

CITY OF TORONTO FINANCIAL REPORT 08

For the fiscal year ending December 31, 2008, City of Toronto, Ontario, Canada



City of Toronto
2008 Financial Report
For the fiscal year ending December 31, 2008

This report was prepared by:
The City of Toronto, Accounting Services, Corporate Financial Reporting,
Design Services and Finance & Administration Communications



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Canadian Award for Financial Reporting

Presented to

City of Toronto
Ontario

For its Annual
Financial Report
for the Year Ended

December 31, 2007

A Canadian Award for Financial Reporting
is presented by the Government of Finance Officers
Association of the United States and Canada
to municipalities whose annual financial reports
achieve the high program standards for Canadian
Government accounting and financial reporting.



K. L. R.
President
Jeffrey L. Esser
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Canadian Award of Financial Reporting to the City of Toronto for its annual financial report for the fiscal year ended December 31, 2007. The Canadian Award for Financial Reporting program was established to encourage municipal governments throughout Canada to publish high quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports.

In order to be awarded a Canadian Award for Financial Reporting, a government unit must publish an easily readable and efficiently organized annual financial report, whose contents conform to program standards. Such reports should go beyond the minimum requirements of generally accepted accounting principles and demonstrate an effort to clearly communicate the municipal government's financial picture, enhance an understanding of financial reporting by municipal governments, and address user needs.

A Canadian Award for Financial Reporting is valid for a period of one year only. The City of Toronto is continuing this standard of high quality reporting for the submission and evaluation to the GFOA for the 2008 Award Program.

| A MESSAGE FROM TORONTO MAYOR DAVID MILLER



After a decade as an amalgamated City, 2008 marked a year of continued action on Council priorities and initiatives. Last year, Toronto was rated one of the top 15 cities for quality of life for the third year in a row and one of the most economically powerful cities in the world. Torontonians enjoyed the benefits of greater use of public transit, better neighbourhoods and a cleaner, greener Toronto. We are producing less waste and using less water.

Last year, our city experienced the effects of an economy in crisis. This global crisis left its mark on Toronto. But thanks to sound financial management and advice, and the City's effective use of its financial resources, we continued delivering the core services Torontonians want and deserve with pride.

With more than \$12 million in City funding and more than \$53 million in new investments, we implemented vital climate change strategies, further reduced landfilling by introducing green bins to the city, improved public transit by reducing TTC wait times and made our transit system cleaner and safer. Although it was a difficult decision for Council to make, the implementation of two new taxes – Land Transfer Tax and Vehicle Registration Tax – has given the City the ability to maintain its programs in tough economic times and to improve our investment in the City's infrastructure. In 2008, Toronto's new Utility Bill was released combining water and solid waste management fees which allowed homeowners to choose garbage collection based on the size bin they use – helping reduce waste. All these programs were carried through on target and on budget.

We have created two new economic development organizations. The first, Invest Toronto, engages the private sector with investment opportunities through marketing, trade missions and coordination with other governments and businesses. The second, Build Toronto, engages private and public sector partners in the development of under-utilized City real estate unlocking value, stimulating the creation of jobs and regenerating neighbourhoods – all consistent with the City's broader economic, social and environmental goals. Both divisions were formed by reorganizing the Economic Development, Culture and Tourism division. This will ensure the City of Toronto functions more efficiently and effectively.

In 2008, the first report of the Fiscal Review Panel's Blueprint for Fiscal Stability took a high-level, impartial and subjective assessment to the City of Toronto's relative competitiveness, financial position, revenue opportunities and savings potential. With the help of the Panel's recommendations, the City is working to improve its economic prosperity, liveability and opportunity for all.

The Agenda for Prosperity initiative continued to retain and stimulate new investments which provided jobs, increased assessment and improved quality of life. This initiative continues to advance Toronto as a global city through trade, finance, technology, multi-linguistics and creativity – allowing the City to connect with its residents.

Reaching out to Toronto communities means Community Recreation Division's continued development of mixed-use, transit-friendly waterfront communities including the Toronto Public Library's Virtual Branch Service, child and youth programs and investments in Priority Neighbourhoods. We have improved Public Safety programs including Fire station maintenance, construction of the 11 Division Police Station and new training facility, and EMS/Fire headquarter upgrades.

Last year's proposed initiatives have been started and maintained. We've continued to improve the TTC by providing new buses and streetcars. This was accomplished without raising TTC ticket prices – all while the TTC reached an important milestone of more than 464 million rides in 2008, the highest ridership levels since 1994. Transportation initiatives ensured the maintenance of roads, improved bikeways and an increase in transit safety. In our continued effort to Green our city, initiatives have been put into action or planned. A few of these include Toronto Energy Conservation fund, Deep Lake Water Cooling, 70% Waste Diversion Plan, Climate Change Action Plan, Live Green program, Mayor's Tower Renewal and Air Quality programs.

Other great initiatives developed in 2008 include the Better Buildings Partnership (BBP) relaunch which assisted building owners in improving their buildings through energy efficiency measures and Web 2.0 – taking the City into the next generation of web-based networking. A 311 framework and hotline were established and launched in 2009 – connecting residents of Toronto with the services they need, one easy number, 24 hours a day, seven days a week. Part of making Toronto a world-class city means building more creativity and a bustling arts and culture scene. In 2008, the City of Toronto added more Nuit Blanche locations, contributing to a more creative city. Creative Toronto, one of the pillars outlined in the Agenda for Prosperity, is helping to promote and boost our creative economy.

The City of Toronto, as a global city, must continue to build positive relationships with the provincial and federal governments. The *City of Toronto Act, 2006*, new taxation measures, and the Provincial Municipal Fiscal and Service Delivery Review (PMFSDR) – advocates for changes in funding responsibilities including the upload of costs of income redistributive programs such as Ontario Works – all resulted in a fostered partnerships and a better relationship with the province.

In 2008, we also added to the current Accountability Offices a new Office of the Ombudsman to address public concerns about the services taxpayers receive. All changes ensuring Toronto's economy thrives, the City is connected with its people and vital City services are provided.

In 2008, the first balanced Operating Budget since amalgamation continued services to all Torontonians. Currently, more than 97 per cent of initiatives for 2010 are underway which will lead Toronto to become a cleaner, greener, safer city with better transit and more creative economy. Last year's accomplishments were inspiring and encourage us to move on as an environmental and diverse yet cohesive City which will continue to enhance prosperity, liveability and create opportunity for all Torontonians.

A handwritten signature in black ink that reads "David Miller". The signature is written in a cursive, flowing style.

David Miller, Mayor
City of Toronto

| A MESSAGE FROM THE CITY MANAGER



It is my pleasure to present the 2008 Financial Report for the City of Toronto.

In 2008, the city found itself in a challenging economy. Despite this, Toronto's Public Service continued to provide its residents with core services to safeguard Toronto's economic competitiveness.

The result of sound strategic investments made in 2008 directly reflects on our position in the economy today. Cost containment measures in 2007, which worked into budgets for 2008, enabled the City of Toronto to keep vital services delivered. During 2008 the Provincial Municipal Fiscal and Service Delivery Review (PMFSDR) was completed, resulting in an implementation plan by the province to continue to upload certain social costs (Ontario Disability Support Program, Ontario Works and Court Security costs), by 2018. Although a difficult decision to implement, the City of Toronto introduced two new taxes in 2008; The Municipal Land Transfer Tax (MLTT) and Personal Vehicle Tax (PVT). These taxes are currently being used for City-building initiatives in areas such as transportation, parks and recreation, culture and to climate change initiatives. However new taxes will not resolve Toronto's structural funding shortfall of more than \$1 billion annually – as identified by the Conference Board of Canada. Property taxes were never designed to support the services now being paid for by the City.

Performance and benchmarking measurements compare and contrast the vital services delivered by the Toronto Public Service with other Canadian municipalities and cities worldwide. A study done by *Z/Yen Group Limited for the City of London, September, 2008* reported that Toronto has gained a position since the September 2007 report, ranking 11th on the Global Financial Centres Index (GFCI). The latest GFCI report evaluated the competitiveness of 62 financial centres worldwide using results of online surveys completed by financial services leaders, and 57 separate indices of competitiveness. Toronto's regulatory and tax environment, as well as its people factors, infrastructure and quality of life, contributed to the city's rating.

The City of Toronto has been able to deliver a wide-range of services vital to the everyday lives of all Torontonians. When compared to other Ontario municipalities in terms of service level, efficiency, customer service and community impact performance indicators, Toronto's stable position and performance in delivery of these services has been proven through the positive results from the Ontario Municipal CAOs Benchmarking Initiative (OMBI) and the City's Performance Measurement and Benchmarking Report.

In 2008, the ongoing effort and commitment of the Toronto Public Service continued to be recognized from the broader public sector. A total of 45 Public Sector Quality Fair (PSQF) awards were won. The City of Toronto won four Showcase Ontario Awards of Merit from the provincial Information and Technology public sector for

using information technology to deliver City services. Since 2004, the City has won a total of 119 PSQF awards for a wide variety of innovative projects and programs.

I have been in this position as the City Manager for about a year now and, I have witnessed, from a new perspective, how every City division works in tandem to provide excellent services to its public. I would like to express my sincere gratitude to all members of the Toronto Public Service who have made everyone in this municipal government proud in providing services to a great city and its people.

A handwritten signature in dark ink, appearing to read 'J. Pennachetti', with a stylized, flowing script.

Joseph P. Pennachetti
City Manager

INTRODUCTION

| A PROFILE OF TORONTO

Toronto in World Rankings

"Toronto has maintained its place among the world's greatest cities because it provides residents with a quality of life that is envied around the globe. In spite of the serious economic challenges we all face today, the Government of Toronto is committed to making the city a model of prosperity and liveability where everyone has the opportunity to succeed." – Mayor David Miller

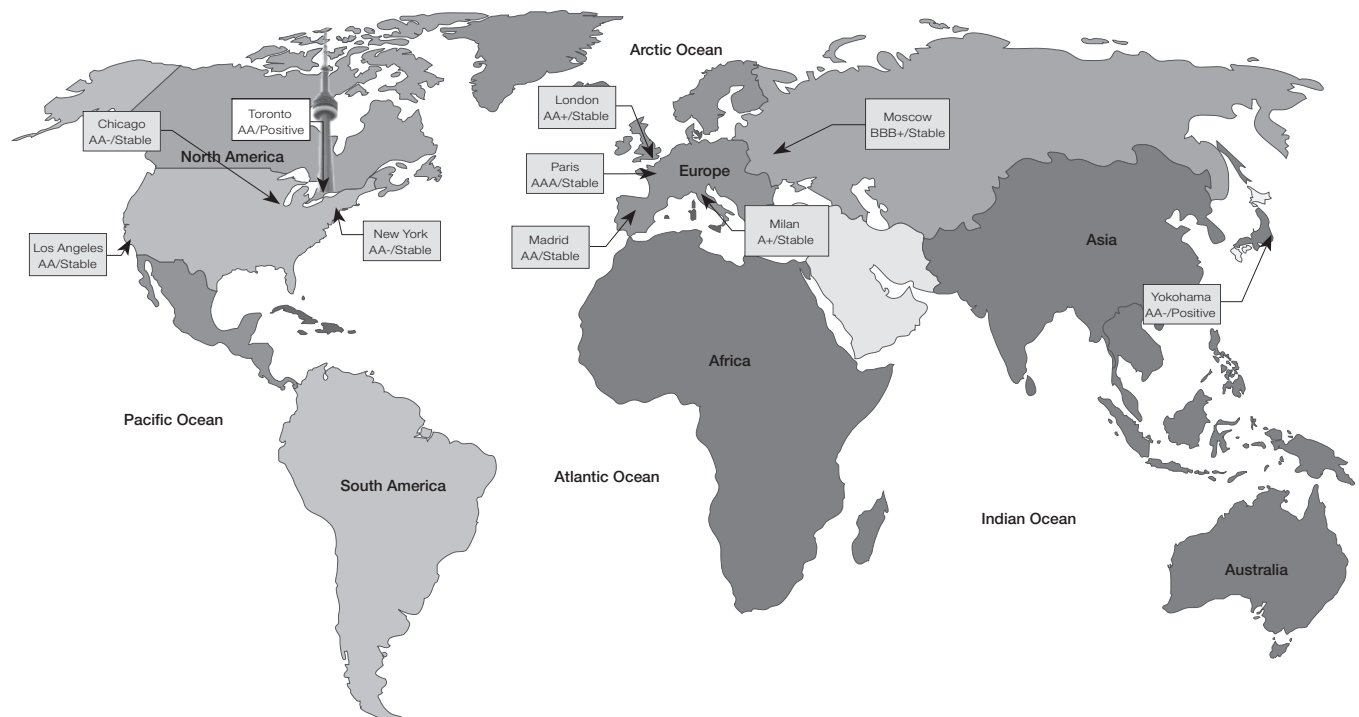
- **One of the World's Top Ten Economic Centres**

Standard & Poor's 2007 Industry Report Card

Toronto's role as a major economic hub in Canada, its depth of services, and deep and well-diversified economy has earned the City top marks. Toronto joins Chicago, London, Los Angeles, Madrid, Milan, Moscow, New York City, Paris and Yokohama on the list of over 15,000 local, state, and regional governments in the United States, and more than 340 others in 27 countries.

Criteria for selection include:

- economic importance of the countries in which they are located (all of which are G8 members)
- their role as the major economic centre(s) in their respective country
- the depth of services that each city provides economically to its respective service area and to the country as a whole
- their size – all selected cities have a population of more than one million



Source: Sep's Industry Report Card

- **15th in the Worldwide Quality of Living Survey**

Mercer Human Resources Consulting, April 2009

For the third year in a row, Toronto's quality of living was ranked fifteenth in the world by Mercer Human Resource Consulting. The 2009 Quality of Living Survey also placed Toronto second in North America, after Vancouver. Two hundred and fifteen cities were evaluated and 50 cities were selected based on 39 quality of living criteria, including political, social, economic and environmental factors, safety, public services and transportation, and recreation. Mercer's Quality of Living Survey is conducted to help governments and major companies place employees on international assignments, and contains all the key elements needed to calculate hardship allowances for transfers to other cities.

- **11th on the Global Financial Centres Index (GFCI)**

Z/Yen Group Limited for the City of London, September 2008

Toronto has gained a position since the September 2007 report, ranking 11th just behind Frankfurt, Boston, and Dublin, and ahead of Guernsey and Jersey. The latest GFCI report evaluated the competitiveness of 62 financial centres worldwide using results of online surveys completed by financial services leaders, and 57 separate indices of competitiveness. Toronto's regulatory and tax environment, as well as its people factors, infrastructure and quality of life, contributed to the city's rating.

- **One of the World's Top Ten Global Cities**

Foreign Policy (FP) Magazine, November/December 2008 issue

Toronto is one of the world's top 10 global cities, after New York, London, Paris, Tokyo, Hong Kong, Los Angeles, Singapore, Chicago and Seoul in Foreign Policy (FP) Magazine's Ranking. FP's inaugural 2008 Global Cities Index ranked 60 cities according to the following categories: business activity, human capital, information exchange, cultural experience and political engagement. Toronto ranked fourth for culture (after London, Paris and New York), tenth for human capital, eighteenth for information exchange, twenty-fourth for political engagement, and twenty-sixth for business activity.

- **10th as the World's Most Economically Powerful Cities**

Forbes magazine, August 2008

Toronto's regional economic growth ranked amongst the highest, beating out Philadelphia, Madrid and Mexico City. The rankings were based on a comparison of the cities' expected GDP growth from 2005 to 2020, their economic stability, livability and ease of doing business, as well as estimated living expenses and earnings for the average worker.

- **15th as the World's Most Liveable and Competitive Cities**

KPMG's 2008 Competitive Alternatives Study, March 2008

Toronto continues to offer one of the most cost-effective business and investment climates in the world, ahead of U.S. cities such as Chicago, Detroit, New York, Philadelphia and Phoenix. The KPMG study measured 27 business cost components and non-cost competitiveness factors in 10 countries and more than 100 cities around the world.

- **2nd Best Canadian City in which to live**

The Conference Board of Canada, December 2007

The study, "City Magnets: Benchmarking the Attractiveness of Canada's Census Metropolitan Area (CMA)," compares the performance of 27 Canadian cities in seven different domains: Economy, Innovation, Environment, Education, Health, Society, and Housing. Each census metropolitan area (CMA) is given a report-card style ranking on each indicator, and an overall grade on attractiveness. "Toronto's strength comes from its diverse, young, culturally rich society: its health care; and its health outcomes."

- **5th in the World for Liveability**

The Economist Intelligence Unit, Economist Magazine, December 2007

The Economist Intelligence Unit (the Economist Magazine) ranked Toronto fifth in the world for liveability. The December 2007 study surveyed 132 cities. Low crime, little threat from instability or terrorism, and a highly developed transport and communications infrastructure helped Toronto make the top five most liveable cities in the world.

The City of Toronto is Canada's largest city with a population of 2.7 million residents. It is the heart of a large urban agglomeration of 5.7 million called the Greater Toronto Area (GTA¹). The City has one of the most ethnically diverse populations in North America. Almost one in four visible minority persons in Canada resides in Toronto. Nearly half of the City's population (47%) consists of visible minorities.

Toronto, with 82,000 businesses, is the major economic engine of the country. The City is both the political capital of the Province of Ontario and the corporate capital of Canada as well as the major centre for culture, entertainment and finance in the country. The City is the home to more national and internationally ranked companies than any other city in Canada.

The GTA¹ has one of the most diverse economies in North America, characterized by highly specialized knowledge-based jobs. An estimated \$269 billion of goods and services (GDP 2008) are produced in the Toronto Census Metropolitan Area (CMA²). The City of Toronto accounts for just over half of this total (2008: \$140 billion).

¹Greater Toronto Area (GTA) refers to the City of Toronto plus the surrounding regions of Durham, York, Peel and Halton which include four upper tier and 24 lower tier municipalities.

²CMA refers to Census Metropolitan Area; an area consisting of one or more adjacent municipalities situated around a major urban core. To form a census metropolitan area, the urban core must have a population of at least 100,000. Source: Statistics Canada

Key Employment Sectors:

The following graphic recognizes the diverse nature of the City of Toronto's economy while providing some useful insights into the City's key employment sectors. The area of a sector bubble represents employment size. The horizontal position of a sector bubble on the graphic denotes industry growth rate. The vertical position on the graph denotes the concentration of the sector's employment within the City relative to other major cities in North America. Therefore upper right quadrant bubbles represent sectors with particular strength in Toronto while bottom left quadrant bubbles represent sectors that are stagnant or on the decline.

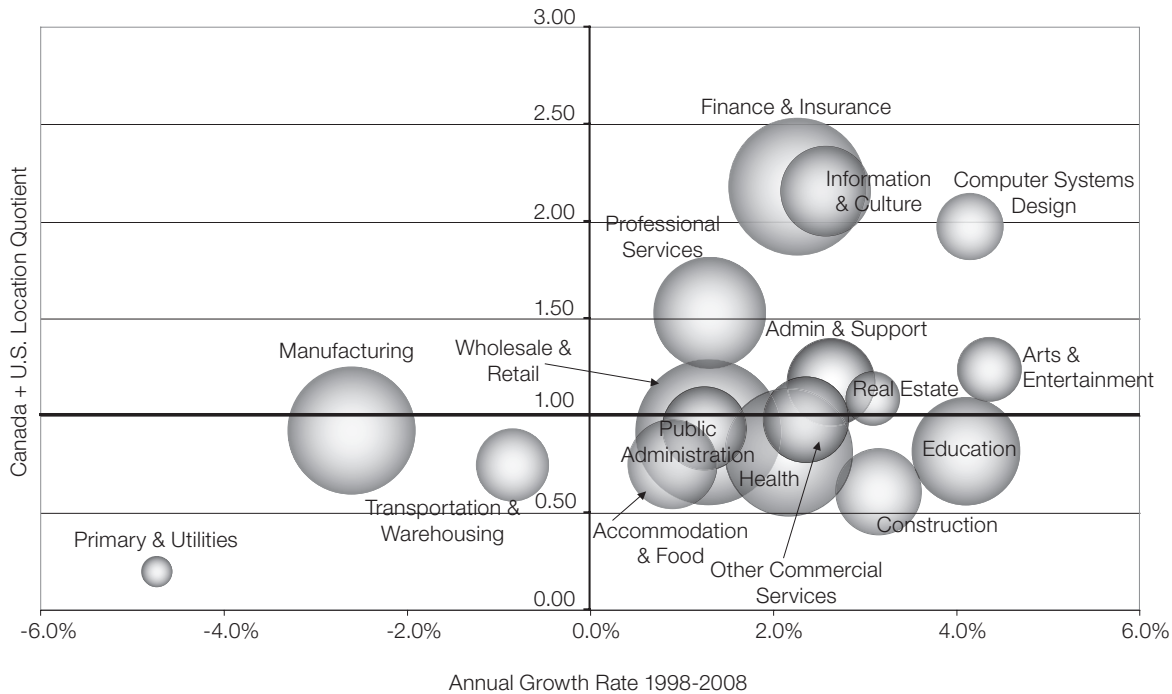
From the graph it is noted that Wholesale and Retail Trade, Manufacturing, Finance and Insurance, and Health are the largest sectors in terms of employment. High growth industries include Computer Systems Design, Arts and Entertainment and Education. Finally, Finance and Insurance, Information and Culture and Computer Systems Design are sectors that have high concentrations of employment in Toronto in comparison to other North American cities.

One significant trend is that employment in the Manufacturing industry, though still one of the largest sectors, has been on the decline at an average annual rate of 2.6% in the last 10 years.

The Finance and Insurance sector is emerging as the one of Toronto's highest growth industries with a large and highly concentrated workforce. The Toronto region is home to the head offices of the five major banks in Canada. Banking in Canada is widely considered the most efficient and safest banking system in the world, ranking as the world's soundest banking system according to a 2008 World Economic Forum report, ahead of Sweden, Luxembourg, Australia, Denmark and the Netherlands. By contrast, the United States was ranked the 40th.

As part of the health sector, the biomedical and biotechnology cluster in Toronto is the fourth largest in North America. The Discovery District is a downtown research park with 7 million sq. ft. of facilities – Canada's largest concentration of research institutes, business incubators and business support services. The Medical and Related Sciences (MaRS) project, a new Faculty of Pharmacy at the University of Toronto, and the Centre for Cellular and Biomolecular Research (CCBR) help give the Discovery District its name.

