

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 the operations for which the City is responsible. The consolidated financial statements are intended to outline to the public, the City's debenture holders and the credit rating agencies how the revenues raised by the City during the previous year were spent and to describe the state of the City's finances at the end of the fiscal year.

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

The Consolidated Financial Statements encompass the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Provides a summary of the City's financial assets and liabilities (the net resources the City has for future services and/or what future revenues need to be raised to pay for past transactions)
Consolidated Statement of Financial Activities	Outlines funds raised by the City in the year and what those funds were used for – this statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities
Consolidated Statement of Cash Flows	Summarizes how the City's cash position 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 2005 Budget
Analysis of Capital Operations	Outlines funds raised by the City in the year for capital operations and what those funds were used for and how they compared to the 2005 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 2005 Budget

The consolidated financial statements combine the financial results of the City's departments with the financial results of the agencies, boards, commissions and government business enterprises that the City effectively controls. There are 88 entities that are included in the consolidated financial statements and these are listed in note 1 to the consolidated financial statements. The remaining notes to the consolidated financial statements provide further detail about the City's financial results and are an integral part of the statements.

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

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

TREASURER'S REPORT

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

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

The Operating Fund is primarily made up of the City's financial interest in its government business enterprises which consist of Toronto Hydro, Toronto Parking Authority, TEDCO and Enwave. It also includes the net financial interest in the City's agencies, boards and commissions (ABCs) of which the TTC, Toronto Community Housing Corporation (TCHC) and the Toronto Atmospheric Fund are the most prominent. The smallest portion of the fund represents the previous year's City surplus. The Capital Fund represents the net position of the City's capital projects. If the fund is in a deficit position, as it is in 2005, it indicates that the financing (such as a debt issuance) for these projects has yet to occur.

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

In addition to the reserves and reserve funds, the City also has received funds for specific purposes that have been deferred until related expenditures occur in the future. For example, developer charges and parkland dedication fees received are not recognized as revenues until such time as the projects for which the funds were raised are constructed. These funds are not included in the Municipal Position. A breakdown of the City's deferred revenues can be found in note 6 to the consolidated financial statements.

The Consolidated Statement of Financial Activities is sometimes considered to be the municipal equivalent to the private sector's income statement. However, like the Statement of Financial Position, there is an important distinction. Although the statements are on an accrual basis of accounting for most assets and liabilities, it is not "full" accrual accounting in that the cost of the City's physical assets are not amortized and depreciated over their useful life. Instead, the costs of the City's physical assets are expensed 100 per cent in the year they were purchased or built. PSAB is expected to announce later this year that all Canadian municipalities will be required to account for and report on their physical assets as of January 1, 2009.

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

The focus of this statement is the net expenditure/revenue figure found in the middle of the statement. A net expenditure figure represents an amount that the City has to finance from sources other than operating revenue. A net revenue figure represents an amount that the City could use to repay past financing or could set aside in reserves for future use. The financing section of the statement below this figure outlines the new long-term debt the City has issued (debentures) or assumed (employee benefits, property and liability claims, solid waste obligation) in the year and the debt retired in the year.

TREASURER'S REPORT

ACCOUNTING CHANGES

The 2005 consolidated financial statements reflect a new PSAB standard for local governments relating to accounting and disclosure of liabilities and contingencies. Liabilities are now accounted for and reported when losses are considered likely and the amounts can be reasonably determined. The impact of this change is described in Note 2 to the Consolidated Financial Statements and relates to property and liability claims which were previously accounted for only upon the payment of a claim. The estimated liability for these claims is \$160 million as at December 31, 2005 .

2005 Highlights

- The City collected revenues of \$7.879 billion and spent \$8.111 billion for a net consolidated expenditure of \$232 million before long-term financing.
- As a result, the City's net financial liabilities increased from \$2.155 billion to \$2.388 billion.
- The level of unfinanced capital expenditure was decreased by \$120 million.
- Cash and investments increased by \$207 million to a total of \$2.645 billion.
- The City's investment in its government business enterprises decreased by \$23 million in 2005 to total \$1.013 billion.
- Net long-term debt to third parties increased by \$284 million to stand at \$1.965 billion at the end of the year.
- Mortgage debt obligations of Toronto Community Housing Corporation declined by \$27 million to a total of \$965 million at year end.
- The employee benefits liability increased by \$135 million to \$2.112 billion.

ANALYSIS

Current Operations – Budget to Actual Comparison

Net revenues	2005 <i>(in thousands of dollars)</i>		
	Budget	Actual	Difference
Property tax revenues	3,151,673	3,235,363	83,690
User charges	1,791,199	1,766,557	(24,642)
Government transfers	1,654,052	1,591,894	(62,158)
Other revenues	684,604	693,175	8,571
	7,281,528	7,286,989	5,461
Expenditures	6,944,257	6,958,287	14,030
Net revenues	337,271	328,702	(8,569)

The favourable variance in property tax revenues is due to the City's more aggressive approach to ensure that new construction is assessed on a timely basis. As a result, additional resources applied by the Municipal Property Assessment Corporation in 2005 to assess built or renovated properties from 2004 and 2003 resulted in additional tax revenues of \$43 million. In addition, payments in lieu of taxes exceeded budget by \$43 million and relate to the fact that these revenues are budgeted on a net basis whereas payment in lieu revenues are recorded on a gross basis with write-offs reflected in general government expenditures. The unfavourable results in user charges relate to a \$22 million shortfall in the sale of water due to assumptions made with respect to consumption that did not materialize and a \$2 million reduction in paid waste tonnage at solid waste transfer stations. Government transfers were under budget by \$60 million due to reduced recoveries under cost shared programs in social assistance and social housing as a result of lower expenditures incurred in those programs.

TREASURER'S REPORT

Expenditures	2005 <i>(in thousands of dollars)</i>		
	Budget	Actual	Difference
General government	570,029	550,613	19,416
Protection to persons and property	1,174,837	1,186,236	(11,399)
Transportation	1,415,058	1,417,252	(2,194)
Environmental services	549,461	555,938	(6,477)
Health services	301,565	315,260	(13,695)
Social and family services	1,642,433	1,596,895	45,538
Social housing	689,540	697,943	(8,403)
Recreational and cultural services	561,702	597,759	(36,057)
Planning and development	39,632	40,391	(759)
Total	6,944,257	6,958,287	(14,030)

The City budgets for employee benefits on a cash basis but reports these costs on an accrual basis in these consolidated financial statements. As a result, the 2005 Budget does not include \$135 million of employee benefit costs that have been incurred but are payable in future years whereas the actual expenditures reported in these consolidated financial statements, and reflected in all of the above expenditure categories, include these costs.

General government includes the expenditures of Council, internal support services and certain corporate programs such as property taxation. General government expenditures were under budget by \$19 million, due primarily to a \$30 million under expenditure in the allowance for property tax appeals as a result of the City becoming more active in the review of property assessments and participating in the tax appeal process for large properties. This was partially offset by unbudgeted property and liability claim expenditures of \$12 million as a result of the change in accounting for these liabilities during 2005 as noted earlier in this report.

