5,000)	-
Net increase in value of Enwave investment arising from:		
Purchase of additional Enwave shares by other shareholder	-	1,150
Purchase of shares from other shareholder	15,769	-
Subscription to additional Enwave shares	6,689	-
Increase in equity during the year	123,154	56,443
Balance - end of year	942,050	818,896

The prior year's increase in investments in government business enterprises of \$56,304,000 is comprised of a prior year adjustment of (\$139,000) to TEDCO results and a change in equity during the year of \$56,443,000.

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

	2003 (\$000)	2002 (\$000)
<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	29,256	28,736
Interest on loans to TEDCO	31	133
<b>Purchased by the City:</b>		
Streetlighting electricity and maintenance services from Toronto Hydro	16,255	14,854

Condensed financial results for each government business enterprise are disclosed in Appendix 2 to these notes to the consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2003

**5. Deferred Revenue**

Revenues received and 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:

	2003 (\$000)	2002 (\$000)
Development Charges	128,056	108,459
Parkland Acquisition	65,897	55,960
Homes for the Aged	30,870	25,891
Social Housing Federal	28,618	17,961
Wastewater Capital	25,485	16,058
Subdividers' Deposits	17,495	16,321
Ontario Works	15,397	13,305
Parking	14,462	9,489
Kids @ Computers Scholarship Project	13,698	-
National Child Benefit Supplement	13,193	8,102
Toronto Performing Arts Centre Capital	5,214	5,065
Client ID and Benefits	4,111	3,889
Better Buildings Partnership	3,933	3,306
Hummingbird Centre Capital	3,822	3,813
Infrastructure	2,753	2,605
Water Capital	2,014	1,864
Toronto Zoo	1,253	1,079
Other	5,945	4,477
<b>Total</b>	<b>382,216</b>	<b>297,644</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 150 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 monitoring wells. Post-closure care activities for this site 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 6%.

The estimated present value of future expenditures for closure and post-closure care as at December 31, 2003 is \$93,438,108 (2002 - \$99,081,000).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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, 2003 was \$33,368,000 (2002 - \$32,733,000) (Appendix 1) and the balance in the Keele Valley Site Post-Closure Trust Fund as at December 31, 2003 was \$6,624,000 (2002 - \$6,466,000) (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 \$1,420,834,000 (2002 - \$1,445,826,000) and have not been reflected in the Consolidated Statement of Financial Position.

Interest rates of the mortgages range from 4% to 13%. Principal repayments relating to the mortgages outstanding as at December 31, 2003 are due as follows:

	(\$000)
2004	24,245
2005	25,754
2006	27,355
2007	28,899
2008	30,701
Thereafter	880,124
	<u>1,017,078</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:

	2003 (\$000)	2002 (\$000)
Long-term debt issued by the City at various rates of interest ranging from 2.88% to 8.65%	1,943,017	1,889,480
Non-interest bearing loans payable to the Province of Ontario	175,331	183,750
Loan payable bearing interest at 8.05%	2,010	2,078
Sinking fund deposits	(643,570)	(732,731)
	<u>1,476,788</u>	<u>1,342,577</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

Principal repayments relating to net long-term debt of \$1,476,788,000 outstanding as at December 31, 2003 are due as follows:

	(\$000)
2004	190,057
2005	181,535
2006	164,453
2007	146,561
2008	132,604
Thereafter	661,578
	<u>1,476,788</u>

Included in net long-term debt are outstanding debentures of \$1,615,000,000 (2002 - \$1,720,000,000) for which there are sinking fund assets with a carrying value of \$657,074,000 (market value - \$690,051,000). 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 \$191,340,000 (market value - \$199,257,071).