> CITY OF TORONTO JOBS



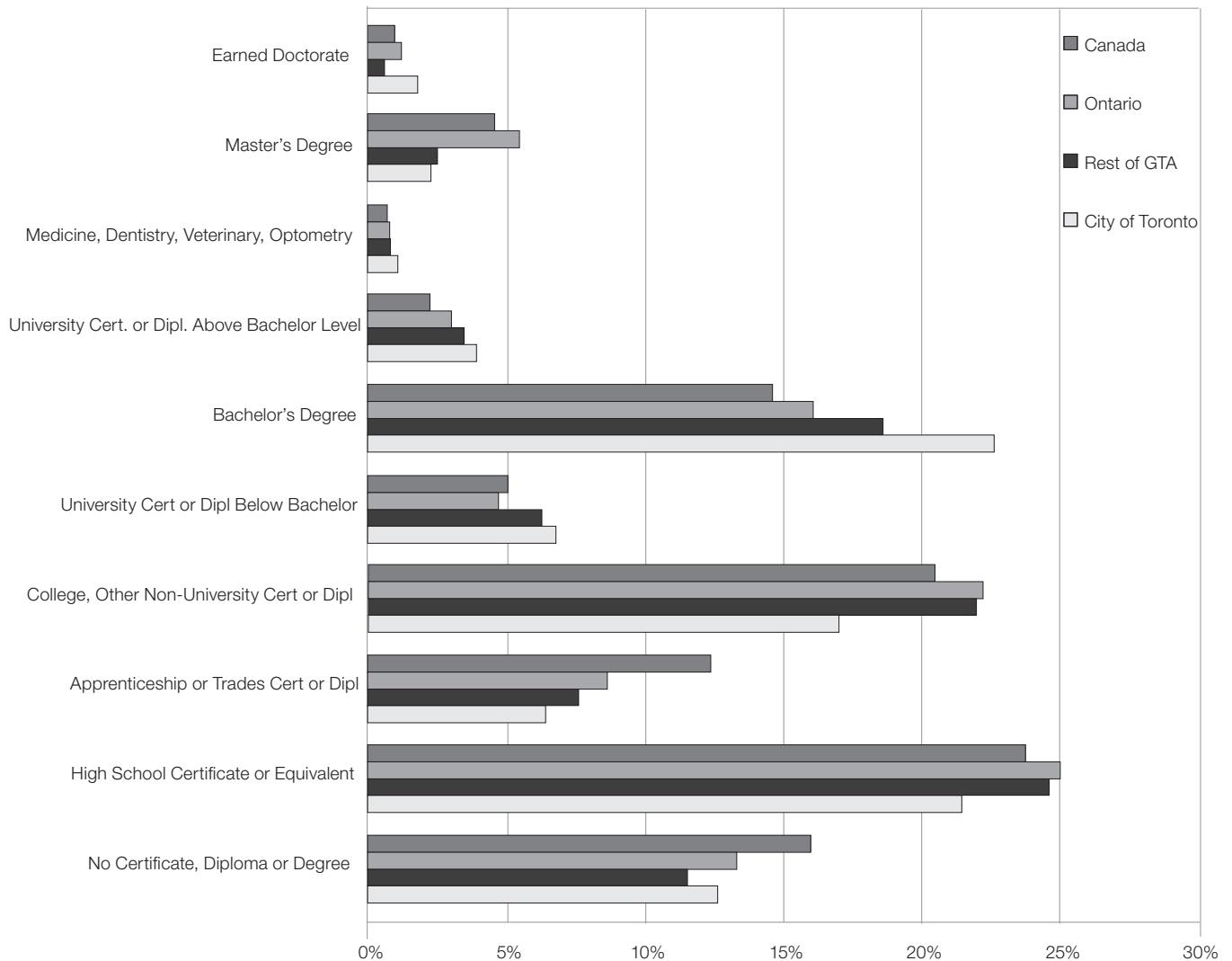
The Information and Culture sector is one of the high growth sectors in the City. Toronto has undergone a 'cultural renaissance' with the unprecedented building and architectural transformation of close to a dozen major arts and cultural institutions, including the Michael Lee-Chin Crystal (expansions to the Royal Ontario Museum), the Art Gallery of Ontario, the new home of the Toronto International Film Festival, the Four Seasons Centre for the Performing Arts, which is the new home of the National Ballet of Canada, the Canadian Opera Company, and the Gardiner Museum of Ceramic Art.

Workforce:

Toronto has a large educated, skilled and multilingual workforce. Toronto is the home to four universities (University of Toronto, York University, Ryerson University, and Ontario College of Art and Design), and four community colleges (Centennial, Seneca, Humber and George Brown). In fact, it has the most educated workforce in North America. More than 60% of workers have post-secondary degrees, diplomas or certificates.

With an estimated 1.3 million people working in the City of Toronto, it continues to be a net importer of labour from the surrounding regions. However the surrounding regions are changing rapidly in that they are experiencing growth in manufacturing and other types of employment and thus transforming themselves from residential suburbs to employment destinations. The rest of the GTA has now also become a net importer of labour both from the City and surrounding regions beyond the GTA.

> POPULATION AGE 25 - 64 BY EDUCATION



Source: Statistics Canada (2006)

Economic Growth:

The subprime mortgage crisis that began in the U.S. in mid 2007 has quickly led to a global economic recession in the second half of 2008. The investment banking collapse and the ensuing credit crunch were followed by a sharp decline in industrial production across the world. A fallout of this is an immediate fall in commodity prices—more than a 50% drop in oil prices and more than 40% in non-oil commodity prices. The World Bank on March 31, 2009 predicted that global GDP growth, after a robust eight-year stretch, would contract by 1.7% in 2009. This is a historic contraction, with world output set to decline for the first time since World War II.

Canada's domestic economy is not escaping the implications of tight credit conditions and decreasing business and consumer confidence. The volatility in the world's equity, financial and currency markets adds significant uncertainties to the economic outlook. Although Canada's GDP grew at 0.5% in real terms in 2008, the country had already slid into a recession in the latter part of the year. In March 2009, according to a group of forecasters made up of private sectors, the Conference Board, Bank of Canada, IMF and University of Toronto, the national economy in real GDP would contract by an average of 1.5% in 2009, but strengthen and bounce back by an average of 2.4% in 2010.

At the provincial level, Ontario is being hit harder than many other provinces due to its concentration of auto and manufacturing industries. The Ontario Budget (March 26, 2009) estimated that Ontario's economy ended 2008 with a contraction of 0.4%. Real GDP declined in late 2008 and was expected to continue to fall in the first two quarters of 2009. Growth was expected to resume in the second half of 2009 and strengthen over the next few years. For 2009, the real GDP growth forecasts from the forecasters range from -1.2% to -2.5%.

The City of Toronto enjoyed an average 3% economic growth from 2004 to 2007 before coming to a halt in 2008. The positive news is that due to its diversified economy, it is expected that the City would fare slightly better than the surrounding regions which have relatively higher employment in the goods-producing sectors. The City of Toronto Econometric Model prepared by the Conference Board, forecasted that the City's real GDP growth would be -0.1% for 2008, -1.5% for 2009, and 2.3% for 2010.



Source: Toronto Econometric Model, Conference Board of Canada April 2009

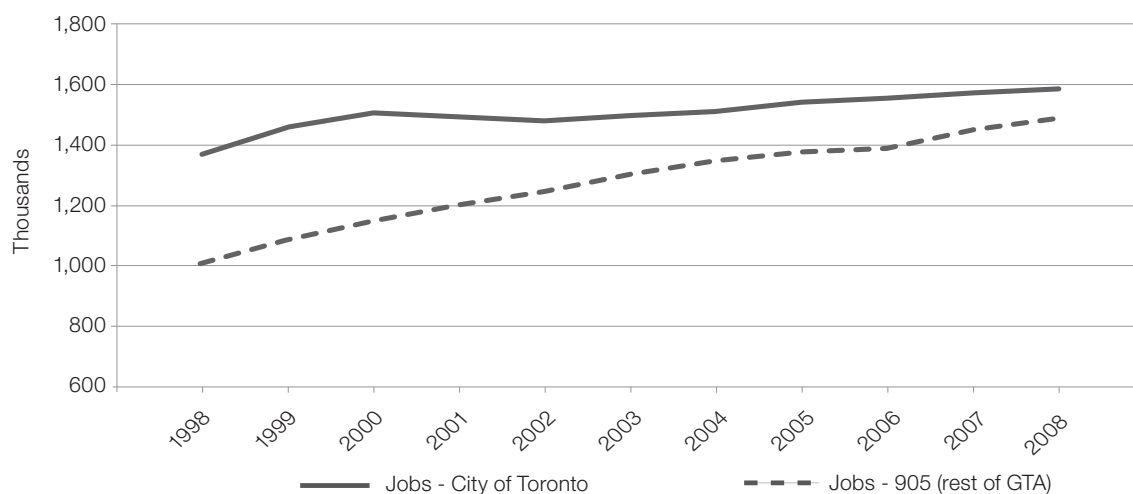
Employment:

One of the key indicators of economic strength is employment. From 1996 to 2000, the City's employment recorded strong growth. Total employment in manufacturing jobs expanded faster than all employment, as vacant industrial buildings in the City were quickly filled. Within the Greater Toronto Area, the economic growth of the City has been lagging behind the rest of the region as shown in the chart below. Between 2000 and 2003 employment in the City declined slightly, with the majority of job losses in manufacturing, construction, transportation and warehousing as well as business services, while employment continued to grow in the 905 regions (the rest of the GTA). From 2003 to 2008 the City's economy bounced back with a services-based recovery, particularly in downtown Toronto (+35,000 jobs) and North York (+5,100 jobs). Gains in the service sector have more than offset employment losses in the manufacturing sector.

The Toronto region's economic performance has weakened beginning in the fall of 2008 as a result of the economic contraction that started in the U.S., as evidenced in the local softening of the housing market and the tightening labour market.

> TOTAL EMPLOYMENT

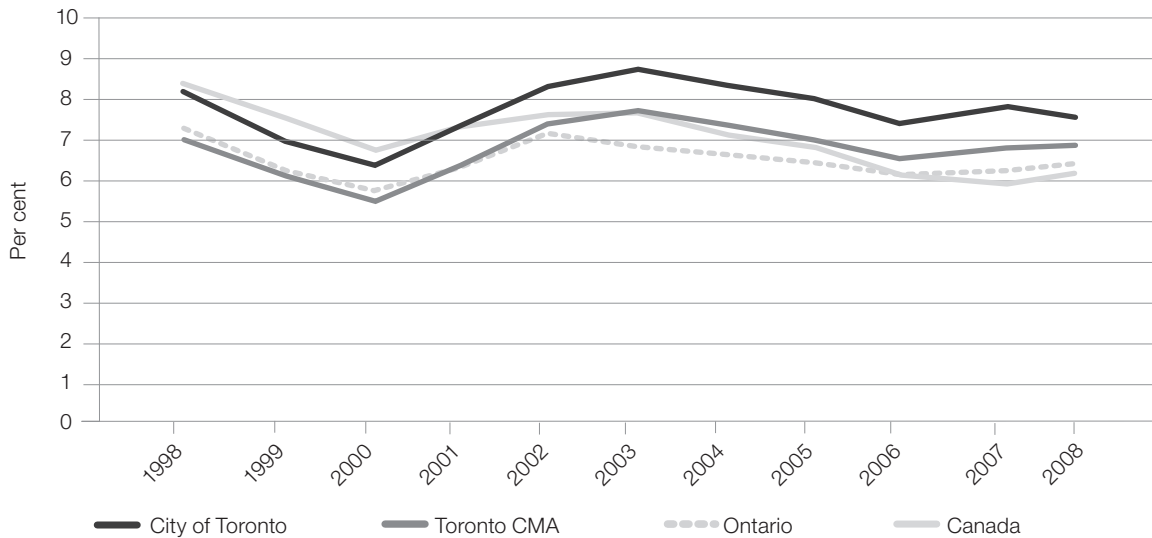
All sectors - City of Toronto



Source: Toronto Econometric Model, Conference Board of Canada April 2009

In the last 11 years, Toronto's annual unemployment rates ranged between 6.5% and 8.7%. Starting at 8.2% in 1998, the unemployment rate came down to 6.5% in 2000 (a low level not seen since the early 1990's) while the economic condition improved. Then with the information technology "bubble burst", the unemployment rate moved up and reached 8.7% in 2003, the highest in a decade. It had improved along with the general economy until late 2008. There are signs that the labour market is feeling the impact of the global recession. For example, Toronto's unemployment rate (seasonally adjusted, 3-month average) was 7.8% in December 2008, edged up to 8.7% in January 2009 and 9.0% in February 2009.

> UNEMPLOYMENT RATES



Source: Labour Force Survey, Statistics Canada

The active labour market has had a positive impact on City services such as transit ridership, which increased by 21% in the last 10 years alone. In fact, in 2008 TTC ridership was at a 20-year high. The economic recession is expected to negatively impact transit ridership, but TTC's Ridership Growth Strategy will likely more than offset it, resulting in modest growth.

| TORONTO CITY COUNCIL



Mayor David Miller



Ward 1
Suzan Hall



Ward 2
Rob Ford



Ward 3
Doug Holyday



Ward 4
Gloria Lindsay Luby



Ward 5
Peter Milczyn



Ward 6
Mark Grimes



Ward 7
Giorgio Mammoliti



Ward 8
Anthony Perruzza



Ward 9
Maria Augimeri



Ward 10
Michael Feldman



Ward 11
Frances Nunziata



Ward 12
Frank Di Giorgio



Ward 13
Bill Saunderson



Ward 14
Gord Perks



Ward 15
Howard Moscoe



Ward 16
Karen Stintz



Ward 17
Cesar Palacio



Ward 18
Adam Giambrone



Ward 19
Joe Pantalone



Ward 20
Adam Vaughan



Ward 21
Joe Mihevc



Ward 22
Michael Walker



Ward 23
John Filion



Ward 24
David Shiner



Ward 25
Clifford Jenkins



Ward 26
John Parker



Ward 27
Kyle Rae



Ward 28
Pam McConnell



Ward 29
Case Ootes



Ward 30
Paula Fletcher



Ward 31
Janet Davis



Ward 32
Sandra Bussin



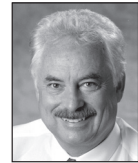
Ward 33
Shelley Carroll



Ward 34
Denzil Minnan-Wong



Ward 35
Adrian Heaps



Ward 36
Brian Ashton



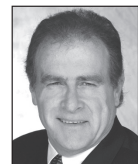
Ward 37
Michael Thompson



Ward 38
Glenn De Baeremaeker



Ward 39
Mike Del Grande



Ward 40
Norman Kelly



Ward 41
Chin Lee



Ward 42
Raymond Cho

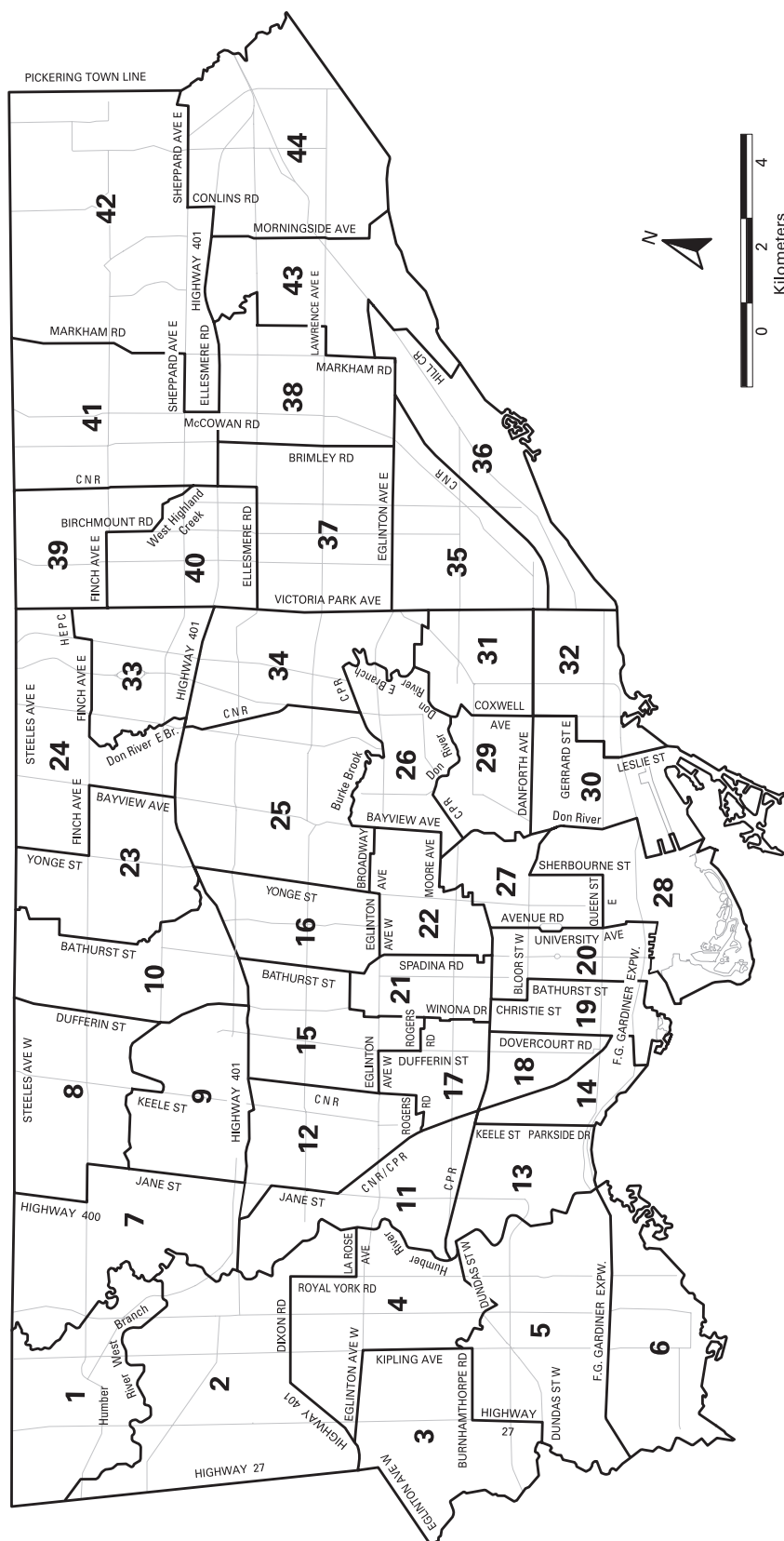


Ward 43
Paul Ainslie



Ward 44
Ron Moeser

MAP OF ELECTORAL WARDS

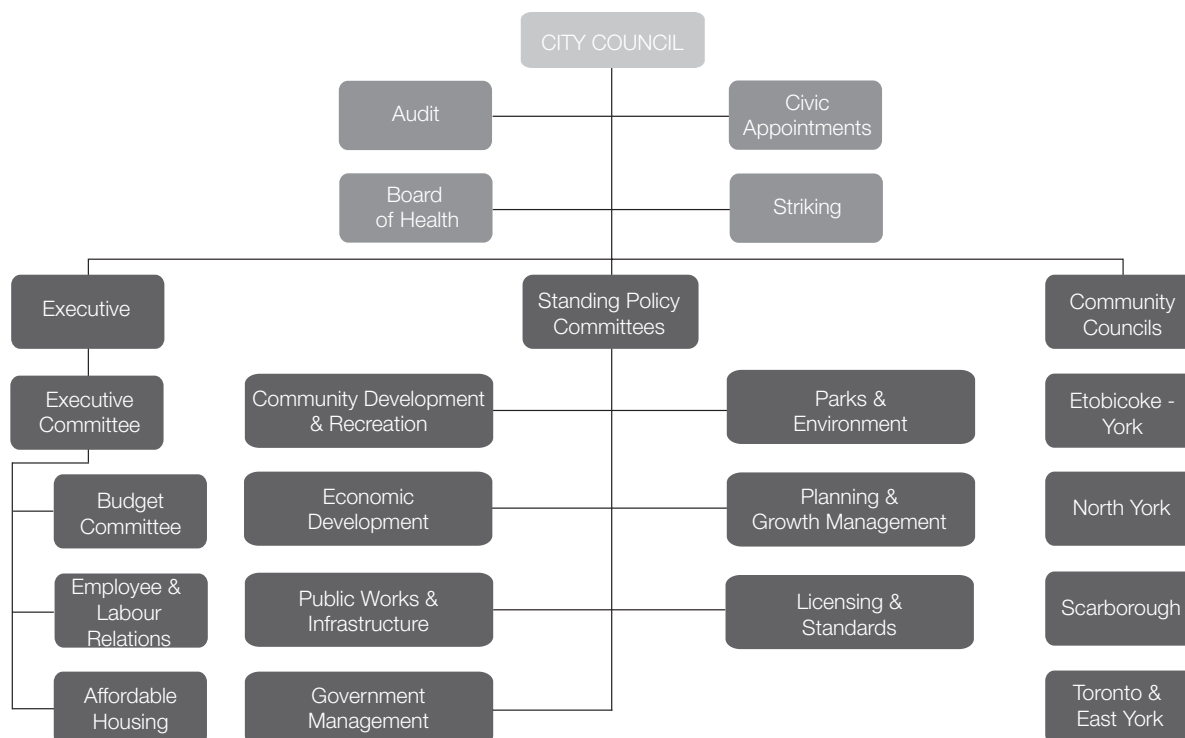


Revised January 2007

Toronto

Municipal Wards 2006 - 2010

| 2006-2010 EXECUTIVE COMMITTEE & STANDING COMMITTEE MANDATES



2006-2010 EXECUTIVE COMMITTEE AND STANDING COMMITTEE MANDATES

EXECUTIVE COMMITTEE:

The Executive Committee's mandate is to monitor and make recommendations on the priorities, plans, international and intergovernmental relations, and the financial integrity of the City.

The responsibilities of the Executive Committee include:

- (1) Council's strategic policy and priorities in setting the agenda;
- (2) Governance policy and structure;
- (3) Financial planning and budgeting;
- (4) Fiscal policy including revenue and tax policies;
- (5) Intergovernmental and international relations;
- (6) Council and its operations; and
- (7) Human resources and labour relations.

The Executive Committee makes recommendations or refers to another committee any matter not within the Standing Committee's mandate or that relates to more than one Standing Committee.

AUDIT COMMITTEE

The responsibilities of the Audit Committee include:

1. Recommending the appointment of the City's external auditor;
2. Recommending the appointment of an external auditor to conduct the annual audit of the Auditor General's office;
3. Considering the annual external audit of the financial statements of the City and its agencies, boards, and commissions;
4. Considering the external audit of the Auditor General's office;
5. Considering the Auditor General's reports and audit plan;
6. Conducting an annual review of the Auditor General's accomplishments;
7. Making recommendations to Council on reports the Audit Committee considers.

STANDING COMMITTEES

The standing committees are organized along seven broad policy areas:

Community Development and Recreation Committee – will focus on social inclusion and undertake work to strengthen services to communities and neighbourhoods.