Protection to persons and property includes the costs of Police, Fire, Building Services, Conservation Authority levies, and the Provincial Offences Act (POA) Courts. Actual costs in Fire were higher than budget due to an allocation of \$4 million in debenture debt costs in excess of budget.

Health Services expenditures were over budget due to higher than planned ambulance overtime costs related to patient offloading at hospitals and unbudgeted ambulance wage and benefit costs related to harmonization.

Social and family services expenditures were under budget due to a lower than budgeted number of caseloads, a lower than budgeted volume of services in Hostel Services and a delay in the construction of several large housing and shelter development projects.

Recreational and cultural services includes parks, recreation, cultural services, the Library Board and certain other City ABCs such as Exhibition Place, Toronto Zoo and Hummingbird Centre. Expenditures exceeded budget primarily due to overspending for hydro costs, salary expenditures and unanticipated storm damage costs in Parks, Forestry and Recreation.

TREASURER'S REPORT

Adjustments to prior year's results

Included in the 2005 consolidated financial statements are two adjustments related to results in prior years. The impact of these adjustments are outlined in Note 18 to the consolidated financial statements.

The first item arises due to a spreadsheet error in the calculation of the present value of estimated future costs for post-closure costs in solid waste landfill liability estimates that was discovered this year and resulted in an increase of \$16 million in this liability as at December 31, 2004. The increase in this liability is offset by a similar increase in amounts to be recovered in future years as these liability estimates impact on tax levies that become necessary over the next 40 years. There is no net impact of this error on 2004 results as environmental services has been decreased by \$1 million and financing provided by changes in these obligations has been decreased by a similar amount.

The second item arises in the conversion of the accounts of Toronto Community Housing Corporation from a commercial basis of accounting to the PSAB basis which is followed in the preparation of these consolidated financial statements. In 2002, staff changed the consolidation procedure for TCHC but did not fully change the old procedures, resulting in the processing of an incorrect entry and the duplication of an elimination entry. These were identified in the 2005 consolidation process and the effect has been to reduce consolidated accounts receivable as at December 31, 2004 by \$24 million, to reduce the consolidated operating fund balance as at that date by a similar amount and to reduce consolidated other revenues reported for 2004 by \$25 million.

Comparison to the prior year

Net revenues for 2005 have increased when compared with 2004.

Net revenues	<i>(in thousands of dollars)</i>		
	2005	2004	Difference
Property tax revenues	3,235,363	3,096,416	138,947
User charges	1,766,557	1,681,994	84,563
Government transfers	1,591,894	1,527,933	63,961
Other revenues	693,175	599,450	93,725
	7,286,989	6,905,793	381,196
Expenditures	6,958,287	6,656,183	302,104
Net revenues	328,702	249,610	79,092

Property tax revenues increased in 2005 due to tax rate increases of 3 per cent and 1.5 per cent in the residential and commercial classes respectively, and an increase in supplementary taxes of \$43 million. Other revenues increased primarily because of a \$13 million increase in gross investment earnings, and \$12 million from the sale of land, \$14 million from a settlement with the Province upon the cancellation of certain housing projects, \$10 million from interest earned on sinking fund debentures and \$60 million in funds transferred from obligatory reserve funds.

TREASURER'S REPORT

Expenditures	<i>(in thousands of dollars)</i>		
	2005	2004	Difference
General government	550,613	546,505	4,108
Protection to persons and property	1,186,236	1,232,623	(46,387)
Transportation	1,417,252	1,340,054	77,198
Environmental services	555,938	536,389	19,549
Health services	315,260	302,864	12,396
Social and family services	1,596,895	1,488,463	108,432
Social housing	697,943	628,977	68,966
Recreational and cultural services	597,759	544,099	53,660
Planning and development	40,391	36,209	4,182
Total	6,958,287	6,656,183	302,104

Capital Operations

Budget to Actual Comparison

Net Expenditures	<i>(in thousands of dollars)</i>		
	2005 Budget	2005 Actual	2004 Actual
Expenditures	1,681,565	1,152,818	1,122,462
Revenues	705,753	522,392	404,920
Debentures	615,906	500,000	375,000
Operating fund transfers	197,308	197,248	163,402
Net reserve/reserve fund transfers	131,757	42,405	35,197
Landfill obligations	-	10,434	3,568
Total revenues and financing	1,650,724	1,272,479	982,087
Net expenditures (financing)	30,841	(119,661)	140,375

Capital expenditure levels continue to be well under budget. The principle reason for the under expenditure were delays encountered due to scheduling requirements and the need to integrate construction schedules of several capital projects.

Current Accounts

Note 3 to the consolidated financial statements provides details about the City's investment portfolios and their yields. Note 4 provides additional information on the City's note receivable from Toronto Hydro. Information about the City's government business enterprises is found in note 5 and Appendix 2 to the consolidated financial statements.

Taxes Receivable

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

TREASURER'S REPORT

Taxes Receivable	<i>(in millions of dollars)</i>	
	2005	2004
Current year	191.9	154.5
Prior year	34.7	25.7
Previous years	21.9	39.6
Interest/penalty	29.4	29.5
Less: allowance for doubtful accounts	(11.2)	(23.3)
Net receivables	266.7	226.0

The increase in current year taxes relates primarily to supplementary tax levies billed late in the year for \$20 million and the automated transfer to the Collector's Roll during 2005 of overdue water accounts of which \$12 million was outstanding at year-end.

Accounts Payable

The breakdown of accounts payable and accrued liabilities at December 31, 2005 with 2004 comparatives is as follows:

Accounts Payable	<i>(in millions of dollars)</i>	
	2005	2004
Local Board trade payables	331.9	306.8
City trade payables and accruals	744.1	775.0
Payable to school boards	262.5	291.7
Provision for assessment appeals	314.5	263.9
Credit balances on property tax accounts	66.4	75.2
Payroll liabilities	81.6	68.2
Total	1,801.0	1,780.8

Accounts Receivable

The breakdown of accounts receivable and accrued amounts owed to the City at December 31, 2005 with 2004 comparatives is as follows:

Accounts Receivable	<i>(in thousands of dollars)</i>	
	2005	2004
Government of Canada	120,789	17,061
Government of Ontario	30,325	839
Other municipal governments	978	1,288
School board	1,345	3,778
Water fees	88,229	103,669
Other	471,883	489,231
Total	713,469	615,866

The increases in amounts due from the federal and provincial governments are attributed to new funding available for infrastructure and transit expenditures pursuant to the gas tax agreements with the federal and provincial governments of \$98 million and \$30 million respectively.