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

	2003 (\$000)	2002 (\$000)
Property taxes	1,374,544	1,209,632
Water billings	10,935	18,256
Toronto District School Board	91,309	114,689
	<u>1,476,788</u>	<u>1,342,577</u>

### 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:

	2003 (\$000)	2002 (\$000)
Future payments required for:		
Pension liabilities, other than OMERS	87,646	67,133
Sick leave benefits	285,845	268,368
Workplace Safety and Insurance Board obligations	266,673	276,827
Other employment and post-employment benefits	1,304,800	1,042,167
	<u>1,944,964</u>	<u>1,654,495</u>
Less: Unamortized actuarial loss	153,214	-
	<u>1,791,750</u>	<u>1,654,495</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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

	2003 (\$000)	2002 (\$000)
Balance – beginning of year	1,654,495	1,549,119
Current service cost	113,842	119,327
Interest cost	107,086	92,501
Cost of plan amendment	23,318	-
Amortization of actuarial loss	12,762	-
Expected benefits paid	(119,753)	(106,452)
Balance – end of year	1,791,750	1,654,495

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

	2003 (\$000)	2002 (\$000)
Current period benefit cost	113,842	119,327
Amortization of actuarial loss	12,762	-
Interest cost	107,086	92,501
Total expenditures	233,690	211,828

### 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. As a result of this contribution holiday, no contributions were required on account of current service in 2002. Contributions to the OMERS pension plan recommenced in January 2003 and amounted to \$20,705,000 for the year in respect of current service.

The amount contributed for past service to OMERS for the year ended December 31, 2003 was \$68,000 (2002 - \$121,000) 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

The plans provide increases in pensions to retirees and their spouses to the extent that an actuarial surplus is available. As at December 31, 2003, there were 75 (2002 – 100) active members with an average age of 59. There were also 6,428 (2002 – 6,654) pensioners and 2,859 (2002 – 2,879) spousal beneficiaries in receipt of a pension, with an average age of 73. Pension payments and refunds during the year were approximately \$207,172,000 (2002 – \$212,169,000).

Employees contribute a portion (varying amounts ranging from 5% to 8.5%) 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:

	2003 (\$000)	2002 (\$000)
Accrued benefit obligation – end of year	413,677	420,787
Pension plan assets – end of year	458,858	445,255
Net pension asset	45,181	24,468
Unamortized actuarial losses	85,860	111,391
Accrued benefit asset	131,041	135,859

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:

	2003 (\$000)	2002 (\$000)
Accrued benefit obligation – end of year	1,175,242	1,169,589
Pension plan assets – end of year	1,084,969	1,070,453
Net pension liability	90,273	99,136
Unamortized actuarial losses	290,550	326,524
Accrued benefit asset	200,277	227,388

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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:

	2003 (\$000)	2002 (\$000)
Accrued benefit obligation – end of year	992,770	1,006,469
Pension plan assets – end of year	737,684	735,369
Net pension liability	255,086	271,100
Unamortized actuarial losses	167,440	203,967
Accrued pension liability	87,646	67,133

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. The accrued benefit obligation as at December 31, 2003 is based on actuarial valuations for accounting purposes as at December 31, 2003. 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 fifteen 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 (2002 – 2.5%) and the rate of compensation increase is estimated at 4% per annum (2002 – 4%). The discount rate used to determine the accrued benefit obligation is 6.25% per annum (2002 – 6.9%)

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 12% (2002 – negative 2.2%).

Total expenditures (recoveries) related to pensions in a deficit position include the following components:

	2003 (\$000)	2002 (\$000)
Cost of plan amendments	1,620	-
Current period benefit cost	369	576
Amortization of actuarial losses	14,640	4,448
Interest cost on the average accrued benefit obligation	60,581	63,310
Expected return on average pension plan assets	(49,112)	(61,066)
Net expenditures related to pension plans	28,098	7,268

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### 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, 2003 the balance in the sick leave reserve fund is \$88,416,000 (2002 - \$93,401,000).