Economic Development Committee – will focus on the economy and undertake work to strengthen Toronto's economy and investment climate.

Public Works and Infrastructure Committee – will focus on infrastructure and undertake work to deliver and maintain Toronto's infrastructure needs and services.

Government Management Committee – will focus on government assets and resources and undertake work related to the administrative operations of the City.

Parks and Environment Committee – will focus on the natural environment and undertake work to ensure the sustainable use of Toronto's natural environment.

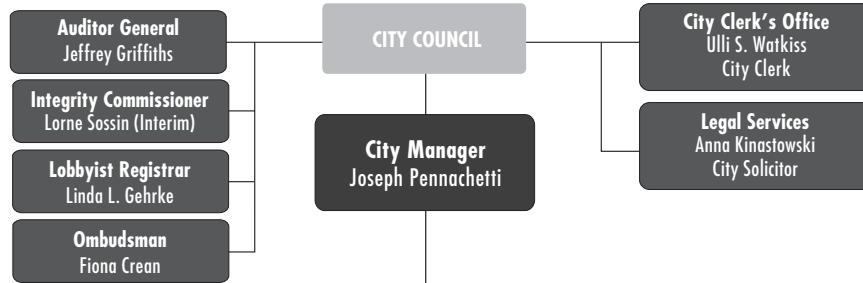
Planning and Growth Management Committee – will focus on the urban form and undertake work related to good city planning and sustainable growth and development.

Licensing and Standards Committee – will focus on consumer safety and protection and undertake work related to licensing of businesses and enforcement of property standards.

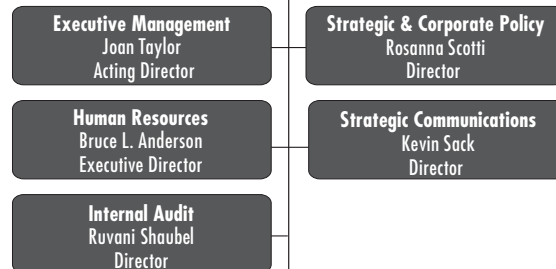
Note: Reference should be made to the Municipal Code – Chapter 27, Council Procedures, for the specific responsibilities of each committee.

CITY ADMINISTRATIVE STRUCTURE

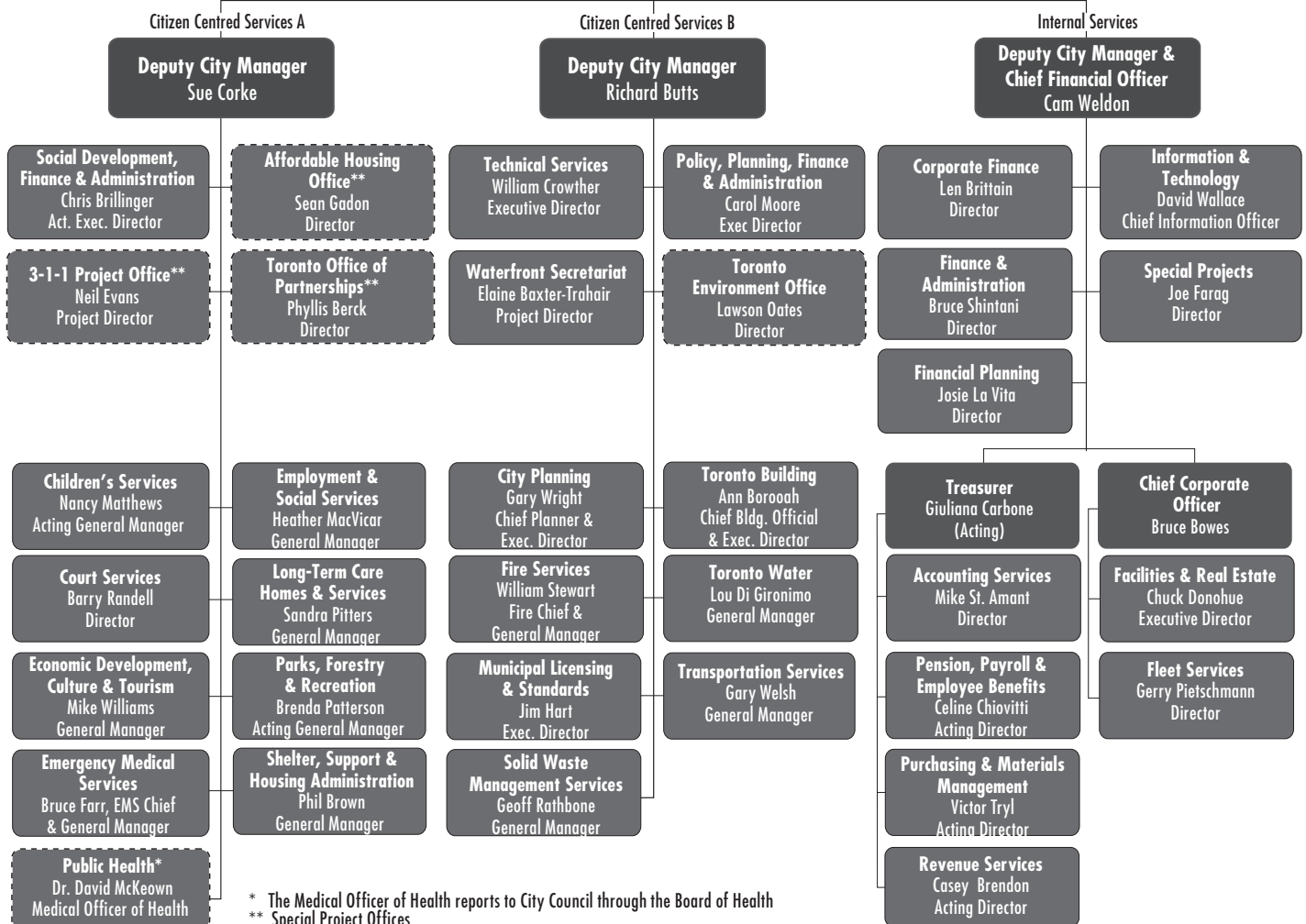
Note: The Auditor General, Integrity Commissioner, Lobbyist Registrar and Ombudsman report directly to City Council.



Note: The City Clerk and Solicitor report to City Council for statutory purposes and to the City Manager for administrative purposes.

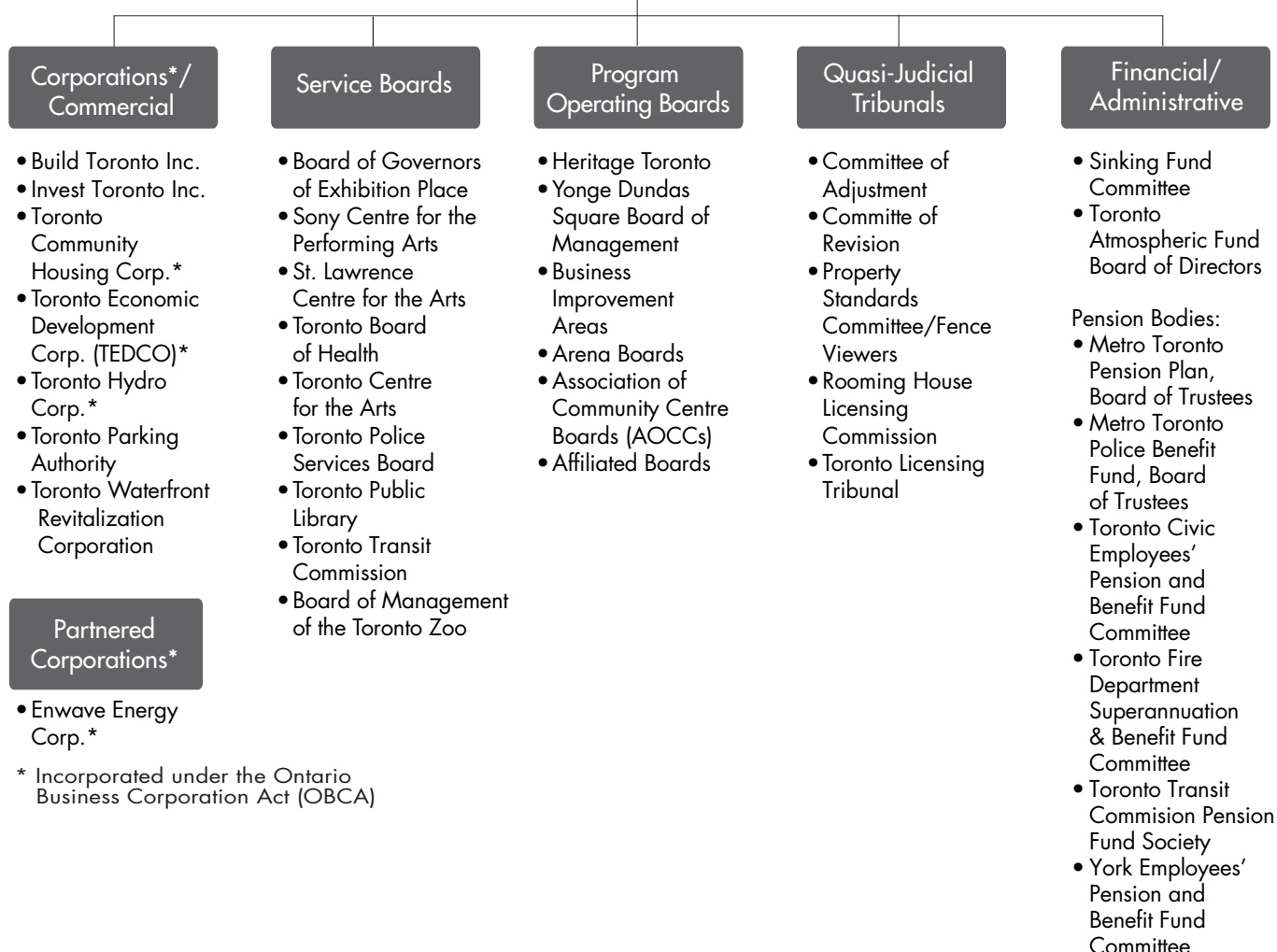


Administrative Structure
Last updated March 31, 2009



CITY OF TORONTO'S SPECIAL BODIES

AGENCIES, BOARDS, COMMISSIONS AND CORPORATIONS (ABCCS)



ADVISORY BOARDS

Program Advisory Bodies

- Museum Boards
- Committees, reference groups and other bodies that advise staff on various aspects of City programs

Political Advisory Bodies

- Toronto Preservation Board
- Roundtables, task forces and other bodies that advise Council

CITY'S FINANCIAL CONDITION & PERFORMANCE

| MESSAGE FROM THE DEPUTY CITY MANAGER & CHIEF FINANCIAL OFFICER



The 2008 Consolidated Financial Statements contained in this report are intended to provide Council, the public and the City's debenture holders an overview of the state of the City's finances at the end of the fiscal year.

2008 Financial Highlights

- The City collected consolidated revenues of \$9.51 billion (2007 – \$8.86 billion) and spent \$9.96 billion (2007 – \$9.47 billion) for a net consolidated expenditure of \$451 million (2007 – \$606 million).
- The City's net liabilities increased by \$444 million to \$3.33 billion (2007 – \$2.89 billion).
- The employee benefits liability increased by \$188 million to \$2.59 billion (2007 – \$2.40 billion).
- Net long-term debt to third parties decreased by \$17 million to \$2.74 billion (2007 – \$2.76 billion).
- Mortgage debt obligations of Toronto Community Housing Corporation declined by \$30 million to \$869 million (2007 – \$899 million).
- Capital spending for the year was \$1.96 billion (2007 – \$1.86 billion).
- The level of unfinanced capital expenditure increased by \$431 million to \$589 million (2007 – \$158 million).
- Cash and investments increased \$336 million to \$4.05 billion (2007 – \$3.71 billion).
- Deferred Revenue increased by \$684 million to \$1.92 billion (2007 – \$1.24 billion)

Last year's capital and operating budgets supported City Council's debt management plans and investment strategies. To accomplish this, financial plans were implemented to maintain the City's financial health in an uncertain economy. In the City's continuous efforts to move towards fiscal sustainability, we have successfully completed three of the six goals set out in the 2008 budget:

1. Continuous improvement and cost control
2. New Taxation Measures
3. Agreement on the uploading of Social Services programs

The remaining goals are:

4. Provincial Transit operating funding (50 per cent)
5. Growth revenues – equivalent of One Cent Share of the GST
6. National Transit Strategy (capital)

Cost containment measures in 2007 and sound investments in 2008 have strengthened the City of Toronto's position in today's economy. The City's 2008 budget of \$8.2 billion is balanced in part by a net 2007 operating surplus of close to \$95 million (almost \$17 million more than anticipated), property tax growth (representing 2.1 per cent of the budget), and the uploading of \$39 million of the Ontario Disability Support Program and \$149 million in additional transit funding. In 2008, the City of Toronto generated significant surplus of \$109 million on an unconsolidated basis.

In 2008, the introduction of new taxation measures: Municipal Land Transfer Tax (MLTT) and the Personal Vehicle Tax (PVT) helped reduce pressure on property taxes. With property taxes making up \$3.4 billion of revenue for Toronto's operating and capital budget, the new taxes provided some relief from reliance on property taxes as the main revenue source, by generating \$181 million in additional revenues. Half of all property taxes (\$1.65 billion) were spent on police, fire and ambulance services and on servicing the debt. The City committed \$53 million in 2008 (including 0.375% of property tax revenues) to new strategic investment in priority neighbourhoods, transit, waste diversion, and the beautification of public spaces.

Although capital spending has remained under budget, actual spending has increased in 2008. In total, the City of Toronto spent about \$198 million maintaining capital programs such as Social Housing, Health Services and Transportation and General Government to name a few. There was also an increase in Toronto Water due to constructions proceedings on several large projects in capital spending and this was financed 100 per cent from water rates.

A significant step to achieving greater fiscal sustainability involves strengthening our relationships with both the provincial and federal governments. The City continues to negotiate with the province to honour legislated social service cost-sharing and to secure a fair Transit Operating Subsidy.

In 2008, the City's efforts in expenditure restraint and long-term financial planning have been positively received by the City's independent rating agencies. The result: Standard and Poor's upgraded Toronto's AA credit rating from stable to positive. The City also won the Canadian Award for Excellence in Financial Reporting from the international Government Finance Officers Association (GFOA) of the United States and Canada for the 2007 Annual Financial Report which recognizes the City's spirit of transparency and full disclosure.

Carrying out all of these initiatives, programs, budgets and financial details takes a talented, collaborative and financially astute team. All City of Toronto staff work hard to budget, plan and implement funds to run core City services for a liveable and prosperous city. In my new role as Deputy City Manager and Chief Financial Officer and former Treasurer of the City, I realize how much work it takes to financially sustain and support an organization as large, diverse and service-based as the City of Toronto. I am honoured to be leading such a talented, dedicated and enthusiastic group of people and present the 2008 Financial Report on behalf of the entire City.



Cam Weldon
Deputy City Manager & Chief Financial Officer

| FISCAL CAPACITY

Toronto enjoys a highly diverse economy which positions it to be internationally competitive. Yet every year, the City faces the challenge of matching its spending needs to its ability to raise revenues. There is a permanent or “structural” mismatch between spending and revenues. This has been caused by three main reasons:

- The City's primary revenue sources, property taxes and user fees, do not grow with the economy like income and sales taxes do. Residential property taxes and user fee increases over the years have generally followed the Consumer Price Index. As well, high property tax yielding industrial properties are being converted to low tax yielding residential properties.
- The City's operating costs have been increasing faster than the Consumer Price Index because of unique and diverse needs, higher construction, energy and labour costs, and because of increasing demands for service and service enhancements.
- The City's physical infrastructure is getting older and is now in serious need of replacement. The only way to fund it is through debt, which creates the triple problem of increasing debt service costs, and concurrent tax and rate pressures. At the same time, the City's unfunded liabilities are growing, particularly in the area of employee benefits.

The Conference Board of Canada provided a clear and objective analysis of this issue. In its June 2005 report titled “Measuring Toronto's Fiscal Capacity: An Executive Summary”. It indicated that the City faced a combined capital and operating annual fiscal shortfall of \$1.1 billion in 2006 to fulfill its current program responsibilities and begin to address its infrastructure gap. The study also indicated that the imbalance would grow by over \$100 million each year unless property taxes were able to grow by the same amount. The study identified an upload of financial responsibilities and/or transfer of sales or income tax revenue capacity from the provincial or federal government as a solution to the shortfall.

In 2006, the Ontario Government and its municipalities began the joint Provincial-Municipal Fiscal and Service Delivery Review. By 2007, the Province announced as an early outcome of the review that it would fully fund the Ontario Disability Support Program (ODSP) and the Ontario Drug Benefit Program (ODB) to be completely phased in by 2010.

In October 2008, the Ontario Government announced the final results of the Provincial-Municipal Fiscal and Service Delivery Review. Starting in 2010, the Province will begin a phased-in plan to pay the full cost benefit of Ontario Works by 2018. In addition, starting in 2012, the Province will begin to pay the costs for security in provincial courts. These uploads will reduce the City's financial exposure to income-redistributive programs (Ontario Works) and make municipal taxes and services more competitive with the rest of Canada where these costs are not borne by municipalities. It will also allow the City to use its financial resources to fund the infrastructure backlog. These measures will enable the City to have greater financial flexibility and predictability in building its budget.

City Council in 2007 approved two new taxes under the provisions of the new *City of Toronto Act, 2006*, for implementation in 2008. These two new taxes are: Municipal Land Transfer Tax (MLTT) and Personal Vehicle Tax (PVT). Although the revenue generated from these new taxes are not a significant proportion of the City's revenue budget, they help to improve the City's fiscal capacity by reducing the City's reliance on the property tax base.

The current economic recession is putting the City's fiscal capacity under stress. Revenues and expenditures that are sensitive to the economic conditions are expected to create operating budget pressures. Examples include TTC fee revenue which is tied closely with employment; and social assistance (Ontario Works) cost (before upload is completely phased in) which is closely correlated with the unemployment rate. On the other hand, declining commodity prices and low interest costs may offset some of the budget pressures. City staff are closely monitoring the economic indicators affecting City finances to ensure that proper response actions are taken.

| PHYSICAL INFRASTRUCTURE

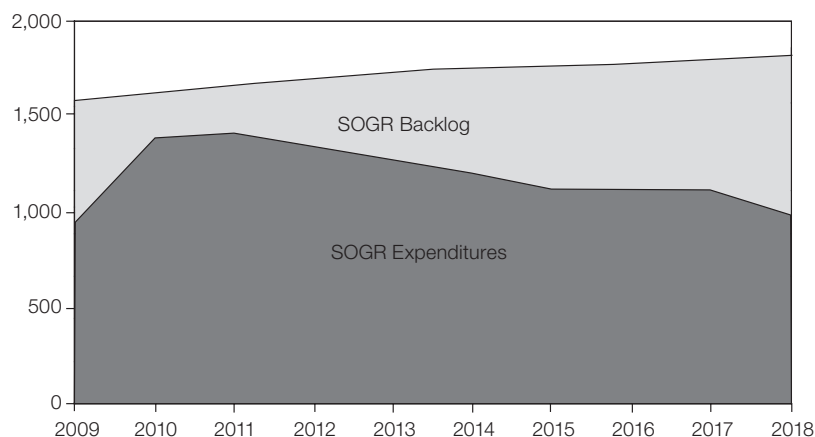
The City owns a significant amount of physical assets, comprising roads, expressways, bridges, traffic signal controls, water and wastewater treatment facilities, distribution and collection pipes, reservoirs, pumping stations, subways, streetcars, buses, civic centres, recreation facilities, public housing buildings, parkland and other lands. This infrastructure, excluding land, is currently estimated to be worth in excess of \$62 billion. The City's capital program is driven largely by the costs of maintaining its physical assets in a state of good repair.

City's Infrastructure is Substantial

	Estimated Asset Value
Transportation Infrastructure	\$10 Billion
Water & Wastewater Infrastructure	\$27 Billion
Public Transit System	\$10 Billion
Buildings, Facilities & Fleet	\$9 Billion
Housing Infrastructure	\$6 Billion
Total (excluding parkland and land)	\$62 Billion ++

The City's road network, the majority of which was constructed in the 1950's and 1960's, is in need of major repair and rehabilitation. The City's water and wastewater network is similarly aged — 50% of the water pipes and 30% of wastewater pipes are more than 50 years old, while 7% of watermains and 3% of wastewater infrastructure are more than 100 years old. Due to fiscal constraints, the City's current spending in the capital program is less than ideal. The City's capital backlog is estimated to be \$17.6 billion over the next ten years. As indicated in the chart below, the City has committed \$10.6 billion for the same time period for the state of good repair. It is anticipated that the growth in backlog will stabilize by 2014. In addition, capital requirements resulting from population growth and demographic changes will add financial pressures. The City's 2002 Official Plan projects population growth of up to a million people in the City of Toronto, raising the population to 3.5 million people in 30 years. More buses, social housing, recreation centres, etc. are required, which will put pressures on the City's capital and operating budgets to build facilities and provide additional services.

> BACKLOG STABILIZING IN 2014

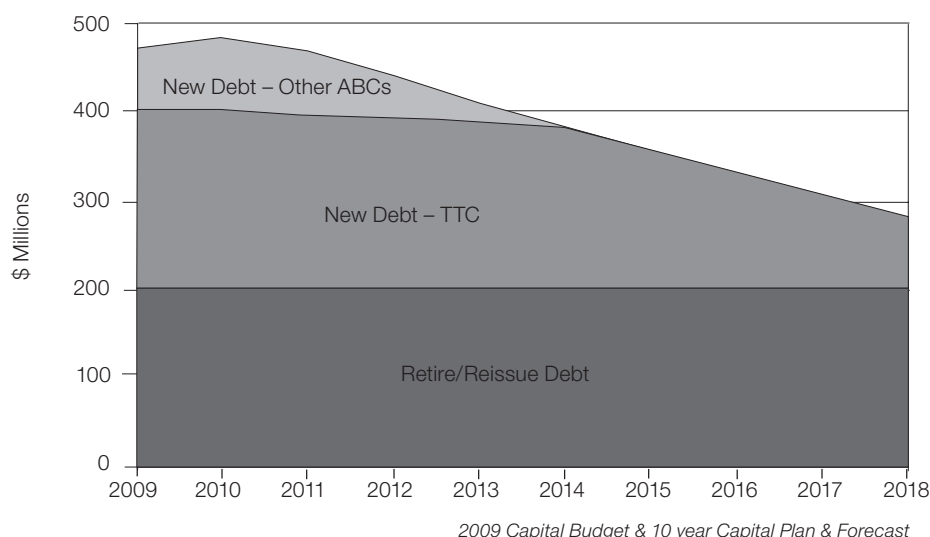


2009 Capital Budget & 10 year Capital Plan & Forecast
SOGR = State-of-Good-Repair

| CAPITAL FINANCING & DEBT

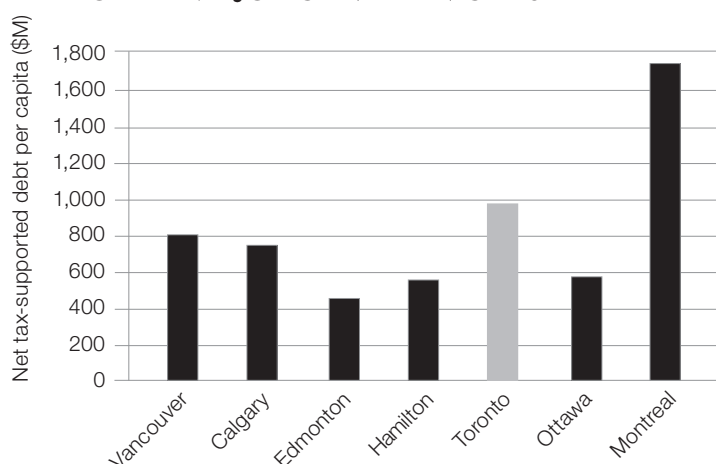
The City borrows to fund capital expenditures. It cannot borrow to fund operating expenditures under the *City of Toronto Act, 2006*. Toronto has enjoyed relatively low debt levels; however, there is a sizeable gap between future capital expenditure needs and ongoing sustainable revenue sources. For the next 10 years, the TTC's borrowing requirement is projected to make up the majority of the new debt required to fund the City's capital requirement. In fact, 90% of the new debt over the five-year period 2009 – 2013 is allocated to the TTC for vehicle replacement and Growth Strategy.