TREASURER'S REPORT

Significant Trends

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

Financial Activities

Capital and Operating

(in thousands of dollars)

Consolidated Net Expenditures	Avg. Annual Increase	2005	2004	2003	2002	2001
Revenues	3.98%	7,879,032	7,354,486	7,230,705	7,084,372	6,745,486
Expenditures	4.33%	8,111,105	7,778,645	7,360,506	7,081,194	6,845,850
Net (expenditures) revenues	A	(232,073)	(424,159)	(129,801)	3,178	(100,364)

(in thousands of dollars)

Financing		2005	2004	2003	2002	2001
Net new debentures and mortgages net of repayment		271,936	198,003	138,826	3,670	72,692
Increase in unfunded liabilities		156,989	217,929	131,612	135,182	170,633
Increase (decrease) in inventories and prepaid expenses		1,107	1,536	18,483	(6,454)	(14,048)
Total financing and inventory change	B	430,032	417,468	288,921	132,398	229,277
Increase (decrease) in Fund balances	(A+B)	197,959	(6,691)	159,120	135,576	128,913

The trend of expenditure levels exceeding revenues continued in 2005 and has been financed with the issuance of increasingly higher levels of debenture debt (\$272 million total net) and increases in unfunded liabilities (\$157.0 million). The increase in unfunded liabilities, while not requiring cash funding in the current year, will require higher tax levies in future years in the absence of the realization of other sources of revenue.

Revenues

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

TREASURER'S REPORT

(in thousands of dollars)

Consolidated Revenues	Avg. Annual Increase	2005	2004	2003	2002	2001
Property taxes	2.18%	3,235,363	3,096,416	2,983,563	2,968,475	2,970,485
User charges	3.76%	1,766,557	1,681,994	1,635,996	1,625,970	1,525,665
Senior government transfers	7.10%	1,831,399	1,600,688	1,636,202	1,576,589	1,403,198
Other	5.49%	1,045,713	975,388	974,944	913,338	846,138
Total	3.98%	7,879,032	7,354,486	7,230,705	7,084,372	6,745,486

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

*Financial Position**(in thousands of dollars)*

Net Liabilities	2005	2004	2003	2002	2001
Liabilities	8,067,913	7,526,205	6,615,416	6,431,411	6,236,701
Financial Assets, inventories and prepaid expenses	5,825,636	5,514,894	5,163,189	5,052,657	4,861,223
Net Liabilities	2,242,277	2,011,311	1,452,227	1,378,754	1,375,478

As mentioned earlier in this report, the City's physical or "fixed" assets, including land, buildings, equipment and infrastructure, are not disclosed in these financial statements but needs to be considered in any review of the City's financial position. The City's net liabilities have increased by an average annual rate of 11.0 per cent over the last five years and is attributable to increases in long-term debt to third parties and in employee benefit liabilities. The following table illustrates this:

(in thousands of dollars)

Long-Term Debt	Avg. Annual Increase	2005	2004	2003	2002	2001
Third Party Debt:						
Debentures	11.54%	1,794,950	1,505,361	1,301,457	1,158,827	1,171,388
Provincial loan	(1.88%)	170,171	175,331	175,331	183,750	183,750
TCHC Mortgages	(1.88%)	965,396	992,571	1,017,078	1,035,843	1,041,603
	5.23%	2,930,517	2,673,263	2,493,866	2,378,420	2,396,741
Employee Benefit Liabilities	8.07%	2,112,288	1,977,775	1,791,750	1,654,495	1,549,119
Total	6.36%	5,042,805	4,651,038	4,285,616	4,032,915	3,945,860

Additional information on the mortgage obligations of Toronto Community Housing Corporation can be found in Note 8 in the consolidated financial statements. Note 9 in the consolidated financial statements provides additional information about the provincial loan and the City's debenture debt. Further details about the City's employee benefits liabilities can be found in Note 10 to the consolidated financial statements.

TREASURER'S REPORT

(in thousands of dollars)

Reserves and Reserve Funds	2005	2004	2003	2002	2001
Reserves	196,485	178,801	269,685	319,558	238,906
Reserve Funds	694,412	700,128	663,478	571,834	442,118
Total	890,897	878,929	933,163	891,392	681,024

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

Summary

The City's net financial liabilities increased in 2005 largely due to increases in long-term debt and unfunded employee benefit liabilities. In absence of new revenue sources, the City will need to rely increasingly on debt to finance its capital program and to implement significant property tax increases to finance the operating program. While some progress has been made in securing additional revenue sharing arrangements with the federal and provincial governments, the City still requires new revenue streams that grow with the economy so that fiscal sustainability can be achieved.

VOLUME 3

2005 CONSOLIDATED FINANCIAL STATEMENTS

The audited numbers for vigilance in
fiscal prudence



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AUDITED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

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

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

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

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

The 2005 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 28, 2006

Cam Weldon
Treasurer

Joseph P. Pennachetti
Deputy City Manager & Chief Financial Officer

Shirley Hoy
City Manager

AUDITORS' REPORT

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

We have audited the consolidated statement of financial position of the City of Toronto as at December 31, 2005 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, 2005 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
May 5, 2006.

Ernst + Young LLP

Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2005

(with comparative figures as at December 31, 2004)

	2005	2004
	(\$000)	(\$000) (Restated) (Notes 2 and 18)
FINANCIAL ASSETS		
Cash	54,753	65,187
Accounts receivable	713,469	615,866
Property taxes receivable	266,735	225,963
Other assets	4,397	2,839
Investments (Note 3)	2,590,043	2,372,396
Note receivable – Toronto Hydro Corporation (Note 4)	980,231	980,231
Receivable from Toronto District School Board (Note 9)	58,021	72,703
Investments in government business enterprises (Note 5)	1,012,568	1,035,397
Total Financial Assets	5,680,217	5,370,582
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	1,800,992	1,780,751
Deferred revenue (Note 6)	882,968	783,328
Other liabilities (Notes 2 and 16)	216,123	196,497
Landfill closure and post-closure liabilities (Note 7)	125,025	114,591
Mortgages payable (Note 8)	965,396	992,571
Net long-term debt (Note 9)	1,965,121	1,680,692
Employee benefit liabilities (Note 10)	2,112,288	1,977,775
Total Financial Liabilities	8,067,913	7,526,205
NET FINANCIAL LIABILITIES	(2,387,696)	(2,155,623)
NON-FINANCIAL ASSETS		
Inventories and prepaid expenses	145,419	144,312
NET LIABILITIES	(2,242,277)	(2,011,311)
MUNICIPAL POSITION		
FUND BALANCES		
Operating fund (Schedule 1)	2,381,862	2,315,532
Capital fund (Note 12 and Schedule 2)	(245,159)	(364,820)
Reserves and reserve funds (Schedule 3)	890,897	878,929
TOTAL FUND BALANCES	3,027,600	2,829,641
Amounts to be recovered in future years:		
From reserves and reserve funds on hand	(283,287)	(294,386)
From future revenues	(4,986,590)	(4,546,566)
TOTAL AMOUNTS TO BE RECOVERED (Note 11)	(5,269,877)	(4,840,952)
TOTAL MUNICIPAL POSITION	(2,242,277)	(2,011,311)

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

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

For the year ended December 31, 2005
(with comparative figures for the year ended December 31, 2004)