### 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, 2003 the balance in the Workers' Compensation reserve fund is \$23,997,000 (2002 - \$19,574,000). Payments during the year by the City to the Workplace Safety and Insurance Board amounted to \$24,438,000 (2002 - \$23,270,000).

### 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, 2003 the balance in the employee benefits reserve fund is \$152,028,000 (2002 - \$141,446,000).

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 a valuation as of December 31, 2003. 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 for other retirement and post-employment benefits are as follows:

	2003	2002
Discount rate	5.5% to 6%	6% to 6.5%
Rate of compensation increase	3%	3%
Health care inflation – Hospital, dental care and other medical	4.5%	5%
Health care inflation – Drugs	12%	4%

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### 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:

	2003 (\$000)	2002 (\$000)
TCHC mortgages	1,017,078	1,035,843
Net long-term debt	1,476,788	1,342,577
Employee benefit liabilities	1,791,750	1,654,495
Solid waste landfill liabilities	93,438	99,081
	4,379,054	4,131,996
Less amounts recoverable from school boards	91,309	114,689
	4,287,745	4,017,307

### 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:

	2003 (\$000)	2002 (\$000)
Capital financing received in advance of expenditures	236,621	242,158
Capital expenditures yet to be financed	484,994	751,486
<b>Capital Fund Balance</b>	<b>(248,373)</b>	<b>(509,328)</b>
Capital expenditures yet to be financed are to be funded in future years as follows:		
Long-term liabilities	396,962	377,786
Developer recoveries and reserves	76,591	41,949
Other	11,441	331,751
	484,994	751,486

Approval has been received for future issuance of \$517,712,000 in long-term liabilities, which includes the \$396,962,000 noted above. The remaining \$120,750,000 in approved long-term debt is for capital expenditures yet to be incurred.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### 12. Expenditures by Object

Expenditures by object comprise the following:

	2003 (\$000)	2002 (\$000)
Salaries, wages and benefits	3,319,439	3,119,386
Materials	1,970,613	1,646,260
Contracted services	942,775	890,699
Interest on long-term debt	108,916	110,626
Transfer payments	153,589	184,796
Other	889,102	1,129,427
	<u>7,384,434</u>	<u>7,081,194</u>

### 13. Trust Funds

Trust funds administered by the City amounting to \$47,095,000 (2002 - \$46,840,000) 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:

	2003 (\$000)	2002 (\$000)
Toronto Atmospheric Trust Fund	24,349	24,431
Keele Valley Site Post-Closure (Note 7)	6,624	6,466
Homes for the Aged - Residents	6,292	6,308
Development Charges Trust - Railway Lands	2,424	1,452
Library Trusts	1,970	1,941
Police Trust Funds	1,025	1,171
Community Services Levies	972	703
Contract Aftercare	933	915
Waterpark Place	870	844
Development Charges Trust - Queen's Quay	436	425
Ontario Home Renewal Program	413	377
Heritage and Culture Trusts	341	330
Lakeshore Pedestrian Bridge	199	193
Candidates Municipal Election Surpluses	40	1,131
Other trust funds	207	153
	<u>47,095</u>	<u>46,840</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### 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 \$11,326,000 (2002 - \$9,821,000) and is included in the various categories on the Consolidated Statement of Financial Activities.<sup>1</sup>

### 15. Budget Data

Budget data for 2003 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 claiming \$500,000,000 in restitution payments plus interest was served on the former Toronto Hydro-Electric Commission on November 18, 1998. The action was initiated against the former Toronto Hydro-Electric Commission as the representative of the defendant class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in municipal electric utilities receiving interest at effective rates in excess of 60% per annum, which is illegal under Section 347(1)(b) of the Criminal Code. The Electricity Distributors Association, in co-operation with Toronto Hydro Corporation, is undertaking the defence of this class action. At this time, it is not possible to quantify the effect, if any, of this claim on these consolidated financial statements.