> NO MORE NEW DEBT AFTER 2013 OTHER THAN FOR TTC



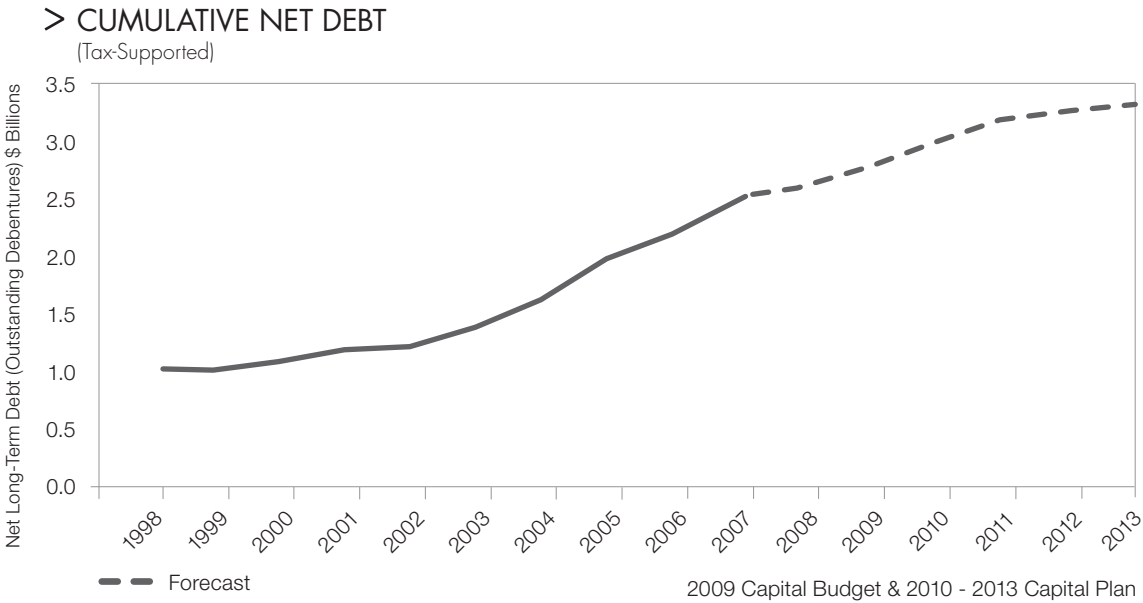
Overall, the City's debt burden is relatively modest and its net tax-supported debt per capita is comparable to most other major Canadian municipalities.

> TORONTO'S NET DEBT IS COMPARABLE TO OTHER MAJOR CANADIAN CITIES



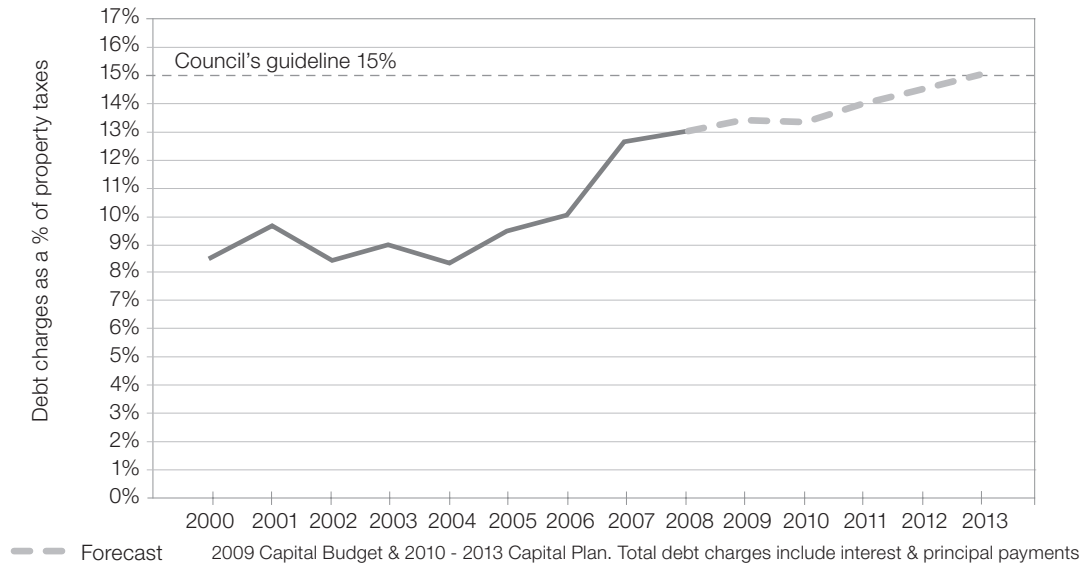
Source: DBRS Canadian Municipal Government Fact Sheet - Nov. 2008
Based on 2007 Financial Report except Vancouver (2006)

Going forward, current preliminary estimates showed that the City's net long-term outstanding debentures would increase from \$2.3 billion at the end of 2008 to just over \$3.0 billion by 2013. Gas tax funding from the federal and provincial governments, as well as provincial transit funding, has alleviated some of the capital financing pressures and will help to lessen future debt requirements. In 2007, Council approved the Financial Planning Process and a pilot of the 2008 Service Planning Process, which set the framework for developing multi-year capital and operating budgets, and ensured that limited resources are aligned to priorities to maximize the benefits for Toronto's residents.



Debt charges are the second largest component of the property tax bill (behind police services). In 2006, City Council approved a new debt service guideline such that the debt service cost should not exceed 15% of property tax revenues in a given year. Although only a guideline, this limit means that at least 85 cents on each tax dollar raised is available for operating purposes. Current forecast shows that the City's debt charges will fall within this guideline in the next five years.

> DEBT CHARGES WITHIN NEW COUNCIL'S GUIDELINE



| CAPITAL MARKET & INVESTMENT ACTIVITIES DURING 2008 & THE OUTLOOK FOR 2009

During 2008, many financial institutions as well as overall consumer confidence faltered and unemployment grew amidst a global credit crisis, leaving governments with little choice but to introduce very large fiscal stimulus packages whose effects will be felt in the coming years.

Liquidity and capital preservation continue to be a very important feature and the City's debt issue program was structured to ensure that it increased the liquidity being provided to investors by issuing debt in larger amounts with the ability to reopen bond issues, depending upon capital market conditions.

During the year, the City issued approximately \$300 million of its approved \$500 million debt program and had approximately \$200 million remaining that was not utilized from the 2008 Council authority. This transaction received a good reception in a challenging and difficult bond market. The term-to-maturity of this issue blended current capital market conditions with the matching of the economic life of various capital expenditures to their financing terms. The structure and pricing of the transaction achieved the lowest cost of funds available relative to other potential structures, markets and currencies as permitted by provincial legislation.

The City's debt-issuance syndicate advised that if the City does not have to issue debt in this market which is virtually non-existent for municipal borrowers, it should wait until possibly Spring 2009 to ascertain if there will be an opportunity to issue the remaining \$200 million as well as 2009 requirements. This postponement has not presented a cash management concern.

Due to the market-driven delay, the 2009 debenture authority was increased from the planned amount of \$500 million to \$700 million to accommodate the remaining 2008 requirement.

Financial Market Environment during 2008 and 2009

The fixed-income and investment markets have so far endured a very challenging and unprecedented volatile year, given the increases and decreases in energy prices, a rapid rise in the value and fall of the Canadian currency as compared to the US dollar, the sub-prime mortgage crisis in the US which has expanded to a global credit crunch and the curtailing of worldwide credit markets and the frozen asset-backed Commercial paper (ABCP) market issued by third parties.

It should be noted that the City has never held any of these investments and such investments are not allowed in its investment policy. Actually, the City's portfolio of high grade bonds and money market securities benefited from a "flight-to-quality" as investors sought safety of principal by investing in government bonds and treasury bills, decreasing yields and increasing the market value of these securities while maintaining its high credit quality and liquidity.

As of December 31, 2008, the City's bond portfolio consisted of 80% in AAA/AA credit-rated securities and 20% in A credit-rated securities and no holdings in BBB or lower-rated investments, reflecting the continued high credit quality and liquidity of the portfolio.

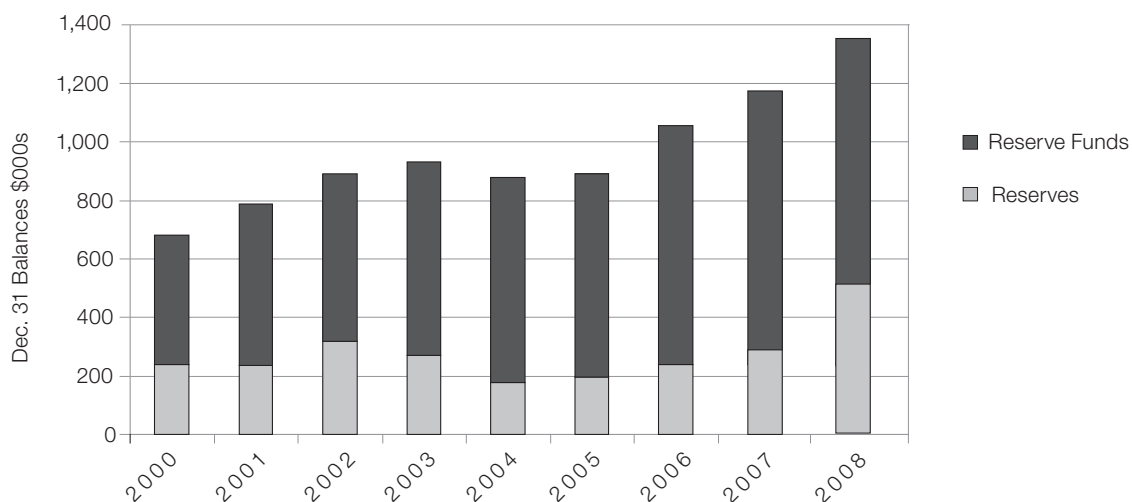
The City will continue to monitor the domestic and international capital markets as well as evaluating alternative financing vehicles to identify opportunities to achieve the lowest cost of capital funds and the best investment opportunities during 2009.

| RESERVES & RESERVE FUNDS

Reserves and Reserve Funds are monies set aside by Council to earmark revenues to finance a future expenditure for which it has authority to spend money, to defend the City against an unbudgeted or unforeseen event that may result in a budget deficit such as an economic downturn, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements. While the reserve and reserve fund balance in Council-directed funds would appear to be a large sum, it should be noted that the majority of these funds are committed. Due to its structural financial shortfall mentioned earlier, the City has relied on reserve draws as a one-time revenue source to offset annual operating pressures. Since amalgamation, the total reserve draw to fund the operating budgets was estimated to be over \$1 billion. These one-time draws have limited the City's future financial flexibility in responding to risk and adverse circumstances.

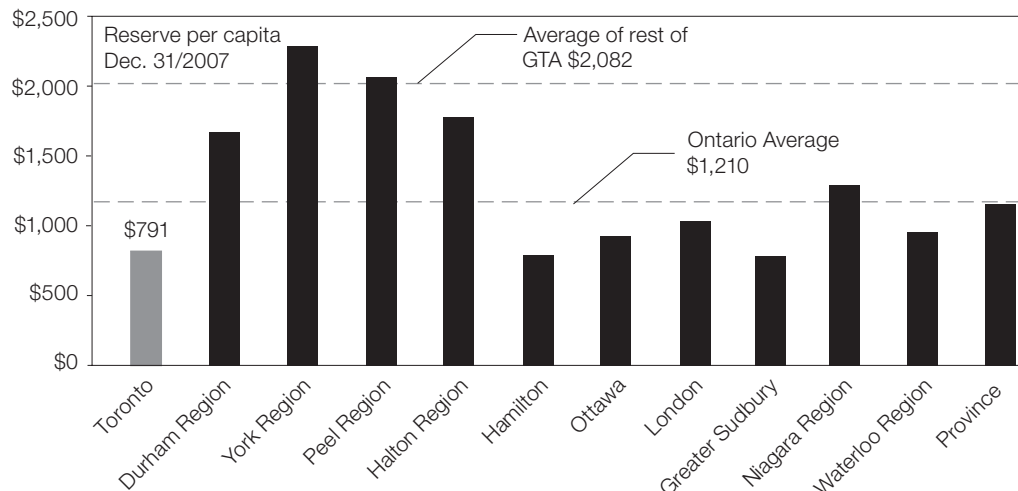
> RESERVES AND RESERVE FUNDS

(excluding Obligatory Reserve Funds/Deferred Revenues)



On a comparative basis, the City's overall fund balance on a per capita basis is much lower than most Ontario municipalities — just two-thirds of the Ontario average and just 38% of the average of the rest of the Greater Toronto Area (GTA), as shown in the following figure. If the City were to have the same reserve per capita as the average of the rest of the GTA, it would have over \$3.5 billion in reserves, or almost three times the current balance, which would provide sufficient funds to offset its outstanding debt and fully fund its employee liabilities. The City has established long-term reserve strategies for major reserves, e.g. employee benefits reserve and water and wastewater stabilization reserves, to address and mitigate the inadequacy, including determining needs and establishing contribution policies.

> RESERVE LEVELS ARE LOWER THAN OTHER MUNICIPALITIES



Sources: Ontario Ministry of Municipal Affairs & Housing - 2007 FIR, City of Toronto
Regional data consolidated for upper and lower tiers
Balances include Obligatory Reserve Funds/Deferred Revenues

DEFERRED REVENUES

Funds that are set aside for specific purposes by legislation, regulation or agreement and may only be used in the conduct of certain programs or the completion of specific work are reported as Deferred Revenues (previously Obligatory Reserve Funds). These include funds received from the other orders of government or third parties earmarked for certain purposes, e.g. Transit, Social Housing, Development Charges, Parkland Acquisition, Long Term Care Homes and Services. These amounts are recognized as liabilities in the year the funds are deposited, and received into revenue in the fiscal year the related expenditures are incurred or services performed. The balance of such funds categorized as Obligatory Reserve Funds as at December 31, 2008 was \$1.4 billion. These funds are all committed, some of which will be used to fund some of the City's priority capital needs, and are not available at Council's discretion.

| REVENUES

PROPERTY TAX

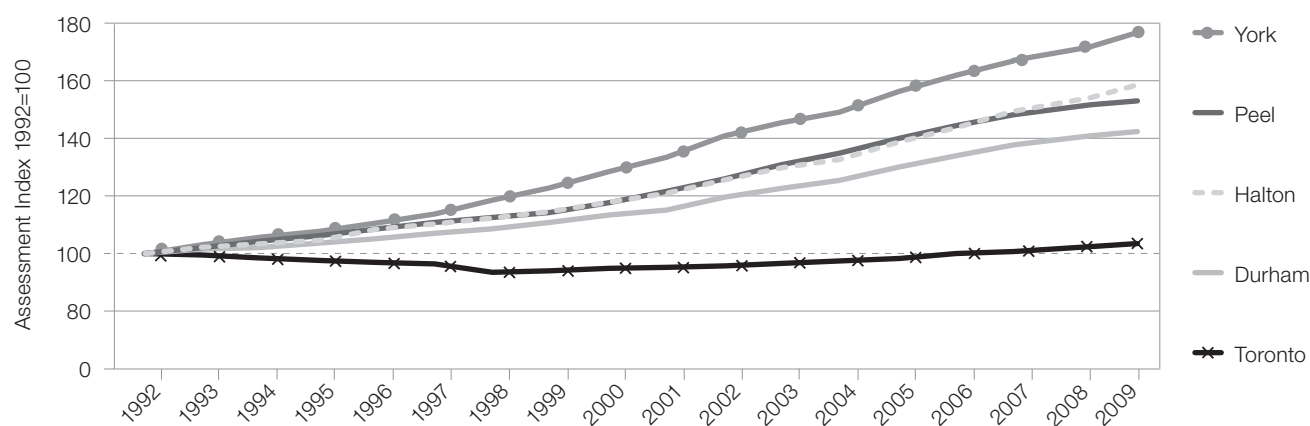
Property tax revenue is the City's single largest source of revenue and represents 42% of the total operating revenues from levy operations. The City collects \$3.5 billion from Municipal Land Transfer Tax, Personal Vehicle Tax, and residential and business property taxes.

Every year, the City is required by provincial legislation to establish tax rates that raise property tax revenues in the amount of the City's budgetary requirement. In addition, the City is also required to levy and collect property taxes for school purposes at the education tax rates prescribed by the Province.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of a property by the applicable tax rate for that class of property (e.g. residential, commercial, industrial, or multi-residential). The total tax rate for a property class consists of a municipal tax rate necessary to meet the City's budgetary requirement and the education tax rate necessary to fund the provincially-determined costs of education.

Over the last 16 years, the GTA experienced quite remarkable economic and population growth following the recession of the 1990's. The Toronto region (CMA) contains a number of the fastest-growing municipalities in Canada with respect to population between 2001 and 2006, such as Milton (71.4%), Brampton (33.3%), Vaughan (31.2%), Markham (25.4%), Richmond Hill (23.2%) and Ajax (22.3%). The bulk of the new construction and the associated assessment increase are located in the surrounding areas in the GTA. For example, from 1992 to 2009 York Region's total assessment increased by 76%, Halton Region (which contains Milton) saw a 58% increase, Peel Region's increased by 53%, and Durham Region's increased by 45%. By comparison, the City of Toronto saw a gradual decline in assessment from 1992 to 1998, and there has been only a minimal increase since then. In fact, Toronto's property assessment is only 4% above its 1992 level.

> UNLIKE THE REST OF GTA ENJOYING SIZABLE ASSESSMENT GROWTH, TORONTO HAS JUST RETURNED TO ITS 1992 LEVEL

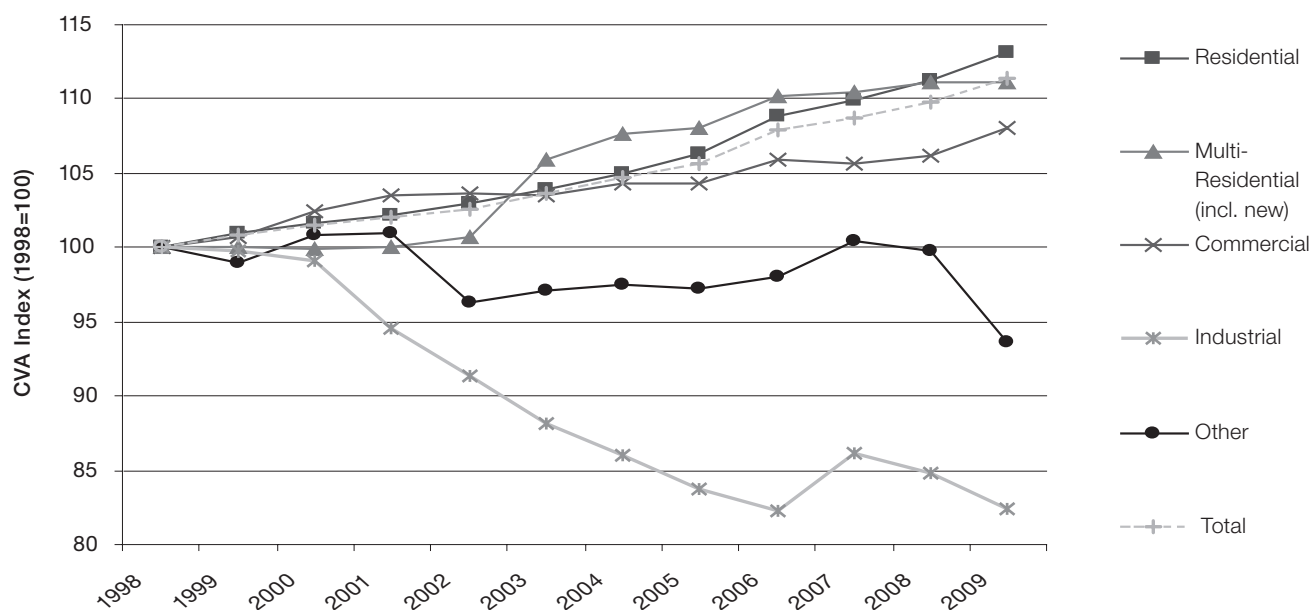


Source: MMAH's MARS, MPAC, Annual Financial Reports of the respective regions and survey.

The total CVA of the City's properties saw a total true net growth of 11.4% from 1998 to 2009 when the impacts of property reassessment are removed. Within the various property classes, residential properties had a true growth of 13.2%, and multi-residential properties had an increase of 11.2%. For the non-residential properties, while commercial properties had just a modest 8.1% in true assessment growth, industrial properties had a net decrease of over 17.6%. This is illustrated in the chart below.

> TORONTO'S TRUE ASSESSMENT GROWTH (EXCLUDING REASSESSMENT IMPACT)

1998-2009



In 1998, the Province of Ontario reformed the property assessment and taxation system in Ontario with the implementation of the Current Value Assessment (CVA) system. The CVA of a property represents an estimated market value, or the amount that the property would sell for in an open market (arm's length sale between a willing seller and a willing buyer at a fixed point in time). The Municipal Property Assessment Corporation (MPAC) is responsible for property assessment in Ontario and preparing the assessment rolls for municipalities.