	2005 BUDGET (\$'000) (Note 15)	2005 ACTUALS (\$'000)	2004 ACTUALS (\$'000) (Restated) (Notes 2 and 18)
REVENUES			
Residential and commercial property taxation	3,067,743	3,122,120	3,016,817
Taxation from other governments	83,930	113,243	79,599
User charges	1,791,199	1,766,557	1,681,994
Funding transfers from other governments	1,796,780	1,831,399	1,600,688
Net government business enterprise earnings (Note 5)	-	102,376	112,215
Other	1,312,102	943,337	863,173
TOTAL REVENUES	8,051,754	7,879,032	7,354,486
EXPENDITURES			
General government	695,293	612,754	602,039
Protection to persons and property	1,276,543	1,253,880	1,287,582
Transportation	2,131,692	1,963,608	1,888,948
Environmental services	943,094	781,706	755,952
Health services	314,675	324,191	310,547
Social and family services	1,677,569	1,610,249	1,520,593
Social housing	797,420	797,505	722,452
Recreation and cultural services	688,070	691,791	632,941
Planning and development	101,466	75,421	57,591
TOTAL EXPENDITURES (Note 13)	8,625,822	8,111,105	7,778,645
NET EXPENDITURES AND INCREASE IN NET FINANCIAL LIABILITIES	(574,068)	(232,073)	(424,159)
FINANCING			
New long-term debt and mortgages issued	615,906	500,000	375,000
Principal repayments on long-term debt and mortgages	(178,631)	(198,451)	(154,952)
Interest earned on sinking funds	-	(29,613)	(22,045)
Changes in solid waste landfill obligations	-	10,434	3,568
Changes in property and liability claims	-	12,042	28,336
Changes in employee benefit liabilities	-	134,513	186,025
NET INCREASE IN AMOUNTS TO BE RECOVERED IN FUTURE YEARS	437,275	428,925	415,932
INCREASE IN NON-FINANCIAL ASSETS	-	1,107	1,536
INCREASE (DECREASE) IN FUND BALANCES	(136,793)	197,959	(6,691)
FUND BALANCES - BEGINNING OF YEAR	909,770	2,829,641	2,836,332
FUND BALANCES - END OF YEAR	772,977	3,027,600	2,829,641

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2005

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

	2005 (\$000)	2004 (\$000) (Restated) (Notes 2 and 18)
OPERATIONS		
Net expenditures for the year	(232,073)	(424,159)
Uses of cash:		
Increase in accounts receivable	(97,603)	(100,026)
Increase in property taxes receivable	(40,772)	-
Increase in other assets	(1,558)	-
Decrease in other liabilities	-	(35,003)
	(139,933)	(135,029)
Sources of cash:		
Decrease in other assets	-	2,588
Decrease in property taxes receivable	-	21,026
Increase in accounts payable accrued liabilities	20,241	200,088
Increase in deferred revenue	99,640	239,439
Increase in other liabilities	19,626	-
Increase in landfill closure and post-closure liabilities	10,434	3,568
Increase in employee benefit liabilities	134,513	186,025
	284,454	652,734
Net increase (decrease) in cash from operations	(87,552)	93,546
INVESTING		
Net increase in investments	(217,647)	(234,441)
Net decrease (increase) in investments in government business enterprises	22,829	(75,994)
Net decrease in receivable from Toronto District School Board	14,682	18,606
Net decrease in cash from investing	(180,136)	(291,829)
FINANCING		
New long-term debt and mortgages issued	500,000	375,000
Principal repayments on long-term debt and mortgages	(198,451)	(154,952)
Interest earned on sinking funds	(29,613)	(22,045)
Principal repayments on debt by Toronto District School Board	(14,682)	(18,606)
Net increase in cash from financing	257,254	179,397
NET DECREASE – CASH	(10,434)	(18,886)
CASH – BEGINNING OF YEAR	65,187	84,073
CASH – END OF YEAR	54,753	65,187

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, 2005

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

	2005 BUDGET (\$'000)	2005 ACTUALS (\$'000)	2004 ACTUALS (\$'000) (Restated) (Notes 2 and 18)
EXPENDITURES			
General government			
Council	17,881	17,254	17,348
Administration	428,339	441,289	404,728
Ontario property assessment	31,200	29,881	29,004
Allowance for property tax appeals	92,609	62,189	95,425
	570,029	550,613	546,505
Protection to persons and property			
Fire	309,794	325,066	347,522
Police	749,000	743,926	774,841
Building services	80,045	81,666	76,363
Other	35,998	35,578	33,897
	1,174,837	1,186,236	1,232,623
Transportation			
Transit	1,068,088	1,074,846	1,011,631
Road/traffic signals maintenance	346,970	342,406	328,423
	1,415,058	1,417,252	1,340,054
Environmental services			
Water	157,450	164,174	163,984
Wastewater	180,701	180,756	174,116
Solid waste	211,310	211,008	198,289
	549,461	555,938	536,389
Health services			
Ambulance	126,853	140,283	139,229
Public health services	174,712	174,977	163,635
	301,565	315,260	302,864
Social and family services			
Social assistance	1,160,614	1,118,964	1,045,260
Long-term care	181,154	182,627	169,507
Child care assistance	300,665	295,304	273,696
	1,642,433	1,596,895	1,488,463
Social housing			
	689,540	697,943	628,977
Recreation and cultural services			
Parks	107,550	122,831	107,788
Recreation	211,613	230,380	187,729
Other	242,539	244,548	248,582
	561,702	597,759	544,099
Planning and development			
Planning	29,685	28,733	25,389
Business development	9,947	11,658	10,820
	39,632	40,391	36,209
Total Expenditures	6,944,257	6,958,287	6,656,183

ANALYSIS OF CONSOLIDATED CURRENT OPERATIONS - SCHEDULE 1

For the year ended December 31, 2005

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

	2005 BUDGET (\$'000)	2005 ACTUALS (\$'000)	2004 ACTUALS (\$'000) (Restated) (Notes 2 and 18)
REVENUES			
Residential and commercial property taxation	3,067,743	3,122,120	3,016,817
Taxation from other governments	83,930	113,243	79,599
User charges:			
Transit fares	705,300	714,509	685,425
Water sales	561,427	541,132	476,101
Fines	120,879	130,991	133,126
Licenses and permits	100,186	94,955	92,750
Fees and service charges	303,407	284,970	294,592
Government transfers:			
Social assistance	694,520	650,208	623,899
Child care assistance	209,667	203,273	185,659
Health services	106,658	104,954	89,957
Social housing	388,988	365,436	354,844
Other	254,219	268,023	273,574
Investment income	226,119	138,863	125,437
Net government business enterprises earnings (Note 5)	-	102,376	112,215
Other	458,485	451,936	361,798
Total Revenues	7,281,528	7,286,989	6,905,793
NET REVENUES FOR THE YEAR	337,271	328,702	249,610
FINANCING AND TRANSFERS			
Principal repayments on long-term debt and mortgages	(178,631)	(198,451)	(154,952)
Interest earned on sinking funds	-	(29,613)	(22,045)
Changes in employee benefit liabilities	-	134,513	186,025
Changes in property and liability claims	-	12,042	28,336
Transfers from (to) reserves	(33,962)	(50,477)	44,997
Transfers from reserve funds	72,630	65,755	17,813
Transfers to capital fund	(197,308)	(197,248)	(163,402)
Total Financing and Transfers	(337,271)	(243,479)	(63,228)
Increase in Non-Financial Assets	-	1,107	1,536
NET INCREASE IN OPERATING FUND BALANCE FOR THE YEAR	-	66,330	187,918
OPERATING FUND BALANCE - BEGINNING OF YEAR	-	2,315,532	2,127,614
OPERATING FUND BALANCE - END OF YEAR	-	2,381,862	2,315,532