A similar class action claiming \$64,000,000 in restitution payments plus interest was commenced against the former Toronto Hydro-Electric Commission on April 28, 1994. The action was initiated against the Toronto Hydro-Electric Commission directly as a municipal electrical utility that made late payment charges on overdue utility bills at any time after April 1, 1981. In the action, the proposed representative plaintiffs allege that late payment charges resulted in the Toronto Hydro-Electric Commission receiving interest at effective rates in excess of 60% per annum, which is illegal under Section 347(1)(b) of the Criminal Code. The Electricity Distributors Association, in cooperation with Toronto Hydro Corporation, is undertaking the defence of this class action. The action is at a preliminary stage. No examinations for discovery have been conducted and no class has been certified for purposes of the action. At this time it is not possible to quantify the effect, if any, of this claim on these consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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. At this time, it is not possible to quantify the effect, if any, of this claim in these consolidated financial statements.

Capital commitments outstanding as at December 31, 2003 include the purchase and delivery of 120 buses for which payments amounting to \$67,000,000 are to be made. Subsequent to December 31, 2003, a contract option was exercised for the purchase and delivery in 2005 of an additional 250 buses for an additional cost of \$127,600,000.

The Ministry of the Environment has issued Certificates of Approval for nine of the estimated 150 inactive landfill sites and has requested applications for Certificates of Approval on the remaining inactive sites 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 \$39,140,000 (2002 - \$19,140,000), primarily related to possible defaults in financial agreements for certain construction projects.

As at December 31, 2003, the City is committed to future minimum annual operating lease payments for premises and equipment as follows:

	(\$000)
2004	40,116
2005	22,357
2006	11,145
2007	5,870
2008	4,242
Thereafter	11,340
	<hr/> 95,070 <hr/>

### 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 2003 consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – APPENDIX 1

December 31, 2003

## Details of reserves and reserve funds

	2003 (\$000)	2002 (\$000)
<b>RESERVES</b>		
Working Capital	79,396	81,663
Vehicle and Equipment	50,164	51,842
Wastewater Stabilization	45,771	40,471
Water Capital Financing Stabilization	38,266	81,684
Water Stabilization	22,358	29,154
Waste Management	15,493	15,166
Winter Control Stabilization	9,067	13,195
Arbitration and Legal Awards	3,652	3,652
Other reserves	5,518	2,731
	<u>269,685</u>	<u>319,558</u>
<b>RESERVE FUNDS</b>		
Employee Benefits (Note 9)	152,028	141,446
Social Assistance Stabilization	94,423	81,656
Land Acquisition	93,188	27,038
Sick Leave (Note 9)	88,416	93,401
Capital Financing	42,147	25,548
Social Housing Stabilization	39,313	34,318
Solid Waste Management Perpetual Care (Note 6)	33,368	32,733
Workers' Compensation (Note 9)	23,997	19,574
Capital Revolving Fund – Affordable Housing	23,934	23,139
Provincial Offence Courts Stabilization	17,167	19,647
Child Care Capital	14,293	14,135
Roadway and Sidewalk Repair	5,437	5,145
Mayor's Homeless Initiative	5,055	4,783
Insurance	4,182	11,832
Election	3,206	5,599
Environmental Liability	2,862	2,708
Emergency Technology Acquisition	2,759	2,027
Wheel Trans Vehicle	2,644	2,501
Road Enhancement	2,286	2,163
Child Care Expansion	1,772	2,773
Civic Centre Expansion	1,525	1,443
Casa Loma Capital Maintenance	983	1,110
Enwave Capital	859	7,738
All Borough Loan	470	442
Cultural Facilities Capital Grant	418	1,018
Exhibition Place Stabilization	-	1,403
TTC Operating Stabilization	-	63
Other reserve funds less than \$1,000,000	6,746	6,451
	<u>663,478</u>	<u>571,834</u>
	<u>933,163</u>	<u>891,392</u>

## December 31, 2003

## Government Business Enterprises

[illegible]