Ontario municipalities whose commercial, industrial or multi-residential tax ratios exceed threshold ratios established by the Province, are restricted from passing on municipal levy increase to those classes. In Toronto, tax ratios for the Commercial, industrial and multi-residential tax classes all exceed the provincial thresholds, as shown on the next chart, which means that limited municipal levy (budgetary) increases can be passed on to these classes so long as the ratios exceed the threshold limits.

Toronto's Tax Ratios Vs. Provincial Threshold Ratios

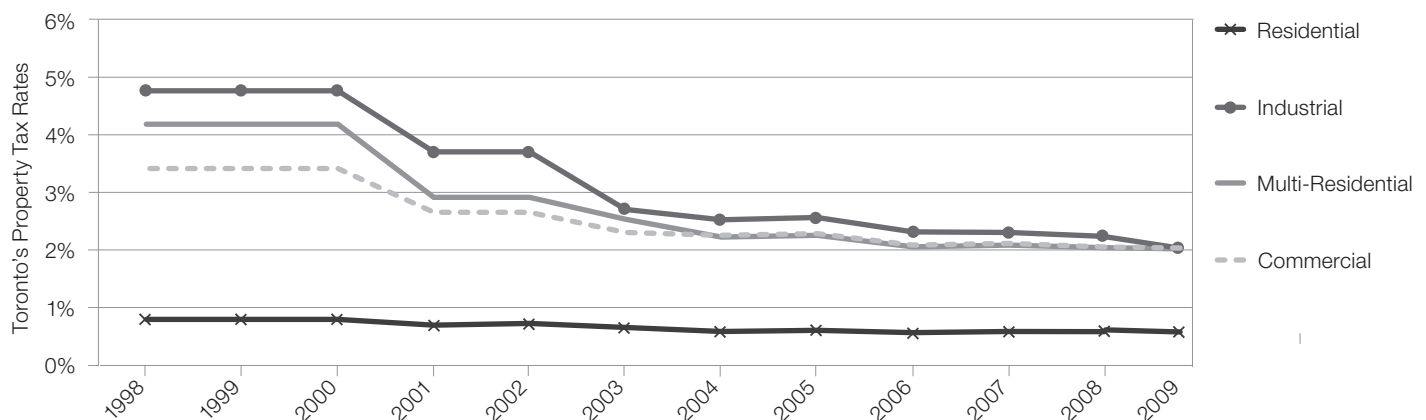
	2001 Taxation Year	2002 Taxation Year	2003 Taxation Year	2004 Taxation Year	2005 Taxation Year	2006 Taxation Year	2007 Taxation Year	2008 Taxation Year	Provincial Threshold Ratios
Multi-residential	4.174	4.001	3.870	3.762	3.707	3.635	3.546	3.469	2.74
Commercial	3.798	3.640	3.516	3.802	3.746	3.674	3.584	3.506	1.98
Commercial Small								3.410	1.98
Industrial	5.301	5.081	4.120	4.273	4.211	4.090	3.920	3.740	2.63

Since 2004, the Ontario Government has, in its annual budget, introduced regulations and made adjustments to the municipal rules under the Ontario Property Tax System, which amongst other things, allowed tax rate increases on the non-residential classes to be no more than 50% of the rate for the residential tax class.

Enhancing Toronto's Business Climate – It's Everybody's Business

In late 2005, Council approved a comprehensive property tax policy to improve the business climate in the City, and consequently in 2006, implemented the policy of allowing for up to one-third of any residential tax rate increase to be applied to the Commercial, Neighbourhood Retail, Industrial, and Multi-Residential tax classes (i.e. a 1% non-residential tax increase for a residential tax increase of 3%), which would reduce its non-residential tax ratios to 2.5 times the residential rate over 15 years. In addition, the policy provides for an accelerated tax reduction for neighbourhood retail and small businesses that will see their tax ratios fall to 2.5 times residential within 10 years (2015), as well as property tax relief measures for non-retail office, hotel and industrial developments. Other City efforts to enhance competitiveness have resulted in a successful agreement with the provincial government to reduce business education tax (BET) rates for the City of Toronto businesses closer to the average of the surrounding GTA municipalities, creating a new, fair water rate structure for industrial and manufacturing companies and continuing the relief of development charges for the City's Commercial industry. The chart below shows that Toronto business taxes have been reduced since 1998.

> BUSINESS TAXES HAVE BEEN REDUCED



For 2009, properties have been reassessed to reflect a January 1, 2008 valuation date. This updates assessed values from the previous base of January 1, 2005, following a moratorium on reassessments that arose from a critical review of the property assessment process by the Provincial Ombudsman in 2006. An outcome of this review has resulted in amendments to the Assessment Act, most significantly providing for a four-year reassessment cycle with Current Value Assessment (CVA) increases being phased-in between the four-year periods. This means that any increase in CVA from the reassessment will be phased-in at incremental increases of one-quarter of the total increase, spread over 2009 to 2012 taxation years. CVA decreases are not subject to phase-ins and will be applied immediately. The next reassessment is for 2013-2016.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of a property by the applicable tax rate for that class of property (e.g., residential, Commercial, industrial, or multi-residential). The total tax rate for a class consists of a municipal tax rate necessary to meet the City's budgetary requirement and the education tax rate necessary to fund the costs of education. The table below illustrates the 2008 taxes payable for the average household in Toronto with an assessed value of \$365,468.

Average residential assessed value – \$365,468

	2008 Tax Rate	2008 Property Tax
Municipal Purposes	0.6109226%	\$2,233
Education Purposes	0.2640000%	\$ 965
Total	0.8749226%	\$3,198

The Municipal Act, and the *City of Toronto Act, 2006* for Toronto, establishes the rules that govern the assessment and taxation of property in Ontario. The Act mandates limits on re-assessment related tax increases to 5% per year for the Commercial, industrial and multi-residential property classes, which for many properties in these classes may result in a phase-in towards their CVA level of taxes.

Special provisions to provide tax relief for low-income seniors and disabled persons, as well as charities and similar organizations, are also implemented.

Tax relief policies in effect for 2008 include:

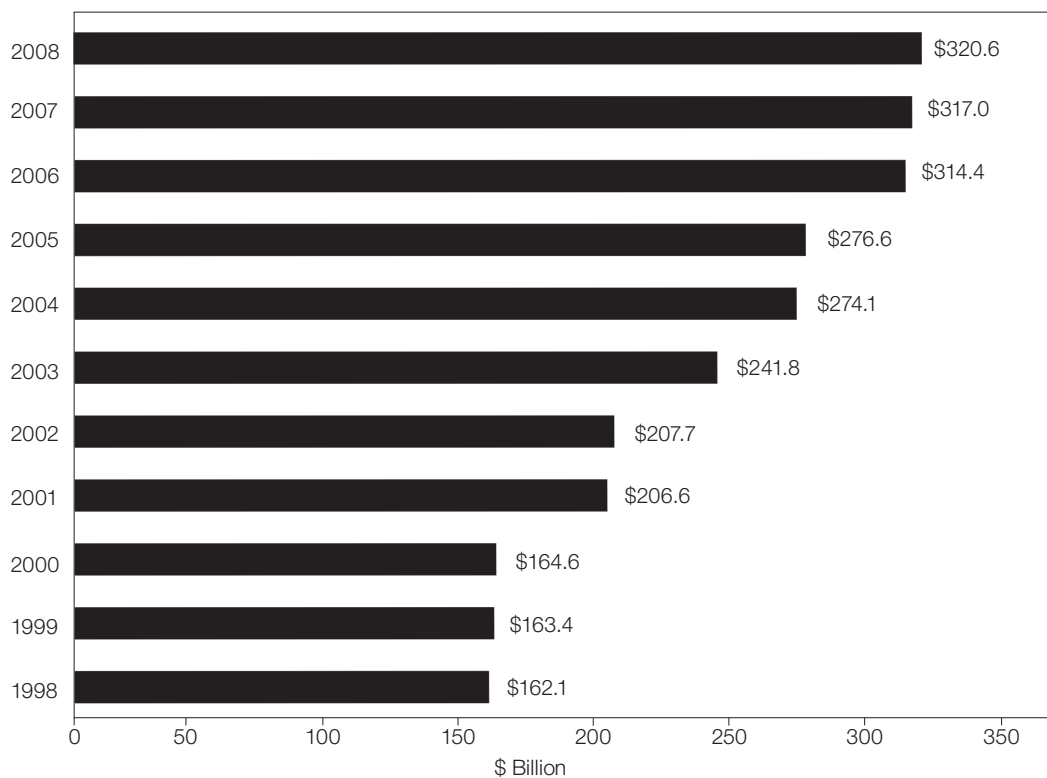
- The cancellation of any tax increase for seniors aged 65 or older, or disabled persons living with a household income of \$26,000 or less, with residential property assessed values less than \$454,000 and who have occupied his/her home for at least one year.
- The interest-free deferral of any tax increase for seniors aged 50 years or older or disabled persons, whose household income is \$40,000 or less and have owned the property for at least one year.
- A 40% rebate of taxes paid for registered charities owning or occupying space in commercial or industrial properties.

Property Assessment

The following chart shows the total values of property assessment (CVA) in the City of Toronto since 1998.

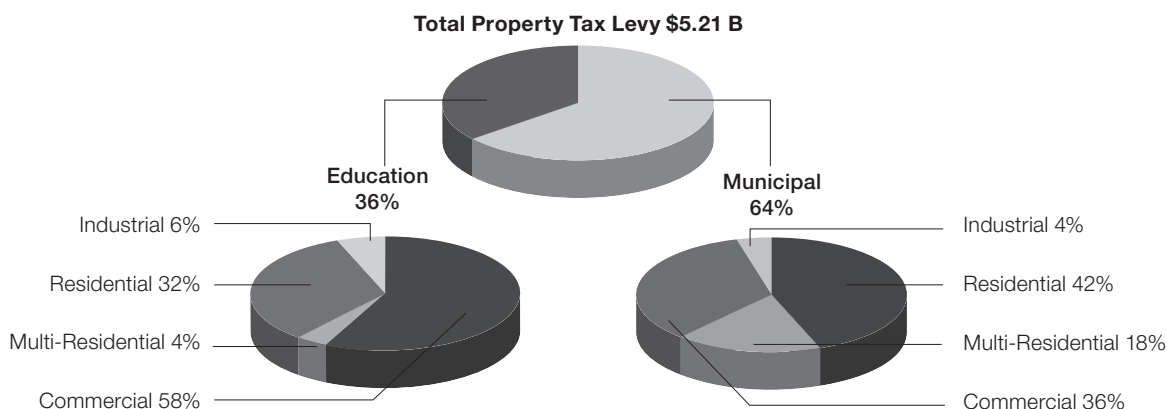
> TOTAL TAXABLE PROPERTY ASSESSMENT VALUES

City of Toronto 1998-2008



The following charts show the breakdown of the City's 2008 property tax levy:

> TORONTO 2008 PROPERTY TAX LEVY



USER FEES

User fees are the City's second largest source of revenue. In 2008, Council approved and implemented a new User Fee Policy. The directive prescribes that, "where direct users can be identified, City user fees be established to recover the full cost of the relevant service and be increased by the rate of inflation, while ensuring that the most vulnerable are protected."

Council, in 2007, approved a new plan to achieve a Solid Waste diversion goal of 70% by 2010, by providing effective and efficient waste management and resource recovery services to residents and businesses in order to maintain a clean and healthy city. As part of the initiative, a new funding system, the volume-based rate structure, was implemented November 1, 2008 to pay for the required additional programs and services. This funding plan transforms Solid Waste Management (garbage collection, recycling, green bin, litter prevention, landfill management and other diversion programs) from being tax-based to user fee-based, and its fees are now part of the Utility Bill, together with the water charges, that are sent to city property owners.

Total user fee revenues represent 22% of total tax and rate-supported operating revenues. They include transit fares, parks and recreational fees, Water and Wastewater charges, as well as Solid Waste fees. The City's current user fee structures are at levels generally comparable to, and competitive with, the surrounding municipalities.

OTHER REVENUES

The City receives other revenues such as grants and subsidies from other orders of government which are mainly for mandated programs such as Social Assistance, Child Care, Public Health and Social Housing, as well as other income such as earnings from government business enterprises and investment income. The total of these revenues makes up about 17% of the total tax-and rate-supported operating revenues.

NEW TAXATION

Two new taxes: Municipal Land Transfer Tax (MLTT) and Personal Vehicle Tax (PVT) were implemented in 2008 (MLTT – February 1, 2008 and PVT – September 1, 2008). The City of Toronto is the only Ontario municipality with the legislative authority (*City of Toronto Act, 2006*) to levy taxes other than property taxes. In 2008, the two new taxes brought in revenues totalling approximately 2% of the City's total tax-supported Operating Budget.

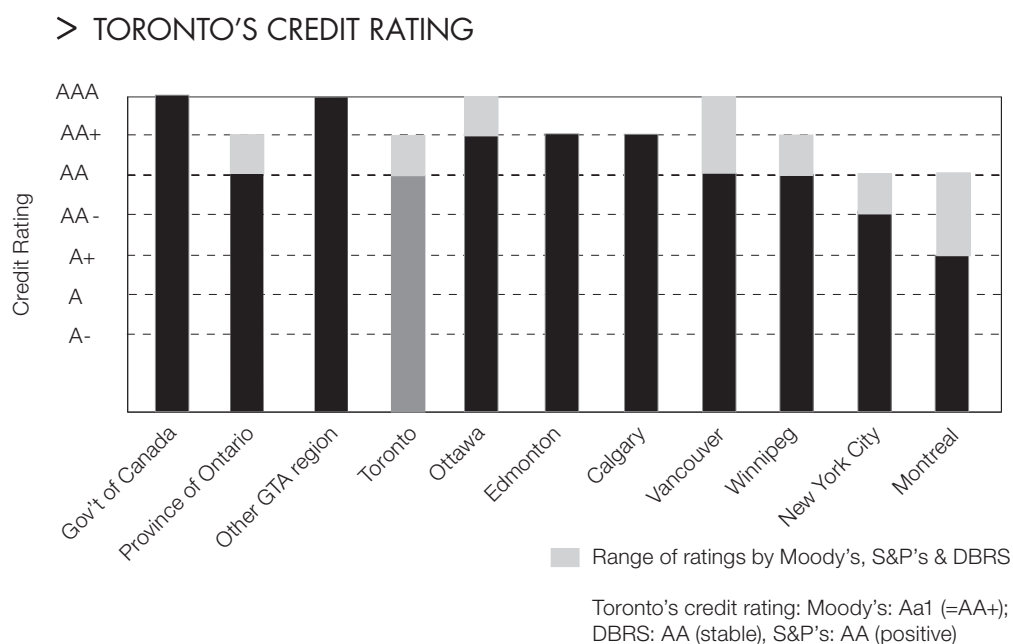
| CREDIT RATINGS

The City of Toronto is recognized as an important participant in global financial markets. The maintenance of a high quality credit rating is essential to ensure that the City's ability to access the most cost-effective world capital markets will continue.

A municipality's credit rating helps to determine the ability to borrow funds. Credit rating agencies assess the City's financial position by comparing it with other cities and regions. A number of factors affect the credit rating, such as quality of management; strength of economy; level of reserves, state of repair of assets, debt levels, etc. If a municipality's current debt levels and future trends appear to be high, this will have a negative impact on its credit rating. If debt levels are considered low, this will have a positive impact. The rating essentially indicates the City's ability to make payments on the debt now and in the future.

While the City's debt affects its rating, the rating affects the City's ability to borrow, as well as the cost of borrowing. A higher rating translates into a lower cost of borrowing, as well as a wider market for investors to invest in City debt. Below a certain rating, investors may have policies that don't allow them to purchase the City's debt. Then the City would have to offer a higher interest rate to attract investors.

The City's credit rating remains among the highest of comparably sized or larger North American cities such as Chicago, New York, Vancouver and Montreal.



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

- AA with a stable trend from the Dominion Bond Rating Service Ltd. (DBRS) – reaffirmed September 2008
- AA with a positive outlook from Standard and Poor's Canada (S&P's) – upgraded March 19, 2008
- Aa1 with a stable outlook from Moody's Investors Service – reaffirmed March 2009

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
DBRS	AA	AA	AA	AA	AA	AA	AA	AA (high)	AA (high)	AA (high)	AA (high)	AAA
Standard and Poor's	AA	AA	AA	AA	AA	AA	AA	AA+	AA+	AA+	AA+	AA+/ AAA
Moody's Investors Service	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa2	Aa2	Aa2	Aa2	Aa2

Credit rating agencies regularly issue reports respecting the industries and individual issuers. Here are some of the excerpts from those reports that generally explained the high rating held by the City of Toronto, and that Canadian municipalities were expected to weather the economic downturn, but cautioned that if the downturn were to last longer or deeper, those municipalities with more export-oriented manufacturing businesses, and those with more financial responsibilities for welfare, could be exposed to higher budget pressures. The good news is the Federal Budget (January 27, 2009) and the Ontario Budget (March 26, 2009) both contained economic stimulus packages which are expected to, amongst other things, create local employment through the capital infrastructure projects.

"The City of Toronto's debt rating of Aa1 reflects the City's low debt burden and low debt service ratios, as well as Toronto's relatively high levels of cash reserves, providing liquidity. The rating also reflects the positive operating results recorded over the past several years despite numerous challenges requiring annual adjustments to the City's operating budget. Moreover, the City's rating reflects a large and diversified economy, which remains a source of credit strength despite the near-term economic uncertainty. The City retains an important economic role as Canada's largest urban center and its financial capital.

Slowing Economy Could Increase Near-Term Welfare-Related Expenses – The impact of the slowing economy on the City's welfare caseloads and related social service expenses represents another risk to Toronto's operating budget performance. In 2007, social and family services represented 23.2% of Toronto's operating expense base; in the event of a worsening recession, this figure could increase, applying pressure on the City's operating budget in the near term.

But Long-Term Flexibility to be Enhanced by Changes to Provincial-Municipal Framework – In 2008, the Province of Ontario completed its Provincial-Municipal Fiscal and Service Delivery Review and announced that it would assume the full costs of Ontario Works (welfare) benefits gradually over ten years; to date, municipalities had assumed 20% of the costs of this program. Moreover, starting in 2012, the province will assume the costs of provincial court security. Combined with previous announcements respecting provincial uploads of other social service programs, these changes, while phased-in over a multi-year period, are expected to provide some relief to the City's operating budget over the long term."

Moody's Investors Service, March 2009

"Toronto, Canada's largest city and the capital of Ontario, has the deepest and most diversified local economy in the country.....Thanks to new federal and provincial grant streams, the City's financial flexibility has been increasing and should continue to do so as a result of new municipal taxes. Toronto's operating surplus strengthened in 2006 for the second consecutive year. Although the City has robust and increasing cash balances, its internal reserves and provincial and federal capital grants are not sufficient for its large infrastructure programs, so debt remains an important and growing capital funding source. Despite the steadyrise, the City's debt burden has remained quite manageable, mainly due to the healthy operating revenue growth.

Canadian municipalities are resilient and should withstand the economic chill. Overall, their financial health is good and they have strong support from their senior counterparts, provincial and federal governments. There is no doubt that in general Canadian municipalities will be affected as the U.S. – Canada's biggest trading partner – faces tough times ahead. In addition to the effects of the strong Canadian dollar on trade competitiveness, softening U.S. demand will dampen exports.....Standard & Poor's Ratings Services believes there will not be widespread deterioration in the credit quality of rated municipalities. We are keeping an eye on potential problems, such as decreasing tax revenues and rising debt. But overall, the resilient Canadian economy, municipalities' adequate financial strength, the support from senior levels of government, and good planning should ensure that Canadian municipalities weather the developing storm....."

"Canadian Municipalities Should Withstand the Developing Economic Cold Front"
Public Finance Report Card for Canadian municipalities, Standards & Poor's, June 2008

"Federal Stimulus Would Help – Municipal governments may have some flexibility on the capital side by deferring or even cancelling infrastructure projects. If the federal government does step up capital spending in the next year... municipalities could benefit from new tri-partite infrastructure programs or monies made available specifically to support public-private partnership initiatives. This could lead them to accelerate their capital plans and debt issuance.... Most municipalities should be able to withstand some erosion in financial health without seeing their credit quality significantly affected."

"Canadian Municipalities Enter Economic Slump From A Position of Strength"
Standard & Poor's December 2008

| PERFORMANCE MEASUREMENT AND BENCHMARKING REPORT

Introduction

To provide context for evaluating the performance of the City of Toronto Government, it is important to consider that municipal property taxes comprise only 5.6% of the total taxes paid by an average Ontario family annually to all levels of government. The various forms of taxes paid to governments include; income taxes, Employment Insurance and Canada Pension Plan premiums, property taxes, consumption taxes such as the GST and PST, and embedded taxes, which are included in the price of items such as gasoline, liquor and tobacco.

Toronto's 2007 Performance Measurement and Benchmarking (PMB) Report was released in April 2009 and focuses on providing performance measurement and benchmarking results for the major services the City of Toronto provides with the 5.6% share of the total tax dollar. The report can be found at www.toronto.ca/city_performance/pdf/consolidated-2007-PMBR-report.pdf

Toronto's PMB Report provides service activity level and performance measurement results in 23 service areas and includes up to eight years of Toronto's historical data to examine internal trends, as well as a comparison of 2007 results externally to 14 other municipalities through the Ontario Municipal CAOs Benchmarking Initiative (OMBI). The report includes colour coded summaries of results, supporting charts and achievements from 2008 and planned 2009 initiatives that will further improve Toronto's operations in the future.

The process of examining and benchmarking performance encourages Toronto's service areas to continuously look for opportunities to improve operations and performance. As part of the Operating Budget decision making process all City services are quantified and evaluated using performance measures. Over the next two years financial planning direction is to move towards a service-based, performance-focused, and multi-year budget process through the introduction of a new budgeting system beginning in 2011 based on a full Public Service View for the City of Toronto.

Toronto's Performance Measurement Framework Overview

The City of Toronto's performance measurement framework for service delivery is comprised of the following two categories of indicators/measures:

1. Service/Activity Level Indicators

Provide an indication of the service/activity levels, by reflecting the amount of resources approved by Council or the volumes of service delivered to residents. For the purposes of comparing to other municipalities results are often expressed on a common basis, such as the number of units of service provided per 100,000 population.

2. Performance Measures

- *Efficiency* – compares the resources used to the number of units of service provided or delivered. Typically this is expressed in terms of cost per unit of service
- *Customer Service* – measures the quality of service delivered relative to service standards or the customer's needs and expectations
- *Community Impact* – measures the outcome, impact or benefit the City program is having on the communities they serve in relation to the intended purpose or societal outcomes expected. These often tie to the mission statements of the program or service

It is the responsibility of staff, with the financial resources and associated service levels and/or standards approved by Council, to deliver service as efficiently, and with the highest customer service and/or positive impact on the community, as possible.