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, 2005

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

	2005 BUDGET (\$'000)	2005 ACTUALS (\$'000)	2004 ACTUALS (\$'000) (Restated) (Note 18)
EXPENDITURES			
General government	125,264	62,141	55,534
Protection to persons and property			
Fire 28,152	13,829	10,497	
Police	65,219	45,628	32,628
Other	8,335	8,187	11,834
	101,706	67,644	54,959
Transportation			
Transit	405,042	389,481	324,301
Roads	311,592	156,875	224,593
	716,634	546,356	548,894
Environmental services			
Water	204,945	112,641	112,808
Wastewater	144,119	73,739	61,300
Solid waste	44,569	39,388	45,455
	393,633	225,768	219,563
Health services			
Ambulance	11,597	8,141	6,920
Public health services	1,513	790	763
	13,110	8,931	7,683
Social and family services			
Social assistance	10,426	5,531	14,552
Long-term care	11,734	5,172	12,240
Child care assistance	12,976	2,651	5,338
	35,136	13,354	32,130
Social housing	107,880	99,562	93,475
Recreation and cultural services			
Parks	46,397	22,736	20,094
Recreation	48,711	26,770	29,405
Other	31,260	44,526	39,343
	126,368	94,032	88,842
Planning and development			
Planning	8,663	3,050	4,290
Business development	53,171	31,980	17,092
	61,834	35,030	21,382
Total Expenditures	1,681,565	1,152,818	1,122,462

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, 2005

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

	2005 BUDGET	2005 ACTUALS	2004 ACTUALS
	(\$000)	(\$000)	(\$000) (Restated) (Note 18)
REVENUES			
Government of Canada transfers	54,591	164,427	12,661
Province of Ontario transfers	88,137	75,078	60,094
Other municipalities	17,503	4,843	1,236
Other	545,522	278,044	330,929
Total Revenues	705,753	522,392	404,920
NET EXPENDITURES FOR THE YEAR	(975,812)	(630,426)	(717,542)
FINANCING AND TRANSFERS			
New long-term debt and mortgages issued	615,906	500,000	375,000
Changes in solid waste landfill obligations (Note 7)	-	10,434	3,568
Transfers from operating fund	197,308	197,248	163,402
Transfers from reserves	82,629	32,793	15,822
Transfers from reserve funds	49,128	9,612	19,375
Total Financing and Transfers	944,971	750,087	577,167
NET INCREASE (DECREASE) IN CAPITAL FUND BALANCE FOR THE YEAR	(30,841)	119,661	(140,375)
CAPITAL FUND BALANCE - BEGINNING OF YEAR	30,841	(364,820)	(224,445)
CAPITAL FUND BALANCE - END OF YEAR	-	(245,159)	(364,820)

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, 2005

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

	2005 BUDGET (\$'000)	2005 ACTUALS (\$'000)	2004 ACTUALS (\$'000)
RESERVES			
TRANSFERS FROM (TO) OTHER FUNDS			
Reserve fund	-	-	(30,065)
Operating fund	33,962	50,477	(44,997)
Capital fund	(82,629)	(32,793)	(15,822)
NET TRANSFERS FROM (TO) OTHER FUNDS FOR THE YEAR	(48,667)	17,684	(90,884)
RESERVES BALANCE - BEGINNING OF YEAR	178,801	178,801	269,685
RESERVES BALANCE - END OF YEAR	130,134	196,485	178,801
RESERVE FUNDS			
REVENUES			
Sale of land	27,761	17,713	6,570
Investment income	36,712	34,111	31,658
Other	-	17,827	5,545
TOTAL REVENUES	64,473	69,651	43,773
TRANSFERS FROM (TO) OTHER FUNDS			
Reserves	-	-	30,065
Operating fund	(72,630)	(65,755)	(17,813)
Capital fund	(49,128)	(9,612)	(19,375)
NET TRANSFERS TO OTHER FUNDS	(121,758)	(75,367)	(7,123)
NET INCREASE (DECREASE) IN RESERVE FUNDS BALANCE FOR THE YEAR	(57,285)	(5,716)	36,650
RESERVE FUNDS BALANCE - BEGINNING OF YEAR	700,128	700,128	663,478
RESERVE FUNDS BALANCE - END OF YEAR	642,843	694,412	700,128
TOTAL RESERVES AND RESERVE FUNDS	772,977	890,897	878,929

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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 ("PSAB") 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, 2005

Business Improvement Areas:

- Beaches Bloor Annex
- Bloor by the Park
- Bloorcourt Village
- Bloordale Village
- Bloor West Village
- Bloor-Yorkville
- Church-Wellesley
- College Promenade
- Corso Italia
- The Danforth
- Dovercourt Village
- Downtown Yonge
- Eglinton Hill
- Eglinton Way
- Emery Village
- Forest Hill Village
- Gerrard India Bazaar
- Greektown on the Danforth
- Harbord Street
- Hillcrest Village
- Junction Gardens
- Kennedy Road
- Kingsway
- Knob Hill Plaza
- Korea Town
- Lakeshore Village
- Liberty Village
- Little Italy
- Long Branch
- Mimico by the Lake
- Mimico Village
- Mirvish Village
- Mount Dennis
- Old Cabbagetown
- Parkdale Village
- Pape Village
- Queens Quay Harbour-Front
- Riverside
- Roncesvalles Village
- Rosedale Main Street
- St. Clair Gardens
- St. Clair Avenue West
- St. Lawrence Neighbourhood
- Upper Village (Toronto)
- Upper Village (York)
- Village of Islington
- Weston
- West Queen West
- Wexford
- Wexford Wychwood Heights
- 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, inter-organizational gains and losses are however eliminated on assets remaining within the government reporting entities at the reporting date.

- 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 14).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

Basis of Accounting

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

Capital Assets

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

Use of Estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures for the year. These estimates and assumptions, including such areas as employee benefits, assessment appeals, claims provisions, landfill liabilities 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.

Property and Liability Claims

Estimated costs to settle claims are based on available loss information and projections of estimated future expenditures developed from the City's historical experience on loss payments. Claims are reported as an operating expenditure in the year of the loss, where the costs are deemed to be likely and can be reasonably determined, and are reported as a liability on the Consolidated Statement of Financial Position.

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 Closure and 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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 employee benefits are amortized over the average remaining service life of the related employee group. Employee future benefit liabilities are discounted using current interest rates on long-term bonds. The costs of workplace safety and insurance obligations are actuarially determined and are expensed.

Government Transfers

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

Reserves and Reserve Funds

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

2. Change in Accounting Policy

The City has adopted the new accounting and disclosure requirements for local governments related to liabilities and contingencies as prescribed by PSAB and has applied these requirements on a retroactive basis. As a result, liabilities related to property and liability claims, previously recorded upon payment of a claim, are now reported as liabilities when losses are considered likely and the amounts can be reasonably determined.

