

2004 CONSOLIDATED FINANCIAL STATEMENTS

2004

Financial Annual Report

MANAGEMENT'S REPORT

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

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

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

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

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

Toronto, Canada
April 23, 2005

Joseph P. Pennachetti
Chief Financial Officer & Treasurer

Shirley Hoy
CAO

AUDITORS' REPORT

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

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

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

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

Toronto, Canada,
April 29, 2005

Ernst + Young LLP

Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended December 31, 2004

(with comparative figures for December 31, 2003)

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

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

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

For the year ended December 31, 2004

(with comparative figures for December 31, 2003)

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2004

(with comparative figures for December 31, 2003)

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

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

ANALYSIS OF CONSOLIDATED CURRENT OPERATIONS – SCHEDULE 1

For the year ended December 31, 2004

(with comparative figures for December 31, 2003)

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

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

ANALYSIS OF CONSOLIDATED CURRENT OPERATIONS – SCHEDULE 1

For the year ended December 31, 2004

(with comparative figures for December 31, 2003)

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

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

ANALYSIS OF CONSOLIDATED CAPITAL OPERATIONS – SCHEDULE 2

For the year ended December 31, 2004

(with comparative figures for December 31, 2003)

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

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

ANALYSIS OF CONSOLIDATED CAPITAL OPERATIONS – SCHEDULE 2

For the year ended December 31, 2004

(with comparative figures for December 31, 2003)

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

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

ANALYSIS OF CONSOLIDATED RESERVES AND CONSOLIDATED RESERVE FUNDS – SCHEDULE 3

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

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

- 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 Community Housing Corporation
- Toronto Licensing Commission
- Toronto Police Services Board
- Toronto Public Library Board
- Toronto Transit Commission
- Toronto Zoo
- Yonge-Dundas Square

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, 2004

Business Improvement Areas:

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

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

Government Business Enterprises

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

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

Trust Funds

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

Basis of Accounting

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

Capital Assets

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

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, 2004

Government Transfers

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

Reserves and Reserve Funds

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

2. Investments

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

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

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

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

3. Note Receivable – Toronto Hydro Corporation

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

4. Investments in Government Business Enterprises

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

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

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

5. Deferred Revenue

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

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

6. Landfill Closure and Post-Closure Liabilities

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

monitoring, maintenance of drainage structures, monitoring leachate and landfill gas, and maintenance of the landfill cover.

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

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

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

7. Mortgages Payable

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

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

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

8. Net Long-Term Debt

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

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

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

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

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

Pension Plans

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

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

Employees contribute a portion (varying amounts ranging from 5% to 8 1/2%) 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:

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

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:

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

Vested Sick Leave Benefit Liability

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

Workplace Safety and Insurance Board Obligations

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

Other Employment and Post-Employment Benefits

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

10. Amounts to be Recovered in Future Years

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

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

11. Capital Fund

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

12. Expenditures by Object

Expenditures by object comprise the following:

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

13. Trust Funds

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

14. Public Liability Insurance

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

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

15. Budget Data

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

16. Contingencies and Commitments

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

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

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

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

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

17. Public Sector Salary Disclosure Act 1996

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

18. Comparative Consolidated Financial Statements

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – APPENDIX 1

December 31, 2004

Details of reserves and reserve funds

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