Summary of Results in Toronto's 2007 Performance Measurement & Benchmarking Report

The most accurate comparison for any municipality is to examine one's own year-over-year performance and longer-term historical trends. For this reason, it was considered important to include up to eight years of Toronto's internal data in the PMB report.

Toronto is unique among Ontario municipalities because of its size and its role as the centre of business, culture, entertainment, sporting and provincial and international governance activities in the Greater Toronto Area.

Approximately 20 million tourists visit Toronto each year and there is an estimated daily influx of 314,000 non-resident vehicles entering the City from surrounding regions during the morning rush hours, in addition to non-residents entering the City through public transit. All of these factors pose special demands on Toronto's municipal services.

Even Toronto's largest single-tier municipal comparators within Ontario, such as Hamilton and Ottawa, have a significant rural component that Toronto does not.

Despite the unique characteristics of Toronto, such as our much higher population density, there is also value in making comparisons of performance measurement results to other municipalities to assist in understanding how well Toronto is doing. The fifteen municipalities that comprise OMBI serve more than 9.3 million residents or 73% of Ontario's population for regional services.

Highlights of Toronto's PMB report are summarized below

Internal Trends – Service/Activity Level Indicators

The PMB Report includes 41 service/activity level indicators. Of these indicators, 88% of the results remained stable or increased (favourable) in relation to 2006. Examples of some of the areas in which Toronto's service levels or levels of activity increased in 2007 are:

- More ICI (Industrial, commercial and Institutional) building permits and residential permits under \$50,000 were issued
- The number of emergency medical calls responded to by EMS increased
- There were increased hours of service in the Library system
- More parking spaces were added
- The kilometres of the trail system in parks was increased
- More police staffing was added
- The number of Social Housing units was increased
- More public transit vehicle hours were provided

Internal Trends – Performance Measures

The PMB Report includes 101 internal performance measures, efficiency, customer service and community impact measures. Of these measures, 66% of them improved or were stable compared to 2006. Examples of areas in which Toronto's 2007 performance indicators improved include:

- Increasing construction value of ICI building permits issued, more residential units were built and there was a lower cost per building permit issued
- There was an increase in the supply of subsidized child care spaces relative to the low income child population
- Continuing high rate of resident satisfaction in homes for the aged
- Decreasing crime rates for total (non-traffic) crime, violent crime, property crime and youth crime
- Improving pavement condition of Toronto's roads system and decreasing costs of maintaining the paved surface of roads
- Decreasing total cost of social housing per unit
- Increasing solid waste diversion rates and reduced rate of complaints regarding collection
- Increasing use of registered sports and recreation programs and a higher percentage of available spaces (capacity) was utilized
- Public transit trips per person increased as did the number of and trips per vehicle hour
- Decreasing amounts of drinking water used per household

External Comparisons – Service/Activity Level Indicators:

There are 51 service/activity level indicators, in the PMB report where Toronto's results can be compared and ranked with other municipalities. Toronto's 2007 service/activity levels were higher than the OMBI median for 49% of the indicators.

Services where Toronto's size and high population density require higher service levels, indicative of large densely populated cities, include:

- A higher number of police staff (officers and civilians) per 100,000 population
- The highest number of transit vehicle hours per capita, because of Toronto's multi-modal system and high transit use
- The highest number of library holdings (collection) per capita, due to our extensive research and reference collections, electronic products and multilingual collections
- Higher spending per capita on cultural services due to the size of Toronto's arts and culture community
- A higher number of on-street parking spaces

There are also examples in the report where Toronto has comparatively lower service levels because of factors resulting from higher population density compared to less densely populated municipalities which require proportionately more facilities or infrastructure to be within a reasonable travel distance of their residents. For example, Toronto has the lowest number of road lane kilometres per 1,000 population and a lower number of library hours per capita.

External Comparisons – Performance Measures:

There are 103 measures of efficiency, customer service and community impact, in Toronto's 2007 PMB Report where Toronto's results can be compared and ranked with other municipalities and placed in quartiles.

Toronto's results are higher than the OMBI median for 55% of the indicators. Examples where Toronto has the top/best result of the OMBI municipalities include:

- The shortest EMS response time to emergency calls
- The lowest rate of residential fire related injuries per 100,000 population
- The lowest rate of governance and corporate management costs as a percentage of total operating expenditures (single-tier municipalities)
- The highest pavement quality rating for our roads system
- The highest rate of library use
- The highest solid waste diversion rate for houses
- The highest rate of public transit use

World Bank Initiative to Develop City Indicators

It is also important to compare Toronto internationally to other large cities which lead to Toronto's participation in a World Bank sponsored initiative to develop an integrated approach for measuring and monitoring the performance of cities. Their objective was to develop a standardized set city indicators that measure and monitor city performance and quality of life globally.

The initiative was launched in June 2006 at the World Urban Forum and the pilot process involved nine cities from four countries:

- Canada – Toronto, Montreal and Vancouver
- United States – King County, Washington
- Brazil – São Paulo, Belo Horizonte and Porto Alegre
- Columbia – Bogotá and Cali

The objective for the indicators developed in this pilot process was that they would be applicable to all cities in the world regardless of geography, culture, affluence, size, economic strength, or political structure. The indicators cover a total of 22 theme areas, eight of which relate to quality of life indicators such as civic engagement, culture, economy and the environment.

The City Indicators Initiative is now being managed by a newly established Global City Indicators Facility (GCIF) within the Cities Centre at the University of Toronto. Financial support for the facility will be provided for three years by the World Bank's Development Grant Facility and others. Participation in the GCIF has now expanded significantly beyond the initial pilot group.

It is expected that this initiative will still take some time before comparable results will become available, but if successful it will provide a valuable additional source of information to assess how well Toronto is doing from both a service delivery and quality of life perspective.

Toronto in International Rankings and Reports

Toronto continues to be considered one of the most liveable and competitive cities in the world as demonstrated by various international rankings and reports. These include:

- Toronto made Forbes Magazine's 2008 list of the top 10 most economically powerful cities, beating out Madrid, Mexico and Philadelphia for the number 10 spot. According to Forbes, Toronto continues to be the economic heart of one of the world's wealthiest countries, and along with London, is the fastest growing G7 financial centre.
- KPMG's 2008 Competitive Alternatives study found that Toronto continues to offer one of the most cost-effective business and investment climates in the world. Toronto ranked 15th, ahead of U.S. cities such as Chicago, Detroit, New York, Philadelphia and Phoenix.
- According to the Economist Intelligence Unit (the Economist Magazine), Toronto continues to rank fifth in the world for liveability; after Vancouver, Melbourne, Vienna and Perth.
- For the third year in a row, Toronto's quality of living was ranked 15th in the world by Mercer Human Resources Consulting. Canadian cities dominated the rankings in the Americas (North, Central and South America) with Toronto once again placing second after Vancouver.
- A survey conducted by Z/Yen Group Limited for the City of London, in September 2008, ranked Toronto 11th on the Global Financial Centres Index (GFCI), just behind Frankfurt, Boston and Dublin, and ahead of Guernsey and Jersey. Toronto has gained a position since the September 2007 report.
- In its November/December 2008 issue, Foreign Policy (FP) Magazine ranked Toronto as one of the world's top 10 global cities, after New York, London, Paris, Tokyo, Hong Kong, Los Angeles, Singapore, Chicago and Seoul.
- The World Intellectual Property Organization, which tracks the number and types of patents that have been issued worldwide, reported that Toronto had the 18th-highest number of patents globally. Patents are one of the most direct ways of measuring innovation.
- The 2008 Worldwide Centres of Commerce Index ranked Toronto 13th in the world (after London, New York, Tokyo, Singapore, Chicago, Hong Kong, Paris, Frankfurt, Seoul, Amsterdam, Madrid and Sydney), and third in North America (after New York and Chicago).

Toronto's PMB report focuses on performance measurement results in specific service areas; however it is by no means the only type of reporting done by Toronto in this area. Links, to other report cards or indicator reports issued by the City of Toronto or in association with the City, are noted below:

- **Children's Report Card:** www.toronto.ca/reportcardonchildren
- **Housing & Homelessness Report Card:** www.toronto.ca/homelessness/index.htm
- **Long-Term Care Report Card:** www.toronto.ca/ltc/reportcard.htm
- **Public Health Profiles and Indicators:** www.toronto.ca/health/hsi/hsi_2004_overview.htm
- **Economic Indicators:** www.toronto.ca/business_publications/indicators.htm
- **Federation of Canadian Municipalities – Quality of Life:** www.fcm.ca/english/View.asp?x=477&id=364
- **Vital Signs – Issued by Toronto Community Foundation:** www.tcf.ca/vitalinitiatives/vitalsigns.html

Conclusion

The City continues to promote a continuous improvement culture in order to provide our citizens and businesses with services that are as efficient and effective as possible, looking for the optimal combination of efficiency and quality and beneficial impact on our communities.

| TREASURER'S REPORT



The Consolidated Financial Statements are intended to provide Council, the public, the City's debenture holders, and other stakeholders, an overview of the state of the City's finances at the end of the fiscal year and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Consolidated Financial Statements and all other information included in the financial report are the responsibility of management.

The financial statements are prepared in accordance with generally accepted accounting principles as set by the Canadian Institute of Chartered Accountant's (CICA) Public Sector Accounting Board (PSAB).

These Consolidated Financial Statements have been audited by Ernst & Young LLP whose role is to express an independent opinion on the fair presentation of the City's financial position and operating results and to confirm that the statements are free from material misstatement. The external auditor's opinion is to provide comfort to third parties that the financial statements can be relied upon.

The Consolidated Financial Statements include the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Provides a summary of the City's financial assets and liabilities (the financial resources the City has available for future services and the future revenues required to pay for past transactions).
Consolidated Statement of Financial Activities	Outlines revenues, expenditures and financing in the year, as well as fund balances at year end. 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.
Consolidated Schedule of Current Operations	Outlines revenues, expenditures and financing for current operations in the year with comparisons to budget, as well as operating fund balance at year end.
Consolidated Schedule of Capital Operations	Outlines revenues, expenditures and financing for capital operations in the year with comparisons to budget, as well as capital fund balance at year end.
Consolidated Schedule of Reserves and Reserve Funds	Summarizes funds raised by the City in the year for reserve and reserve funds, what those funds were used for and how they compared to the budget.

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies, boards, commissions and government business enterprises that the City effectively controls. There are 108 entities that are included in the financial statements and these are listed in Note 1 to the Consolidated Financial Statements. The remaining notes to the statements provide further detail about the City's financial position and results 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 readers in understanding the financial statements, schedules have been prepared for current operations, capital operations, and reserves and reserve funds.

Consolidated Statement Of Financial Position

The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's balance sheet with the exception that tangible capital (physical) or "fixed" assets are not recorded. As indicated in Note 20 to the Consolidated Financial Statements, beginning in 2009, Tangible Capital Assets will be reported on this statement. This statement focuses on the City's assets and liabilities. The difference between the two is the City's net liability position and represents the net amount that must be financed from future budgets. The City's net liabilities are broken down in the "Municipal Position" portion of the statement and are divided between the funds (assets) 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:

- (a) The *Operating Fund* is primarily made up of the City's financial interest in its government business enterprises, which consist of Toronto Hydro Corporation, Toronto Parking Authority, Toronto Economic Development Corporation (TEDCO) (prior to November 14, 2008) 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 (TAF) are the most prominent. The Operating Fund also contains the 2008 surplus which will be distributed in 2009 in accordance with the 2009 Budget.
- (b) The *Capital Fund* represents the net position of the City's capital projects. The capital fund is in a deficit position, which indicates that financing (such as a debt issuance) for certain projects has yet to occur.
- (c) 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 expenditure and revenue levels from year to year. A breakdown of the City's reserves and reserve funds can be found in Note 15 to the Consolidated Financial Statements.

In addition to the reserves and reserve funds, the City also has received funds for specific purposes under legislation, regulation or agreements. The recognition of these funds as revenues has been deferred until related expenditures occur in the future. For example, development charges, parkland dedication fees and Federal and Provincial Government transfers received (such as public transit funding), are not recognized as revenues until such time as the projects are constructed. These restricted funds are included in Financial Liabilities and not in the Municipal Position. A breakdown of the City's deferred revenue obligatory reserve funds can be found in Note 6(a) to the Consolidated Financial Statements.

Consolidated Statement of Financial Activities

The Consolidated Statement of Financial Activities is considered to be the municipal equivalent to the private sector's income statement. However, like the Consolidated Statement of Financial Position, there is an important distinction. Although the statements are on an accrual basis of accounting for most revenues and expenses, this is not a "full accrual" model as the costs of the City's physical assets are expensed in the year they are purchased or constructed. As indicated in Note 20 to the Consolidated Financial Statements, this will change for the 2009 reporting period when capital assets will be amortized over the expected useful lives of the assets and amortization expense will be recorded in the statement.

The Consolidated Statement of Financial Activities provides a summary of the revenues, expenditures and financing activities throughout the reporting period and reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.

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

Restatement of Prior Period Consolidated Financial Statements

During 2009, the City identified two items that resulted in a restatement of 2007 comparative figures:

- 1) an error in the actuarial valuation of sick leave liabilities which resulted in a net increase in accrued benefit liabilities of \$68.8 million;
- 2) a change in the organizational structure of Toronto Waterfront Revitalization Corporation (TWRC) resulting in a decrease in net expenditures of \$6.1 million.

(See Note 2 of the Consolidated Financial Statements)

Financial Condition

The most important measure of any government's financial condition is its net financial asset (liability) position: financial and non-financial assets (cash, receivables, investments, inventory and prepaid expenses) less financial liabilities (trade and employment payables, mortgages and debentures). The City's net liability position at December 31, 2008 (as compared to 2007) increased by \$444 million to \$3.33 billion. This increase in the City's net liability is primarily due to:

- growth in deferred revenue resulting from receipt of funds under the Investing in Ontario Act, 2008 (\$238 million);
- increase in restricted public transit funds, mainly from Move Ontario 2020 monies received during the year (\$261 million);
- increase in development charge and planning act charge obligatory reserves (\$128 million);
- increase in employee benefit liabilities (\$188 million);
- partially offset by an increase in cash and investments (\$337 million).

The City's long-term debt (Note 10) remained virtually unchanged in the year as debt principal repayments were almost equivalent to new debt issued.

In order to improve the City's net financial liability position, the City continues to implement its Long Term Fiscal Plan. Some key measures included in the plan are: tax policies which enhance economic competitiveness and improve Toronto's business climate, utilization of user rate adjustments for environmental and cost control purposes, creating new revenue sources (Municipal Land Transfer Tax and Personal Vehicle Tax, approved by City Council in October 2007 and effective 2008) and working with the Province to realize the upload of social service program costs in 2008 and beyond.

While the debt financing will continue to grow due to state of good repair funding requirements and increased focus on improving public transit, the City's updated Capital Plan, inclusive of enhanced federal and provincial funding and combined with the City's strategic infrastructure partnership reserve fund, ensures a solid financing plan is in place for the next five years.

The positive effects of implementing these financial plans are reflected in the City's AA and AA+ independent credit ratings.

Another key indicator of a government's financial condition is the liability amount that must be paid from future revenues (see Note 12 of Consolidated Financial Statements). These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities and environmental liabilities. In 2008, the total amount that will be recovered from future property taxes and other revenues grew by \$188 million to \$6.45 billion. This increase mainly consists of:

- an increase of \$188 million in employee benefits liabilities;
- an increase of \$32 million in the property and liability claims provision during 2008;
- an increase in landfill closure and post-closure liability of \$11 million;
- offset by decreases in mortgage and long term debt of \$47 million.

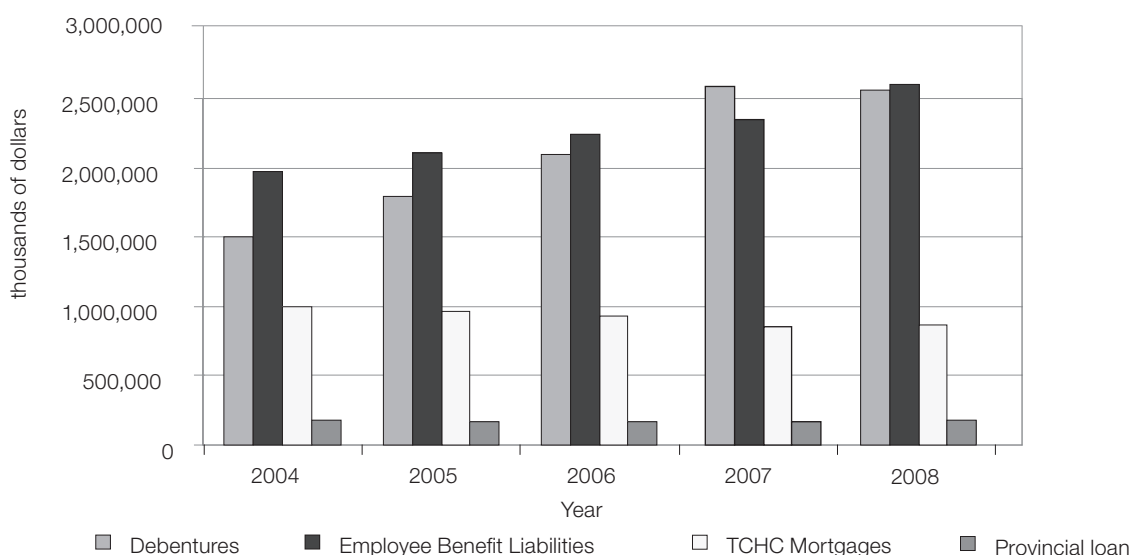
Table 1 outlines the trend in financial asset and liability growth over the last five years.

Table 1
Net Liabilities – Five-year Summary

(in thousands of dollars)						
Net Financial Liabilities	Average Annual Increase	2008	2007	2006	2005	2004
Financial Liabilities	9.11%	10,647,259	9,631,062	8,451,699	8,067,913	7,526,205
Financial and Non-financial assets	7.32%	7,312,432	6,739,792	6,166,534	5,825,636	5,514,894
Net Liabilities	13.82%	3,334,827	2,891,270	2,285,165	2,242,277	2,011,311
Percentage Increase		15.34%	26.52%	1.91%	11.48%	

The City's net liabilities have increased by an average annual rate of 13.82% over the last five years attributable to increases in long-term debt to third parties and in long-term employee benefit liabilities. The significant growth in debt has been driven mainly by the need to finance transit capital expenditures and to finance social housing projects as well as the growth of employee benefit liabilities. Chart A provides the breakdown of long-term liability growth by debt type.

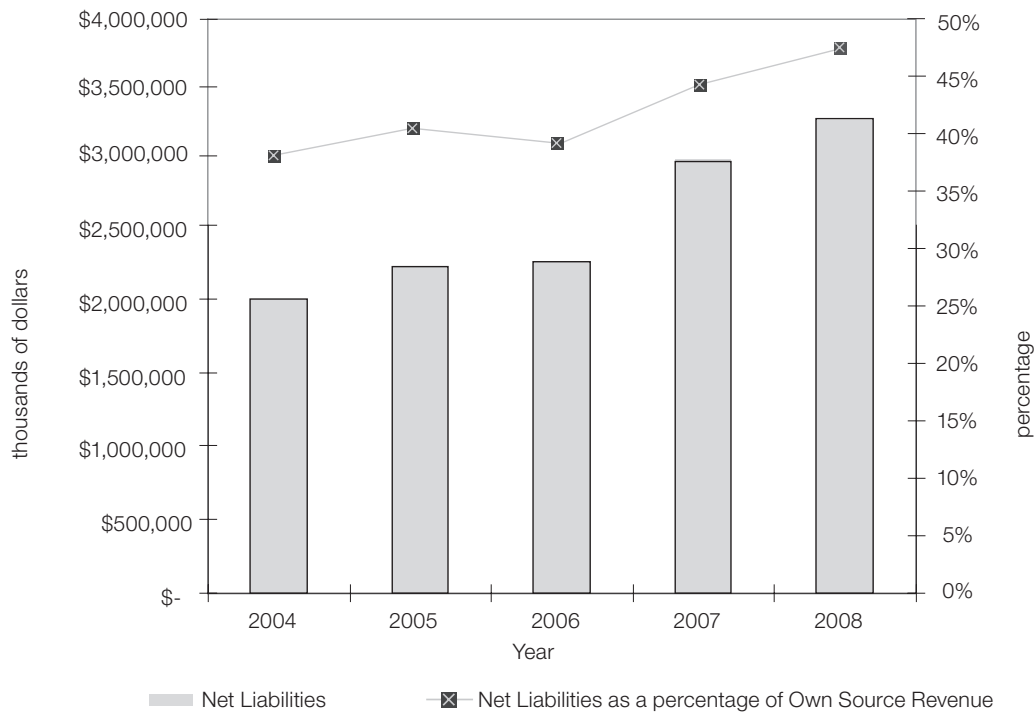
Chart A > LONG-TERM LIABILITIES



Additional information on the mortgage liabilities of TCHC can be found in Note 9 of the Consolidated Financial Statements. Note 10 provides additional information about the provincial loan and the City's debenture debt. Further detail about the City's employee benefit liabilities can be found in Note 11 of the Consolidated Financial Statements.

To put the City's net liabilities into a different context, Chart B expresses the net liabilities as a percentage of the City's own source revenues (excluding government transfers and earnings from investments in government business enterprises (GBE's)). The net liabilities as a percentage of own source revenues has grown from 36.4% to 47.3% in the last five years.