The effect of this change has been to increase the 2004 general government expenditures and financing provided by the changes in property and liability claims by \$28,336,000 on the Consolidated Statement of Financial Activities, to increase the 2004 provision for claims included in other liabilities and amounts to be recovered in future years on the Consolidated Statement of Financial Position by \$148,026,000 and to increase the opening 2004 provision for claims and amounts to be recovered in future years by \$119,690,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

3. Investments

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

	2005		2004	
	Cost (\$000)	Market Value (\$000)	Cost (\$000)	Market Value (\$000)
Federal government bonds	460,773	479,066	433,121	451,175
Provincial government bonds	639,072	671,033	447,872	477,448
Municipal government bonds	403,503	430,977	391,019	419,438
Money market instruments	434,022	434,762	654,835	657,598
Corporate bonds	330,588	336,137	170,527	176,840
Other	322,085	323,524	275,022	270,433
	<u>2,590,043</u>	<u>2,675,499</u>	<u>2,372,396</u>	<u>2,452,932</u>

The weighted average yield on the cost of the bond investment portfolio during the year was 4.84% (2004 - 5.17%). Maturity dates on investments in the portfolio range from 2006 to 2035. 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 \$196,339,000 (2004 - \$156,044,000). Other investments include pooled fixed income and equity funds held by the Toronto Community Housing Corporation ("TCHC") as at December 31, 2005 amounting to \$146,155,000 (2004 - \$137,257,000).

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

4. 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 (2004 - 6.8%). Subsequent to year end, the maturity date on this note was extended by Council to May 6, 2013. 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, 2005

5. 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% (2004 - 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:

	2005	2004
	(\$000)	(\$000)
Balance - beginning of year	1,035,397	959,403
Results of operations (Appendix 2)	102,376	112,215
Dividends received (Appendix 2)	(68,000)	(49,200)
Elimination of sale of streetlighting		
assets to Toronto Hydro Corporation (Appendix 2)	(60,000)	-
Subscription to additional Enwave shares	-	9,281
	<u>1,009,773</u>	<u>1,031,699</u>
Subscription to additional Enwave shares, subsequent to October 31 fiscal year end of Enwave	2,795	3,698
Balance - end of year	<u>1,012,568</u>	<u>1,035,397</u>

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 ended December 31 for all government business enterprises except Enwave, whose results are presented based on an October 31 fiscal year end.

The City completed the sale of streetlighting assets to Toronto Hydro Corporation for \$60 million on December 31, 2005. The gain realized by the City on this sale amounted to \$60 million and has been eliminated in these consolidated financial statements. This elimination has reduced the City's share of net equity in Toronto Hydro Corporation as at December 31, 2005 as reflected in the summarized Financial Position in Appendix 2 to these consolidated financial statements and in investments in government business enterprises as reported on the Consolidated Statement of Financial Position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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

	2005	2004
	(\$000)	(\$000)
Received by the City:		
These amounts are included in expenses of the appropriate government business enterprise in the condensed financial results reported in Appendix 2 to these consolidated financial statements		
Interest on note receivable from Toronto Hydro Corporation (Note 4)	66,656	66,656
Share of operating income from Toronto Parking Authority	30,608	36,266
Interest on loans to TEDCO	9	20
Purchased by the City:		
This amount is included in revenues of Toronto Hydro Corporation in the condensed financial results reported in Appendix 2 to these consolidated financial statements.		
Streetlighting electricity and maintenance services from Toronto Hydro Corporation	14,452	14,332

6. 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:

	2005	2004
	(\$000)	(\$000)
Development Charges	190,313	149,179
Water / Wastewater	155,818	99,612
Community Services	105,260	115,546
Third Party Agreements	83,644	61,125
Parkland Acquisition	72,858	53,803
State of Good Repair	22,830	24,705
Planning Act	7,025	5,946
Parking Authority	6,358	6,794
Donations	2,537	2,431
Total	646,643	519,141

7. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

The City has approximately 161 (2004-149) inactive landfill sites and retains responsibility for all costs relating to closure and post-closure care. The City closed its last remaining active landfill site, Keele Valley, on December 31, 2002, and completed its closure activities on this site during 2005.

Post-closure care activities for landfill sites are expected to occur for a minimum of 40 years and will involve surface and ground water monitoring, maintenance of drainage structures, monitoring leachate and landfill gas, and maintenance of the landfill cover.

The estimated liability for the care of landfill sites is the present value of future cash flows associated with closure and post-closure costs discounted using the City's average long-term borrowing rate of 5% (2004 - 5.5%). The estimated present value of future expenditures for closure and post-closure care as at December 31, 2005 is \$125,025,000 (2004 - \$114,591,000).

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, 2005 was \$33,998,000 (2004 - \$31,938,000) and is included as part of State of Good Repair reserve fund in Appendix 1, and the balance in the Keele Valley Site Post-Closure Trust Fund as at December 31, 2005 was \$6,885,000 (2004 - \$6,744,000) (Note 14).

8. Mortgages Payable

The mortgages payable are obligations of TCHC which has provided a security interest in the housing properties owned by TCHC. These properties have a net book value of \$1,362,475,000 (2004 - \$1,382,537,000) 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, 2005 are due as follows:

	\$000
2006	28,544
2007	30,197
2008	31,930
2009	33,653
2010	35,715
Thereafter	805,357
	<u>965,396</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

9. 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:

	2005 (\$000)	2004 (\$000)
Long-term debt issued by the City at various rates of interest ranging from 3.65% to 8.65%	2,443,505	2,110,465
Loans payable to the Province of Ontario at 2.76%	170,171	175,331
Loan payable bearing interest at 8.05%	1,652	1,718
Sinking fund deposits	(650,207)	(606,822)
	<u>1,965,121</u>	<u>1,680,692</u>

Principal repayments relating to net long-term debt of \$1,965,121 outstanding as at December 31, 2005 are due as follows:

	\$000
2006	274,329
2007	250,831
2008	239,030
2009	231,183
2010	207,771
Thereafter	761,977
	<u>1,965,121</u>

Included in net long-term debt are outstanding debentures of \$1,888,000,000 (2004 - \$1,678,000,000) for which there are sinking fund assets with a carrying value of \$666,371,000 (market value - \$720,965,000 (2004 - \$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 \$146,357,000 (market value - \$154,106,000) (2004-\$163,087,000 (market value - \$171,190,000)).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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

	2005	2004
	(\$000)	(\$000)
Property taxes	1,904,772	1,603,207
Water billings	2,328	4,782
Toronto District School Board	58,021	72,703
	<u>1,965,121</u>	<u>1,680,692</u>

10. 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:

	2005	2004
	(\$000)	(\$000)
Future payments required for:		
Pension liabilities, other than OMERS	95,442	103,763
Sick leave benefits	308,308	298,884
Workplace Safety and Insurance Board obligations	289,225	281,135
Other employment and post-employment benefits	1,547,001	1,434,447
Total employee benefit obligation	<u>2,239,976</u>	<u>2,118,229</u>
Less: Unamortized actuarial loss	127,688	140,454
Employee benefit liabilities	<u>2,112,288</u>	<u>1,977,775</u>

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

	2005	2004
	(\$000)	(\$000)
Balance – beginning of year	1,977,775	1,791,750
Current service cost	132,502	144,906
Interest cost	117,572	112,198
Cost of plan amendments	-	29,144
Amortization of actuarial loss	21,410	20,990
Expected benefits paid	(136,971)	(121,213)
Balance – end of year	<u>2,112,288</u>	<u>1,977,775</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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

	2005	2004
	(\$000)	(\$000)
Current period benefit cost	132,502	144,906
Amortization of actuarial loss	21,410	20,990
Interest cost	117,572	112,198
Total expenditures	<u>271,484</u>	<u>278,094</u>

Pension Plans

The City makes contributions to the Ontario Municipal Employees' Retirement System ("OMERS") plan, 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 a result, the City does not recognize any share of the OMERS pension surplus or deficit. Employer contributions for current service amounted to \$101,484,000 (2004 - \$87,941,000) and are matched by employee contributions in a similar amount.