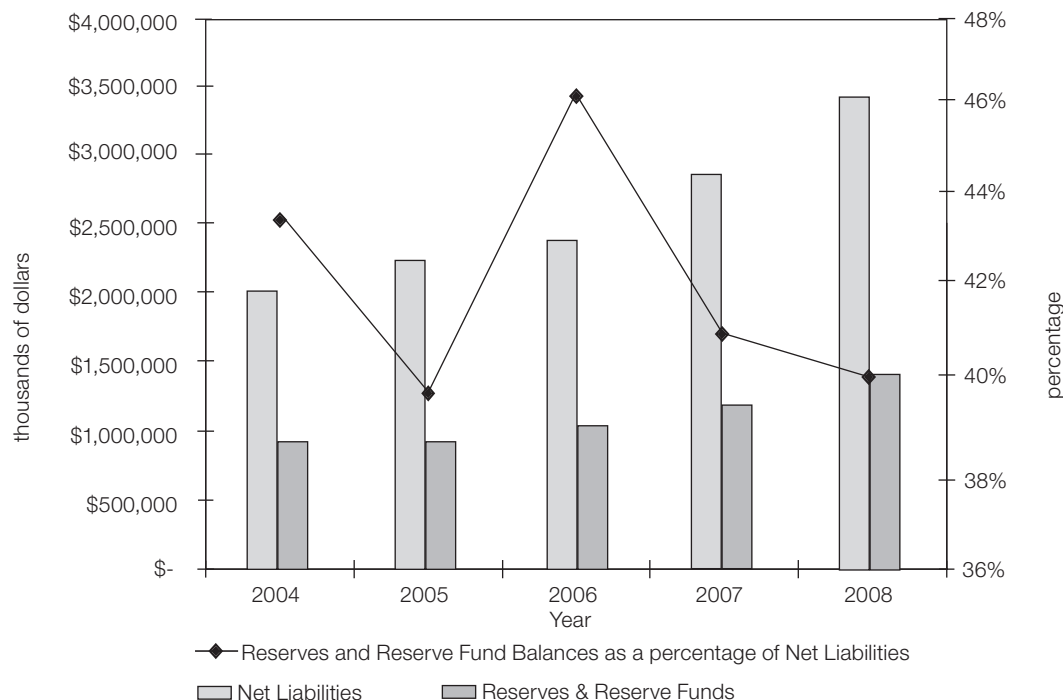
Chart B > NET LIABILITIES AS A PERCENTAGE OF OWN SOURCE REVENUES



The City's net liabilities substantially exceed the City's reserve and reserve fund balances as shown in Chart C. The vast majority of the reserve and reserve funds are committed to fund capital projects identified in the 10-year capital plan, and future known liabilities, leaving only a small portion available for discretionary spending. The balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements and all capital reserves/reserve funds are required to replace and maintain capital assets. Also, the current balances of some reserve funds (e.g. Employee Benefits) are not adequate to cover the future obligations for which they have been set aside.

For financial statement purposes, PSAB requires that obligatory reserve fund balances (such as development charges and unspent provincial public transit funding) be classified as deferred revenue (see Note 6 (a) of Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements are lower than those included in staff reports to the Budget Committee and Council which include obligatory reserve fund balances.

Chart C > RESERVES AND RESERVE FUND BALANCES AS A PERCENTAGE OF NET LIABILITIES



Note 15 of the Consolidated Financial Statements provides a breakdown of the City's reserves and reserve funds.

Analysis of Key Asset and Liability Accounts

Accounts Receivable

Accounts receivable balances increased \$104 million in 2008. The increase consists of the following:

- receivable from the Government of Canada for Federal Gas Tax for 2008 (\$40.7 million);
- receivable from the Government of Ontario for Ontario Bus Replacement Program (\$25.7 million) and Personal Vehicle Tax (\$3.7 million);
- accrual of revenue for the new Solid Waste Management Residential Fee Program (\$12.9 million);
- accrual from York regarding their subway contribution payment (\$10 million); and
- miscellaneous other increases.

Accounts Receivable	(in thousands of dollars)	
	2008	2007
Government of Canada	178,045	146,088
Government of Ontario	77,452	45,813
Other municipal governments	12,893	1,415
School board	300	600
Water fees	103,920	107,513
Other Fees and Charges	442,478	409,381
Total	815,088	710,810

Property Taxes Receivable

Property 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, net of allowance for uncollectible taxes. A breakdown of this receivable is noted below:

Property Taxes Receivable	(in thousands of dollars)	
	2008	2007
Current year	184,623	158,156
Prior year	26,622	22,780
Previous years	26,942	30,955
Interest/penalty	30,363	30,782
Less: allowance for doubtful accounts	(22,476)	(22,301)
Total	246,074	220,372

Total year-end property taxes receivable increased by \$25.7 million mainly as a result of the following:

- Economic conditions experienced in 2008 resulted in a \$14.3 million increase in December 31, 2008 taxes receivable as compared to December 31, 2007. This amount is fully secured by the underlying property value.
- Year-end receivables, which are due in future periods, increased by \$11.2 million. These receivables include supplementary/omitted levies and other charges issued late in the year and due in the following year, as well as tax increase deferrals under the City's tax assistance program for seniors, which only become due when property ownership has transferred.

Other Assets

Other Assets increased by \$52.7 million to \$63.9 million (2007: \$11.2 million) due primarily to:

- TCHC advancing an additional \$24.2 million in 2008 to Dundas Parliament Development Corporation (DPDC) for the interim financing of their construction, and
- Consolidation of TEDCO, which increased other assets (\$28.5 million) for the following: land held for resale (\$10.5 million), mortgages receivable (\$16.6 million) and other miscellaneous assets (\$1.4 million).

Investments

Investments increased by \$241 million to \$3.82 billion (2007: \$3.58 billion) due primarily to: receipt of funds in 2008 from the Province of \$452 million to fund public transit initiatives and receipt of provincial Investing in Ontario Act funds of \$238 million, offset by debt issuance that was \$415 million less than budgeted. Details about the City's investment portfolios and their yields are provided in Note 3 to the Consolidated Financial Statements.

Investment in Government Business Enterprises

During the year, the City reorganized the activities previously undertaken by Toronto Economic Development Corporation (TEDCO), with portions transferred to Build Toronto, Invest Toronto and Economic Development, while certain activities remain with TEDCO. As a result of these changes, TEDCO no longer qualifies as a government business enterprise (GBE), and is consolidated as an agency, board or commission (ABC), from the date of incorporation of the two new companies, November 14, 2008. Additional information regarding the City's remaining GBEs as at December 31, 2008, including 2008 transactions for all GBEs with the City as well as condensed financial results, are provided in Note 5 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable and Accrued Liabilities

The breakdown of accounts payable and accrued liabilities at December 31, 2008 with 2007 comparatives is as follows:

Accounts Payable and Accrued Liabilities	(in thousands of dollars)	
	2008	2007
Local Board trade payables	465,946	347,138
City trade payables and accruals	770,536	821,201
Payable to school boards	157,376	204,403
Provision for assessment appeals	397,182	373,943
Credit balances on property tax accounts	65,692	107,681
Payroll liabilities	114,086	91,942
Total	1,970,818	1,946,308

Local trade payables were higher in 2008 primarily due to increases in Toronto Transit Commission (TTC) trade payables of \$75.1 million and consolidation of TEDCO payables of \$26.3 million. The provision for tax assessment appeals increased by approximately \$23.2 million given that the total value outstanding with the Assessment Review Board (ARB) increased over the year due to the slow pace of appeals being cleared by the Board. The decrease in credit balances on property tax accounts is due to refunds being issued throughout the year thus reducing the outstanding credit balance. Payroll liabilities were higher as an additional day's pay was accrued in 2008.

Deferred Revenue

Deferred revenue increased by \$684 million to \$1.92 billion (2007: \$1.24 billion) primarily due to money received in 2008 from the Provincial government for the Investing in Ontario Act – \$238 million and funds for Move Ontario 2020 – \$452 million, the majority of which remained unspent as of December 31, 2008.

Other Liabilities

Other liabilities increased by \$156 million to \$418.1 million (2007: \$262.3 million), mainly as a result of:

- an increase in the property and liability claims provision (\$31.6 million);
- an increase in the TCHC bank loan (\$43 million);
- increases in Toronto Transit Commission (TTC) in unsettled accident claims (\$20.9 million); and
- inclusion of TEDCO environmental liabilities (\$47.8 million).

Net Long-Term Debt

Net long-term debt decreased by \$17 million to \$2.74 billion (2007: \$2.76 billion) as follows: issuance of debt totalling \$302 million by the City and Toronto Community Housing Corporation (TCHC), offset by debt repayments and interest earned on sinking funds totalling \$319 million.

Although the City was planning to issue \$200 million in debt in the Fall of 2008, the credit markets froze and capital market conditions deteriorated around mid-September due to the sub-prime mortgage crisis, subsequent bank bailouts and the bankruptcy of Lehman Brothers in the United States. The decision was made not to issue debt during the remainder of 2008 because the City's cost of borrowing would have increased dramatically. 2009's authority was increased to \$700 million as the debt markets were expected to improve in 2009, which has occurred in recent months.

Employee Benefit Liabilities

Employee benefit liabilities increased by \$188 million to \$2.59 billion (2007: \$2.40 billion), as follows:

- increase in the non-OMERS pension plan liabilities (\$78 million);
- increase in sick leave benefits (\$17 million);
- increase in workers' compensation benefits (\$18 million);
- increase in post-employment benefits (\$50 million); and
- change in unamortized actuarial losses (\$25 million).

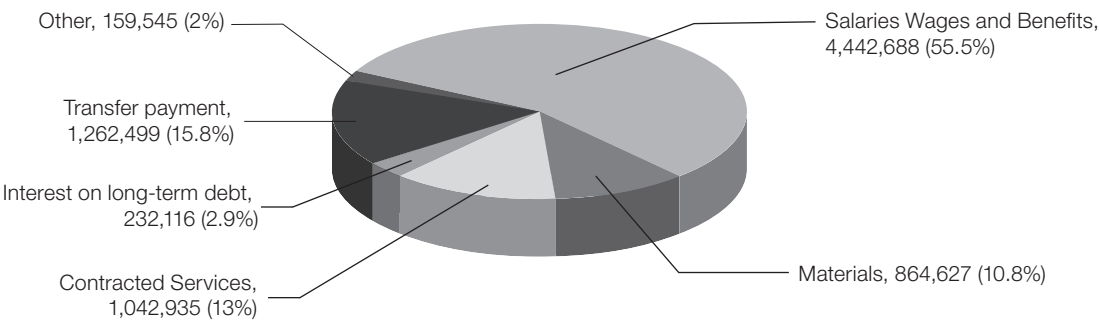
Additional information is provided in Note 11 of the Consolidated Financial Statements.

Operating Expenditures

Gross operating expenditures for 2008 totalled \$8.0 billion (2007: \$7.61 billion). The increase was generated largely by inflationary increases (wages, materials and contracted services), increased employee benefit liabilities and increased interest charges on long-term debt.

Chart D breaks down the gross expenditures by cost object. Salaries, wages and benefits accounted for the largest portion at 55% of the total amount. It should be noted that principal re-payments on debt are not included as they are considered financing transactions for accounting purposes and are not considered expenses.

Chart D > EXPENDITURES BY OBJECT – CURRENT OPERATIONS
(in thousands of dollars)



Note 14 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenditures by object.

Table 2 provides a comparison of 2008 actual expenditures by program versus budget, and a comparison with the previous year's actuals.

Table 2
Current Operating Expenditures by Programs

Expenditures	(in thousands of dollars)				
	2008 Budget	2008 Actual	Difference	Change %	2007 Actual
General government	582,290	666,511	(84,221)	(12.6%)	491,541
Protection to persons and property	1,329,084	1,423,640	(94,556)	(6.6%)	1,426,550
Transportation	1,719,812	1,805,884	(86,072)	(4.8%)	1,656,981
Environmental services	621,481	603,145	18,336	3.0%	593,947
Health services	351,313	368,773	(17,460)	(4.7%)	349,179
Social and family services	1,850,150	1,794,286	55,864	3.1%	1,761,551
Social housing	608,793	558,895	49,898	8.9%	609,646
Recreational and cultural services	659,201	683,682	(24,481)	(3.6%)	650,896
Planning and development	33,612	99,594	(65,982)	(66.3%)	66,323
Total	7,755,736	8,004,410	(248,674)	(3.2%)	7,606,614

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements (see Note 17 in the Consolidated Financial Statements).

Table 2 indicates that actual expenditures in 2008 were higher than budget by \$249 million. This is primarily due to an increase in the PSAB accrual for adjustments for retirement and post employment benefits (\$110.3 million) and an increase in legacy pension plan liabilities (\$77.6 million) due to the immediate recognition of actuarial gains or losses on the City's legacy pension plans which incurred investment losses in 2008. Both of these items are non-cash items that are not included in the City's budget.

In addition to the employee benefit liabilities noted above, a detailed breakdown of contributing factors by function is as follows:

- The General Government category includes an increase in provision for property liability claims (\$31.6 million); accruals for tax rebates payable for the new Solid Waste Management Residential Fee Program (\$56.6 million), Municipal Land Transfer Tax (\$10.3 million) and Personal Vehicle Tax (\$1.9 million); offset by the transfer of the \$75 million special hydro dividend received in operating, prior to transfer to the TCHC State of Good Repair Reserve Fund.

- Actual costs for protection to persons and property (Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act Courts) include increased WSIB occupational illness claims (\$7.1 million).
- Transportation includes Roads/Traffic signals maintenance and Transit. The increase resulted from increased snow removal and winter maintenance costs as a result of the large and frequent accumulation of snow. Toronto Transit Commission expenditures were higher than budget primarily as a result of accident claims expenses which were higher than anticipated (\$20 million).
- Environmental services spending was lower than budget due primarily to lower production and efficiencies.
- Health Services increased expenditures included overtime costs due to hospital offloading delays (\$4.4 million).
- Social and Family Services spending was lower than budget by \$55.9 million as average monthly caseload of 75,708 compared favourably to the budgeted caseload of 77,000.
- Social Housing decrease was related to lower than budget spending at TCHC (\$50 million).
- Planning and development spending was higher than budget due to consolidation of Toronto Water Revitalization Corporation (TWRC) (\$11.5 million) and TEDCO (\$46.7 million).

City Revenues

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of the City's many revenue sources. In 2008, property taxes made up 41.98% (2007 – 41.92%) of the City's operating revenue.

The five year summary of revenues outlined in Table 3 demonstrates that property taxes continue to be the slowest growing revenue source for the City. During this period, assessment growth has been low. In addition, the City has been limited by provincial legislation and Council policy from extending tax rate increases on the commercial, industrial and multi-residential assessment base. The commercial, industrial and multi-residential assessment base represents approximately 58% of the City's tax revenue base.

As a result of the slow growth of property tax revenue, more reliance has been placed on user fees, senior government transfers and other sources of revenue to meet expenditures and minimize property tax rate increases. Council's approval of the Municipal Land Transfer Tax and Personal Vehicle Tax in October of 2007, both of which were implemented in 2008, are examples of the action taken by the City to diversify its revenue sources to address this issue.

Table 3
Consolidated Revenues – Five-year Summary

(in thousands of dollars)

Revenues	Avg. Annual Increase	2008	2007	2006	2005	2004
Property taxes	3.17%	3,369,949	3,285,947	3,187,263	3,082,009	2,974,975
Municipal land transfer tax (MLTT)	n/a	165,743	—	—	—	—
Personal Vehicle Tax (PVT)	n/a	14,992	—	—	—	—
User charges	5.82%	2,108,423	1,966,890	1,856,407	1,766,557	1,681,994
Government transfers	8.55%	2,222,619	1,952,047	2,254,726	1,831,399	1,600,688
Other	13.72%	1,630,979	1,655,652	1,236,089	1,045,713	975,388
Total	7.12%	9,512,705	8,860,536	8,534,485	7,725,678	7,233,045
Percentage Increase		7.36%	3.82%	10.47%	6.81%	—

Increases in property tax revenues averaged 3.17% over the past five years. Over the same period, public sector wages increased annually by 3% and non-residential construction costs increased by an average of 7.07% annually.

User fees have increased in 2008 due to an increase in Transit Fare passenger revenue (\$56.4 million) as a result of three million additional riders, higher water revenue (\$23.8 million) and additional revenue due to new waste collection fees implemented in 2008 (\$58 million).

The government transfers increase in 2008 is primarily attributable to increased Provincial and Federal Grants for Social and Family Services (\$76.8 million) and increased subsidies for TTC: operating (\$149 million) and capital (\$61 million).

The decrease in other revenue in 2008 as compared to 2007 is attributed primarily to receiving an one time payment of \$36.5 million from Astral Media in 2007 for the street furniture program.

Table 4 provides a comparison of 2008 revenues by type to budget and Table 5 provides a comparison to previous year.

Table 4
Current Operating Revenue
Budget to Actual Comparison (2008 Performance)

Revenue	(in thousands of dollars)			
	2008 Budget	2008 Actual	Difference	Change %
Property Tax revenues	3,315,948	3,369,949	54,001	1.6%
MLTT and PVT	-	180,735	180,735	n/a
User charges	2,132,013	2,108,423	(23,590)	(1.1%)
Government transfers	1,973,170	2,014,261	41,091	2.0%
Other Revenue	759,094	785,381	26,287	3.3%
	8,180,225	8,458,749	278,524	3.3%

The favourable variance in the Property tax revenues is mainly attributable to the City receiving an additional (fourth) supplementary/omitted assessment roll from MPAC (\$18.8 million), and BIA levies (\$16.9 million).

The unfavourable variance in user charges revenue is mainly attributed to reduced water usage during summer months due to the wet summer (\$19 million). Although water revenues increased in comparison to 2007 due to the rate increase, overall volumes of water decreased during the year.

Table 5
2008 Current Operating Revenue Comparison to Prior Year

Net revenues	(in thousands of dollars)			
	2008 Actual	2007 Actual	Difference	Change %
Property tax revenues	3,369,949	3,285,947	84,002	2.6%
MLTT and PVT	180,735	—	180,735	100.0%
User charges	2,108,423	1,966,890	141,533	7.2%
Government transfers	2,014,261	1,762,325	251,936	14.3%
Other revenues	785,381	824,344	(38,963)	(4.7%)
	8,458,749	7,839,506	619,243	7.9%
Expenditures	8,004,410	7,606,614	397,796	5.2%
Net revenues	454,339	232,892	221,447	95.1%

Property tax revenues increased in 2008 due to the 3.385% tax rate increase on residential property (1.128% increase on commercial and other non-residential property) and a \$26.6 million increase from assessment growth.

Capital Operations

Table 6 provides a comparison of 2008 capital expenditures and financing to budget and Table 7 provides a comparison with the previous year.

Table 6
Capital Operations Budget to Actual Comparisons

	(in thousands of dollars)			
	2008 Budget	2008 Actual	Difference	Change %
General government	156,002	99,683	56,319	36.1%
Protection to persons and property	104,905	103,758	1,147	1.1%
Transportation	1,176,412	879,346	297,066	25.3%
Environmental services	479,569	373,210	106,359	22.2%
Health services	11,469	8,370	3,099	27.0%
Social and family services	28,652	15,931	12,721	44.4%
Social housing	138,467	233,891	(95,424)	(68.9%)
Recreational and cultural services	218,290	157,837	60,453	27.7%
Planning and development	86,193	86,869	(676)	(0.8%)
Expenditures	2,399,959	1,958,895	441,064	18.4%
Revenues	1,262,795	967,108	(295,687)	(23.4%)
Debentures	749,735	308,823	(440,912)	(58.8%)
Operating fund transfers	132,442	180,889	48,447	36.6%
Net reserve/reserve fund transfers	228,560	60,355	(168,205)	(73.6%)
Landfill obligations	—	10,978	10,978	n/a
Environment Liabilities	—	(25)	(25)	n/a
Total revenue and financing	2,373,532	1,528,128	(845,404)	(35.6%)
Net expenditures	26,427	430,767	(404,340)	(1530.0%)

Gross capital expenditure levels continue to be under budget. This is primarily attributed to: the inability to find or secure suitable sites in accordance with planned timeframes; the need to revise design plans; delays in securing funds from cost-sharing partners; unanticipated delays in construction start-up and deferral of work; unanticipated legal and environmental issues; challenges in hiring qualified staff; and delays in the delivery of equipment from manufacturers. In addition, several projects were completed under-budget.

Transportation Services' lower than budget spending occurred mainly in the Program's major projects which require third party coordination and included the following:

- The *St. Clair Dedicated Right of Way* project which was under spent due to longer than anticipated utility work with Toronto Hydro and Toronto Water;
- The *Bloor Street Transformation* Project was delayed by a court challenge and scheduling adjustments arising from the need to accommodate the local BIA's expressed intent to minimize disruptions to their seasonal shopping period during the latter part of 2008; and
- The *Dufferin Jog Elimination* project experienced construction delays resulting from design changes and coordination obstacles with railways.

Toronto Transit Commission (TTC) lower than budget spending was mainly attributable to the following:

- Decreased project spending on Wheel-Trans due to difficulty in finding a manufacturer who is capable of producing a Para transit vehicle suitable to Wheel Trans' needs (\$17.4 million);
- Surface track work deferral on the St. Clair Reserved Transit Line and deferral of associated track work on St. Clair (\$37.1 million);
- Replacement of 40 foot diesel/electric hybrid buses behind schedule due to a strike at the bus manufacturer in 2007 (\$30.5 million);
- Spadina Subway Extension project deferral of engineering work and property acquisition to 2009 (\$46.5 million); and
- Purchase of streetcars delayed due to timing of the project (\$54 million).

Table 7

Capital Expenditures by Program with Previous Year Comparison and Percentage Change

Expenditures by Programs	(in thousands of dollars)			
	2008	2007	Difference	Change%
General government	99,683	88,957	10,726	12.1%
Protection to persons and property	103,758	74,000	29,758	40.2%
Transportation	879,346	741,910	137,436	18.5%
Environmental services	373,210	466,105	(92,895)	(19.9%)
Health services	8,370	6,950	1,420	20.4%
Social and family services	15,931	19,924	(3,993)	(20.0%)
Social housing	233,891	194,138	39,753	20.5%
Recreational and cultural services	157,837	198,105	(40,268)	(20.3%)
Planning and development	86,869	69,856	17,013	24.4%
Total	1,958,895	1,859,945	98,950	5.3%

Although capital spending has remained under budget, actual spending increased significantly over the previous year for a majority of the programs in line with Council's direction to increase the level of capital completion rates. This included increased spending in 2008 in Toronto Water as a result of construction proceeding on several large projects (\$65 million) offset by a decrease in Solid Waste (as the Green Lane landfill was purchased in 2007); increased spending in TTC due to delivery of additional diesel buses in 2008 and increased spending in TCHC for their social housing projects.

Segmented Reporting

Public Sector Accounting standard 2700 Segmented Disclosures came into effect for the 2008 reporting year. The purpose of the standard is to provide information about segments to:

- help users of the financial statements identify the resources allocated to support the major activities of the government;
- help users of the financial statements make more informed judgments about the government reporting entity and about its major activities;
- help users of financial statements better understand the manner in which the organizations in government are organized and how the government discharges its accountability obligations;
- enhance the transparency of financial reporting; and
- help users of the financial statements better understand the performance of the segments and the government reporting entity.

Although the standard does not prescribe which segments to report, the current year reporting has been based on reviews of other municipalities' reported segments and discussions with other municipal treasurers. For this first year, segmented reporting is provided for the functional spending areas (Appendix 2), entities (Appendix 3), as well as functional areas with comparisons to budget (Appendix 4). It is anticipated that the segmented information reported will change over time, and will include service level information, once the City has adopted a service level budget.

Risks and Mitigates

The City continues to face a number of risks that could have a negative impact on the City's financial future. These risks include: lack of long-term dedicated funding to assist the City in addressing its infrastructure deficit, including building and expanding the transit system to meet the City's strategic goals, and accessing non-property tax revenue sources that grow with the economy to ensure long term sustainable funding.