The amount contributed for past service to OMERS for the year ended December 31, 2005 was \$405,000 (2004 - \$161,000). Employer's contributions for current and past service are included as an expenditure on the Consolidated Statement of Financial Activities.

The Toronto Transit Commission also participates in a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit/defined contribution hybrid pension plan that provides pensions to members based on the length of service and average base year (pensionable) earnings. Employer contributions to this plan during 2005 amounted to \$45,033,000 (2004 - \$42,900,000).

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

The plans provide increases in pensions to retirees and their spouses to the extent that an actuarial surplus is available. As at December 31, 2005, there were 36 (2004 - 60) active members with an average age of 60. There were also 5,996 (2004 - 6,319) pensioners and 2,884 (2004 - 2,889) spousal beneficiaries in receipt of a pension, with an average age of 74. Pension payments and refunds during the year were approximately \$200,827,000 (2004 - \$205,355,000).

Employees contribute a portion (varying amounts ranging from 5% to 9.8%) of their salary to the pension plans for current service and the City contributes an equal amount. Member contributions cease upon completion of 35 years of service.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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, the Toronto Civic Employees Pension Plan, is in a surplus position. The accrued benefit asset of this plan as at December 31 includes the following components:

	2005 (\$000)	2004 (\$000)
Accrued benefit obligation – end of year	397,899	412,829
Pension plan assets – end of year	<u>475,306</u>	<u>461,714</u>
Net pension assets	77,407	48,885
Unamortized actuarial losses	<u>52,954</u>	<u>81,055</u>
Accrued benefit asset	<u>130,361</u>	<u>129,940</u>

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, the Metro Toronto Employees Pension Plan and the Toronto Firefighters Pension Plan, includes the following components as at December 31:

	2005 (\$000)	2004 (\$000)
Accrued benefit obligation – end of year	1,146,423	1,173,879
Pension plan assets – end of year	<u>1,087,376</u>	<u>1,081,147</u>
Net pension liability	(59,047)	(92,732)
Unamortized actuarial losses	<u>214,229</u>	<u>269,631</u>
Accrued benefit asset	<u>155,182</u>	<u>176,899</u>

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

The accrued pension liability of the two remaining pension plans, the York Civic Employees Pension Plan and the Toronto Police Pension Plan, is included in employee benefit liabilities on the Consolidated Statement of Financial Position as at December 31 and includes the following components:

	2005 (\$000)	2004 (\$000)
Accrued benefit obligation – end of year	886,580	903,909
Pension plan assets – end of year	754,620	728,279
Net pension liability	(131,960)	(175,630)
Unamortized actuarial losses	36,518	71,867
Accrued pension liability	(95,442)	(103,763)

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, 2004, with the results extrapolated to December 31, 2005. The accrued benefit obligation as at December 31, 2005 is based on actuarial valuations for accounting purposes as at December 31, 2005. 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 10 to 13 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 (2004 – 3%) and the rate of compensation increase is estimated at 4% per annum (2004 – 3.5%) for determining the accrued benefit obligation and benefit cost. The discount rate used to determine the accrued benefit obligation is 5% (2004 – 5.6%) and benefit cost is 5.6% (2004 – 6%) per annum.

Pension plan assets are valued at market values. The expected rate of return on plan assets is 6.75% (2004 – 7%) per annum net of all administrative expenses. The return on the market value of plan assets during the year was 11.2% (2004 – 9.9%).

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

	2005 (\$000)	2004 (\$000)
Current period benefit cost	-	15
Amortization of actuarial losses	7,691	13,267
Interest cost on the average accrued benefit obligation	48,590	57,342
Expected return on average pension plan assets	(47,298)	(49,227)
Net expenditures related to pension plans	8,983	21,397

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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

Vested Sick Leave Benefit Liability

Under the sick leave benefit plan, employees are credited with a maximum of 18 days sick time per annum. Unused sick leave can accumulate and employees may become entitled to a cash payment, capped at one half of unused sick time to a maximum of 130 days when they leave the City's employment. The liability for the accumulated sick leave represents the extent to which sick leave benefits have vested and could be taken in cash by employees on termination. A sick leave reserve fund is established to help reduce the future impact of these obligations. As at December 31, 2005 the balance in the sick leave reserve fund is \$77,699,000 (2004 - \$83,018,000) and is included as part of Employee Benefits reserve fund in Appendix 1. Payments during the year amounted to \$19,556,000 (2004 - \$18,963,000).

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, 2005 the balance in the Workers' Compensation reserve fund is \$9,919,000 (2004 - \$10,780,000) 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 \$26,505,000 (2004 - \$25,443,000).

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, 2005 the balance in the employee benefits reserve fund is \$139,370,000 (2004 - \$144,431,000) and is included as part of Employee Benefits reserve fund in Appendix 1. Payments during the year amounted to \$17,229,000 (2004 - \$20,642,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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, 2005. 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:

	2005	2004
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	11.3%	12.0%

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

11. 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:

	2005 (\$000)	2004 (\$000)
TCHC mortgages (Note 8)	965,396	992,571
Net long-term debt (Note 9)	1,965,121	1,680,692
Employee benefit liabilities (Note 10)	2,112,288	1,977,775
Property and liability claims provisions (Note 16)	160,068	148,026
Landfill closure and post-closure liabilities (Note 7)	125,025	114,591
	<u>5,327,898</u>	<u>4,913,655</u>
Less amounts recoverable from Toronto District School Board (Note 9)	58,021	72,703
	<u>5,269,877</u>	<u>4,840,952</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

12. 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:

	2005 (\$000)	2004 (\$000)
Capital financing received in advance of expenditures	132,793	214,803
Capital expenditures yet to be financed	<u>(377,952)</u>	<u>(579,623)</u>
Capital Fund Balance (Schedule 2)	<u>(245,159)</u>	<u>(364,820)</u>
Capital expenditures yet to be financed are to be funded in future years as follows:		
Long-term liabilities	343,886	530,294
Developer recoveries and reserves	28,346	30,964
Other	5,720	18,365
	<u>377,952</u>	<u>579,623</u>

Approval has been received for future issuance of \$416,237,000 in long-term liabilities, which includes the \$343,886,000 noted above. The remaining \$72,351,000 in approved long-term debt is for capital expenditures yet to be incurred.

13. Expenditures by Object

Expenditures by object comprise the following:

	2005 (\$000)	2004 (\$000)
Salaries, wages and benefits	3,671,156	3,542,407
Materials	1,944,301	2,045,172
Contracted services	1,042,994	842,376
Interest on long-term debt	130,098	111,873
Transfer payments	429,032	330,729
Other	893,524	906,088
	<u>8,111,105</u>	<u>7,778,645</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

14. Trust Funds

Trust funds administered by the City amounting to \$48,704,000 (2004 - \$47,965,000) 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:

	2005	2004
	(\$000)	(\$000)
Toronto Atmospheric Trust Fund	26,425	24,444
Keele Valley Site Post-Closure (Note 7)	6,885	6,744
Homes for the Aged – Residents	6,323	6,404
Development Charges Trust – Railway Lands	3,094	2,479
Community Services Levies	1,025	998
Police Trust Funds	994	1,001
Contract Aftercare	965	948
Waterpark Place	915	891
Candidates' Municipal Election Surpluses	693	654
Development Charges Trust – Queen's Quay	459	446
Heritage and Culture Trusts	357	348
Lakeshore Pedestrian Bridge	210	204
Children's Greenhouse – Allan Gardens	103	100
Ontario Home Renewal Program	46	397
Other trust funds	210	185
Library Trusts	-	1,722
	<u>48,704</u>	<u>47,965</u>

15. Budget Data

Budget data for 2005 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.

Exposures on property and liability claims are covered by a combination of self-insurance and coverage with insurance carriers. Provisions for property and liability claims are recorded in other liabilities on the Consolidated Statement of Financial position in the amount of \$160,068,000 (2004-\$148,026,000).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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 these consolidated financial statements.

A class action in the amount of \$11,000,000 in general and special damages was commenced against the City following an outbreak of Legionnaire's Disease in 2005 at Seven Oaks, one of the City's Homes for the Aged. The action alleges improper maintenance of the facility's air conditioning/cooling tower but has not proceeded to the stage involving the motion of certification. At this preliminary stage, it is not possible to quantify the effect, if any, of this action on these 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. Management believes that the ultimate disposition of the matter will not materially exceed amounts recorded in the accounts.

In February 2005 a contract was awarded amounting to \$209,600,000 for the purchase of an additional 330 buses with delivery in 2006 and 2007. At December 31, 2005 the Toronto Transit Commission has various capital project contractual commitments of \$63,600,000 (2004 - \$50,100,000).

The Ministry of the Environment has issued Certificates of Approval for 14 (2004 - 11) of the estimated 161 (2004 - 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 7).

The City has provided unconditional loan guarantees to certain third parties amounting to \$30,885,000 (2004 - \$40,190,000), primarily related to possible defaults in financial agreements for certain construction projects and for several cultural non-profit organizations.

As at December 31, 2005, the City is committed to future minimum annual operating lease payments for premises and equipment as follows:

	\$000
2006	26,661
2007	22,286
2008	17,404
2009	11,779
2010	9,156
Thereafter	46,621
	<u>133,907</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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 at www.fin.gov.on.ca.

18. Comparative Consolidated Financial Statements

These consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 consolidated financial statements. Included in the comparative amounts presented in these consolidated financial statements are restatements for errors in the estimate of solid waste landfill obligations and in the conversion of accounts of a consolidated entity from the commercial to the municipal basis of accounting.

Estimates of solid waste landfill estimates were understated in prior years due to a calculation error. The effect of a restatement for this error has been to increase landfill closure and post-closure liabilities by \$16,358,000 as at December 31, 2004 (2003 - \$17,585,000), to increase amounts to be recovered in future years by \$16,358,000 as at December 31, 2004 (2003 - \$17,585,000), to decrease 2004 environmental services expenditures by \$1,227,000 and to decrease 2004 financing provided by changes in solid waste landfill obligations by \$1,227,000.

In addition, errors in the conversion of the accounts of Toronto Community Housing Corporation, a consolidated entity, have resulted in the overstatement of revenues and accounts receivable in the consolidated financial statements for 2002, 2003 and 2004. The effect of a restatement for these errors in these consolidated financial statements has been to reduce accounts receivable as at December 31, 2004 by \$23,693,000, to increase the opening 2004 operating fund balance by \$814,000 and to reduce other revenues by \$24,507,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - APPENDIX 1

December 31, 2005

Details of reserves and reserve funds

	2005	2004
	(\$000)	(\$000)
RESERVES		
Vehicle and Equipment	101,274	79,423
Working Capital	79,395	79,395
Water and Wastewater	14,755	17,999
Other reserves	1,061	1,984
	<u>196,485</u>	<u>178,801</u>
RESERVE FUNDS		
Employee Benefits	227,025	238,264
Stabilization	122,990	162,591
Corporate	216,150	183,626
Community Initiatives	54,646	48,248
State of Good Repair	73,601	67,399
	<u>694,412</u>	<u>700,128</u>
	<u>890,897</u>	<u>878,929</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - APPENDIX 2
December 31, 2005

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

Fiscal Year Ended	Toronto Hydro Corporation December 31		Toronto Parking Authority December 31		TEDCO December 31		Enwave October 31		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Financial Position										
Assets										
Current	1,061,085	871,944	20,273	16,032	10,582	9,461	7,347	7,256	1,099,287	904,693
Capital	1,624,741	1,547,557	116,343	107,722	30,859	31,496	232,069	220,244	2,004,012	1,907,019
Other	133,432	172,233	21,975	27,952	35,421	32,770	12,319	8,826	203,147	241,781
	2,819,258	2,591,734	158,591	151,706	76,862	73,727	251,735	236,326	3,306,446	3,053,493
Liabilities										
Current	941,211	701,636	19,985	23,352	7,319	5,573	19,800	23,354	988,315	753,915
Long-term	1,032,180	1,068,676	-	-	58,781	55,845	58,670	51,157	1,149,631	1,175,678
	1,973,391	1,770,312	19,985	23,352	66,100	61,418	78,470	74,511	2,137,946	1,929,593
Net equity	845,867	821,422	138,606	128,354	10,762	12,309	173,265	161,815	1,168,500	1,123,900
City's share (Note 5)	*785,867	821,422	138,606	128,354	10,762	12,309	74,538	69,614	1,009,773	1,031,699
Results of Operations										
Revenues	2,626,671	2,241,799	94,376	97,856	9,198	8,678	59,070	51,820	2,789,315	2,400,153
Expenses	2,534,226	2,140,911	84,124	88,384	10,745	7,997	56,220	49,090	2,685,315	2,286,382
Net income (loss)	92,445	100,888	10,252	9,472	(1,547)	681	2,850	2,730	104,000	113,771
City's share (Note 5)	92,445	100,888	10,252	9,472	(1,547)	681	1,226	1,174	102,376	112,215
Dividends paid (Note 5)	68,000	49,200	-	-	-	-	-	-	68,000	49,200
Net Book Value Of Assets Sold From The City To Hydro (Note 5)	*60,000	-	-	-	-	-	-	-	60,000	-

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