In 2008, the City made significant progress to address these risks by continuing to implement its Long Term Financial Plan. Appendix A lists eight specific financial issues/risks and the actions taken in 2008 to address them.

Highlights include: diversifying the City's revenue sources and generating additional revenue from the Municipal Land Transfer Tax (MLTT) and Personal Vehicle Tax (PVT), approving a long-term plan to reduce unfunded liabilities, continuing tax policies which enhance economic competitiveness, continuing cost containment initiatives, and continuing to work with the Province to realize the upload of the social service programs.

A handwritten signature in black ink, appearing to read 'G. Carbone'.

Giuliana Carbone
Acting Treasurer

Toronto, Canada
May 15, 2009

APPENDIX A: KEY ISSUES/RISKS FACING THE CITY OF TORONTO

Issue/Risk	Actions taken in 2008	Actions Planned for 2009 & Beyond
<p>City has a higher cost structure than other municipalities in GTA</p>	<ul style="list-style-type: none"> • Continuous improvement initiatives and programs continued, to ensure appropriate use of resources • City Council continued to adopt strict budget increase guidelines for City divisions and ABCs • Cost containment measures remained in place • Completed 13 Program Reviews in 2006 and 2007. In 2008, three additional reviews were completed and one was initiated: <ul style="list-style-type: none"> > Accounting Services (Completed) > Inspections, Enforcement & Prosecution (Completed) > Office of Emergency Management (Completed) > City Planning (Ongoing) • Continued to develop the new Financial Planning, Analysis and Reporting system, approved by Council in 2007 for implementation (of Interim Plan) in 2010 for the 2011 budget process. The new system sets the foundation for multi-year performance/service-oriented operating budgets. The system will: <ul style="list-style-type: none"> > track and report performance measures and service level indicators; > alignment of complement management and complement planning processes; > assess cost performance efficiency; > enable better alignment of the City's limited resources to Council priorities; > provide flexibility to incorporate and track long-term service planning initiatives; > establish the framework to balance service levels and priorities with affordability. • Municipal Land Transfer Tax (MLTT) and Personal Vehicle Tax (PVT) implemented February 1 and September 1 respectively, representing revenues of \$165 million and \$15 million respectively in 2008 	<ul style="list-style-type: none"> • Maintain continuous improvement initiatives including efficiency reviews, and enhanced performance measures and benchmarking • Continue to implement Program Reviews • Continue to develop and implement the new Financial Planning, Analysis and Reporting system to improve budget analysis and program rationalization • Apply aggressive budget targets for 2010 and 2011 • Internal Audit and Auditor General continue to conduct audit reviews with a view to maintain and improve internal controls and identify opportunities for further efficiencies • Identify additional benchmarking opportunities

Issue/Risk	Actions taken in 2008	Actions Planned for 2009 & Beyond
<p>Demands for growth as laid out in Official Plan or other Sectoral and Program plans are not adequately funded</p>	<ul style="list-style-type: none"> • Funding of \$452 million received from MoveOntario2020 for transit development • Move Ontario Trust was established in March 2006 for the purpose of holding, investing and disbursing funds to the Toronto York Spadina Subway Expansion project. A total investment of \$870 million from the provincial government plus \$75 million from the federal government has increased to approximately \$1 billion at the end of 2008. These funds are not included in the City's Financial Statements as they are held in a separate Trust Fund. • Lobbied for permanent Federal Gas Tax funding, achieved with 2008 Federal Budget 	<ul style="list-style-type: none"> • Continue to seek revenues that grow with the economy, such as 1 cent of the GST • Continue to estimate the costs related to growth plans • Continue to urge the Federal Government to: <ul style="list-style-type: none"> > establish a permanent, federally funded National Transit Strategy > deliver a national action plan on housing and homelessness – National Housing Strategy > share the equivalent value of 1 cent of the GST with municipal governments
<p>There is variability in certain program expenditures from year to year, some of which are vulnerable to economic downturns and interest rate fluctuations</p>	<ul style="list-style-type: none"> • During 2008 the Provincial Municipal Fiscal and Service Delivery Review (PMFSDR) was completed, resulting in an implementation plan by the province to continue to upload certain social costs (Ontario Disability Support Program, Ontario Works and Court Security costs), by 2018 	<ul style="list-style-type: none"> • Continue to work with the Province to operationalize the upload and refine the relationship regarding social and related services • Closely monitor key economic indicators and market conditions to identify trends and forecast impacts on expenditures and revenues
<p>Business property taxes are not competitive with the surrounding urban area (905 area code)</p>	<ul style="list-style-type: none"> • The City has continued the implementation of "Enhancing Toronto's Business Climate – It's Everybody's Business", adopted by City Council in October 2005 – a 15 year plan to reduce municipal property taxes for businesses and multi-residential properties by approximately 20% for smaller businesses. 2008 was the third year of implementation. In 2008, the City accelerated implementation reducing the time frames by approximately two to three years (by 2013 for smaller business & by 2017 for all other business properties). Education taxes for these properties are also expected to decrease by approximately 20% from 2007 to 2014. • Initiated plan to provide tax increment equivalent grants to targeted sectors to encourage new business to locate in Toronto (e.g. Woodbine Live! Filmport approved in 2008) • Lower water rates for industrial and manufacturing sectors implemented in 2008 	<ul style="list-style-type: none"> • Continue to implement the business climate tax strategy

Issue/Risk	Actions taken in 2008	Actions Planned for 2009 & Beyond
The City lacks adequate revenue sources to fund its municipal responsibilities	<ul style="list-style-type: none"> • Implementation of MLTT and PVT in 2008 • Continued the one cent GST campaign • Implemented a user fee for solid waste collection so that solid waste management services are now paid for through a user pay system and billed jointly with water on the City's utility bill. 	<ul style="list-style-type: none"> • Continue to pursue stable senior government funding and access to sources of revenue that grow with the economy • Update the Long Term Fiscal Plan in 2009/2010 • Continue to work with the Province to secure long term permanent funding solutions, such as permanent funding to cover a portion of TTC operating.
Improper funding of Provincial cost-shared programs has resulted in significant financial pressures to the City	<ul style="list-style-type: none"> • As noted previously, the PMFSDR was completed in 2008 resulting in an upload of certain social services through 2018 	<ul style="list-style-type: none"> • Continue to lobby for the Province to honour its cost sharing formulae • Continue to highlight costs and requirements in areas of joint responsibility, such as social housing and transit
City's investment in ageing infrastructure has been lagging	<ul style="list-style-type: none"> • The City continued to plan for capital on a 10 year basis • Continued to invest funds in State of Good Repair Reserve Fund 	<ul style="list-style-type: none"> • Approval of firm 10-year Capital Plan • Continue to increase direct operating budget contribution to capital program to offset a portion of debt requirements • Complete the Capital Asset Accounting Project • Further enhance asset management planning • Continue to seek funding for transit projects from provincial and federal governments.
Employee benefits and other long-term liabilities are not adequately funded	<ul style="list-style-type: none"> • The City completed reviews of each element of employee benefits • The City amended the non-union sick leave plan, capping the long-term liability, converting it to a plan that provides for sick leave, without additional components • Council approved a long term plan to start to reduce the level of unfunded employee benefit liabilities 	<ul style="list-style-type: none"> • Further implementation of approved strategies to reduce employee benefit liabilities • Further implementation of cost containment and employee education strategies consistent with recommendations made by the Mayor's Fiscal Review Panel and the Auditor General's Office

2008 CONSOLIDATED FINANCIAL STATEMENTS

| MANAGEMENT'S REPORT

The management of the City of Toronto ("City") 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 Consolidated 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 ("Council"), reviews and approves the Consolidated 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 2008 Consolidated Financial Statements have been examined by the City of Toronto's external auditors, Ernst & Young LLP, and their report precedes the Consolidated Financial Statements.

Toronto, Canada
May 15, 2009



Giuliana Carbone
Acting Treasurer



Cam Weldon
Deputy City Manager & Chief Financial Officer



Joseph P. Pennachetti
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, 2008 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, 2008 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 25, 2009

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Chartered Accountants
Licensed Public Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2008 (with comparative figures as at December 31, 2007) (all dollar amounts in thousands of dollars)

	2008	2007 (restated Note 2)
FINANCIAL ASSETS		
Cash	231,213	135,949
Accounts receivable	815,088	710,810
Property taxes receivable	246,074	220,372
Other assets	63,907	11,240
Investments (Note 3)	3,819,159	3,578,526
Note receivable – Toronto Hydro Corporation (Note 4)	735,175	735,175
Receivable – Toronto District School Board (Note 10)	41,772	46,003
Investments in government business enterprises (Note 5)	1,193,537	1,142,253
Total financial assets	7,145,925	6,580,328
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	1,970,818	1,946,308
Deferred revenue (Note 6)	1,919,145	1,235,482
Other liabilities (Notes 7 and 19)	418,109	262,271
Landfill closure and post-closure liabilities (Note 8)	139,341	128,363
Mortgages payable (Note 9)	869,402	899,148
Net longterm debt (Note 10)	2,741,227	2,758,180
Employee benefit liabilities (Note 11)	2,589,217	2,401,310
Total financial liabilities	10,647,259	9,631,062
NET FINANCIAL LIABILITIES	(3,501,334)	(3,050,734)
NON-FINANCIAL ASSETS		
Inventories and prepaid expenses	166,507	159,464
NET LIABILITIES	(3,334,827)	(2,891,270)
MUNICIPAL POSITION		
FUND BALANCES		
Operating (Schedule 1)	2,366,682	2,346,906
Capital (Note 13 and Schedule 2)	(588,736)	(157,969)
Reserves and reserve funds (Note 15 and Schedule 3)	1,332,849	1,177,460
Total fund balances	3,110,795	3,366,397
Amounts to be recovered in future years:		
From reserves and reserve funds on hand	(276,289)	(297,207)
From future revenues	(6,169,333)	(5,960,460)
Total amounts to be recovered (Note 12)	(6,445,622)	(6,257,667)
TOTAL MUNICIPAL POSITION	(3,334,827)	(2,891,270)

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

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

for the year ended December 31, 2008 (with comparative figures for the year ended December 31, 2007) (all dollar amounts in thousands of dollars)

	2008 BUDGET (Note 17)	2008 ACTUALS	2007 ACTUALS (restated Note 2)
REVENUES			
Residential and Commercial property taxation	3,233,412	3,469,974	3,186,766
Taxation from other governments	82,536	80,710	99,181
User charges	2,132,013	2,108,423	1,966,890
Funding transfers from other governments	2,558,688	2,222,619	1,952,047
Net government business enterprise earnings (Note 5)	–	234,047	129,815
Other	1,507,778	1,396,932	1,525,837
Total revenues	9,514,427	9,512,705	8,860,536
EXPENDITURES			
General government	738,292	766,194	580,498
Protection to persons and property	1,433,989	1,527,398	1,500,550
Transportation	2,896,224	2,685,230	2,398,891
Environmental services	1,101,050	976,355	1,060,052
Health services	362,782	377,143	356,129
Social and family services	1,878,802	1,810,217	1,781,475
Social housing	747,260	792,786	803,784
Recreation and cultural services	877,491	841,519	849,001
Planning and development	119,805	186,463	136,179
Total expenditures (Note 14)	10,155,695	9,963,305	9,466,559
EXCESS OF EXPENDITURES OVER REVENUES AND INCREASE IN NET FINANCIAL LIABILITIES	(641,268)	(450,600)	(606,023)
FINANCING			
New long-term debt issued	749,735	301,896	787,047
New mortgages issued	–	6,927	–
Principal repayments on long-term debt	(284,158)	(282,004)	(256,530)
Principal repayments on mortgages payable	–	(36,673)	(31,395)
Interest earned on sinking funds	–	(32,614)	(30,088)
Changes in solid waste landfill liabilities	–	10,978	(360)
Changes in unfunded environmental liabilities	–	(25)	6,565
Changes in property and liability claims	–	31,563	(7,172)
Changes in employee benefit liabilities	–	187,907	155,799
Net increase in amounts to be recovered in future years	465,577	187,955	623,866
Increase (decrease) in non-financial assets	–	7,043	(7,326)
(Decrease) increase in fund balances during the year	(175,691)	(255,602)	10,517
FUND BALANCES – BEGINNING OF YEAR	1,203,887	3,366,397	3,355,880
FUND BALANCES – END OF YEAR	1,028,196	3,110,795	3,366,397

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2008 (with comparative figures for the year ended December 31, 2007) (all dollar amounts in thousands of dollars)

	2008	2007 (restated Note 2)
OPERATING ACTIVITIES		
Excess of expenditures over revenues for the year	(450,600)	(606,023)
Net government business enterprise earnings (Note 5)	(234,047)	(129,815)
	(684,647)	(735,838)
Sources and (uses) of cash:		
(Increase) decrease in accounts receivable	(104,278)	3,462
(Increase) decrease in property taxes receivable	(25,702)	1,245
(Increase) in other assets	(52,667)	(5,801)
Increase in accounts payable and accrued liabilities	24,510	99,243
Increase in deferred revenue	683,663	367,593
Increase in other liabilities	155,838	87,669
Increase (decrease) in landfill closure and post-closure liabilities	10,978	(361)
Increase in employee benefit liabilities	187,907	155,799
	880,249	708,849
Cash provided by (used in) from operating activities	195,602	(26,989)
INVESTING ACTIVITIES		
Net increase in investments	(240,633)	(757,849)
Net decrease in receivable – Toronto Hydro Corporation	–	245,056
Net decrease in receivable – Toronto District School Board	4,231	3,704
Distributions from government business enterprises	182,763	68,106
Cash used in investing activities	(53,639)	(440,983)
FINANCING ACTIVITIES		
New mortgages issued	6,927	–
Principal repayments on mortgages payable	(36,673)	(31,395)
New long-term debt issued	301,896	787,047
Principal repayments on long-term debt	(282,004)	(256,530)
Interest earned on sinking funds	(32,614)	(30,088)
Principal repayments on debt by Toronto District School Board	(4,231)	(3,704)
Cash (used in) provided from financing activities	(46,699)	465,330
Net increase (decrease) in cash during the year	95,264	(2,642)
CASH – BEGINNING OF YEAR	135,949	138,591
CASH – END OF YEAR	231,213	135,949

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

CONSOLIDATED SCHEDULE OF CURRENT OPERATIONS – SCHEDULE 1

for the year ended December 31, 2008 (with comparative figures for the year ended December 31, 2007) (all dollar amounts in thousands of dollars)

	2008 BUDGET (Note 17)	2008 ACTUALS	2007 ACTUALS (restated Note 2)
EXPENDITURES			
General government			
Council	19,618	18,733	16,529
Administration	451,172	557,064	366,375
Ontario property assessment	33,500	32,803	31,719
Allowance for property tax appeals	78,000	57,911	76,918
	582,290	666,511	491,541
Protection to persons and property			
Fire	355,240	404,577	355,146
Police	836,870	878,687	938,578
Building services	94,996	92,155	89,213
Other	41,978	48,221	43,613
	1,329,084	1,423,640	1,426,550
Transportation			
Transit	1,310,691	1,355,352	1,259,089
Road and traffic signals maintenance	409,121	450,532	397,892
	1,719,812	1,805,884	1,656,981
Environmental services			
Water	164,262	151,384	159,700
Wastewater	204,701	196,688	207,943
Solid waste	252,518	255,073	226,304
	621,481	603,145	593,947
Health services			
Ambulance	147,813	161,419	154,661
Public health services	203,500	207,354	194,518
	351,313	368,773	349,179
Social and family services			
Social assistance	1,287,207	1,234,027	1,219,972
Long-term care	211,856	212,600	206,272
Child care assistance	351,087	347,659	335,307
	1,850,150	1,794,286	1,761,551
Social housing	608,793	558,895	609,646
Recreation and cultural services			
Parks	135,943	139,525	126,761
Recreation	256,661	283,428	269,496
Other	266,597	260,729	254,639
	659,201	683,682	650,896
Planning and development			
Planning	37,017	35,208	33,705
Business development	(3,405)	64,386	32,618
	33,612	99,594	66,323
Total Expenditures	7,755,736	8,004,410	7,606,614

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

CONSOLIDATED SCHEDULE OF CURRENT OPERATIONS – SCHEDULE 1 (CONT.)

for the year ended December 31, 2008 (with comparative figures for the year ended December 31, 2007) (all dollar amounts in thousands of dollars)

	2008 BUDGET (Note 17)	2008 ACTUALS	2007 ACTUALS (restated Note 2)
REVENUES			
Residential and Commercial property taxation	3,233,412	3,469,974	3,186,766
Taxation from other governments	82,536	80,710	99,181
User charges:			
Transit fares	827,000	840,888	784,394
Water sales	661,541	642,318	618,565
Fines	129,208	150,133	141,050
Licenses and permits	110,978	101,418	101,767
Fees and service charges	403,286	373,666	321,114
Government transfers:			
Social assistance	762,428	732,840	708,677
Child care assistance	255,603	262,478	244,411
Health services	152,948	151,526	142,641
Social housing	412,603	446,501	413,225
Other	389,588	420,916	253,371
Investment income	188,923	165,695	195,612
Net government business enterprises earnings (Note 5)	–	234,047	129,815
Other	570,171	385,639	498,917
Total Revenues	8,180,225	8,458,749	7,839,506
EXCESS OF REVENUES OVER EXPENDITURES FOR THE YEAR	424,489	454,339	232,892
FINANCING AND TRANSFERS			
Principal repayments on long-term debt	(284,158)	(282,004)	(256,530)
Principal repayments on mortgages	–	(36,673)	(31,395)
Interest earned on sinking funds	–	(32,614)	(30,088)
Changes in employee benefit liabilities	–	187,907	155,799
Changes in property and liability claims	–	31,563	(7,172)
Transfers to reserves	(75,306)	(78,722)	(76,194)
Transfers from (to) reserve funds	67,417	(50,174)	(63,329)
Transfers to capital fund	(132,442)	(180,889)	(54,801)
Total Financing and Transfers	(424,489)	(441,606)	(363,710)
Increase (decrease) in Non-Financial Assets	–	7,043	(7,326)
NET INCREASE (DECREASE) IN OPERATING FUND DURING THE YEAR	–	19,776	(138,144)
OPERATING FUND – BEGINNING OF YEAR	–	2,346,906	2,485,050
OPERATING FUND – END OF YEAR	–	2,366,682	2,346,906

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

CONSOLIDATED SCHEDULE OF CAPITAL OPERATIONS – SCHEDULE 2

for the year ended December 31, 2008 (with comparative figures for the year ended December 31, 2007) (all dollar amounts in thousands of dollars)

	2008 BUDGET (Note 17)	2008 ACTUALS	2007 ACTUALS (restated Note 2)
EXPENDITURES			
General government	156,002	99,683	88,957
Protection to persons and property			
Fire	15,229	7,995	17,922
Police	78,509	87,589	49,295
Other	11,167	8,174	6,783
	104,905	103,758	74,000
Transportation			
Transit	874,059	687,792	512,586
Roads	302,353	191,554	229,324
	1,176,412	879,346	741,910
Environmental services			
Water	204,499	144,565	120,511
Wastewater	179,850	134,258	104,015
Solid waste	95,220	94,387	241,579
	479,569	373,210	466,105
Health services			
Ambulance	10,487	7,028	5,517
Public health services	982	1,342	1,433
	11,469	8,370	6,950
Social and family services			
Social assistance	9,289	4,240	10,569
Long-term care	9,700	9,417	7,787
Child care assistance	9,663	2,274	1,568
	28,652	15,931	19,924
Social housing	138,467	233,891	194,138
Recreation and cultural services			
Parks	14,706	14,427	20,799
Recreation	148,194	86,557	105,327
Other	55,390	56,853	71,979
	218,290	157,837	198,105
Planning and development			
Planning	7,622	4,329	2,627
Business development	78,571	82,540	67,229
	86,193	86,869	69,856
Total Expenditures	2,399,959	1,958,895	1,859,945

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

CONSOLIDATED SCHEDULE OF CAPITAL OPERATIONS – SCHEDULE 2 (CONT.)

for the year ended December 31, 2008 (with comparative figures for the year ended December 31, 2007) (all dollar amounts in thousands of dollars)

	2008 BUDGET (Note 17)	2008 ACTUALS	2007 ACTUALS (restated Note 2)
REVENUES			
Government of Canada transfers	285,964	182,927	141,128
Province of Ontario transfers	299,554	3,694	9,972
Other municipalities	7,940	21,543	61,040
Development contributions applied	464,707	659,035	547,988
Other	204,630	99,909	116,831
Total Revenues	1,262,795	967,108	876,959
EXCESS OF EXPENDITURES OVER REVENUES FOR THE YEAR	(1,137,164)	(991,787)	(982,986)
FINANCING AND TRANSFERS			
New long-term debt issued	749,735	301,896	787,047
New mortgages issued	–	6,927	–
Changes in landfill closure and post-closure liabilities (Note 8)	–	10,978	(360)
Changes in environment liabilities	–	(25)	6,565
Transfers from operating fund	132,442	180,889	54,801
Transfers from (to) reserves	112,461	(36,837)	60,208
Transfers from reserve funds	116,099	97,192	103,419
Total Financing and Transfers	1,110,737	561,020	1,011,680
NET INCREASE (DECREASE) IN CAPITAL FUND DURING THE YEAR	(26,427)	(430,767)	28,694
CAPITAL FUND – BEGINNING OF YEAR	26,427	(157,969)	(186,663)
CAPITAL FUND – END OF YEAR	–	(588,736)	(157,969)

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

CONSOLIDATED SCHEDULE OF RESERVES AND RESERVE FUNDS – SCHEDULE 3

for the year ended December 31, 2008 (with comparative figures for the year ended December 31, 2007) (all dollar amounts in thousands of dollars)

	2008 BUDGET (Note 17)	2008 ACTUALS	2007 ACTUALS
RESERVES			
TRANSFERS FROM (TO) OTHER FUNDS			
Reserve fund	–	125,099	–
Operating fund	75,306	78,722	76,194
Capital fund	(112,461)	36,837	(60,208)
TOTAL TRANSFERS FROM (TO) OTHER FUNDS FOR THE YEAR	(37,155)	240,658	15,986
RESERVES – BEGINNING OF YEAR	254,933	254,933	238,947
RESERVES – END OF YEAR (NOTE 15)	217,778	495,591	254,933
RESERVE FUNDS			
REVENUES			
Sale of land	44,190	19,168	5,557
Government Transfers	–	21,737	38,622
Investment income	27,217	29,376	44,539
Other	–	16,567	55,353
TOTAL REVENUES	71,407	86,848	144,071
TRANSFERS (TO) FROM OTHER FUNDS			
Reserves	–	(125,099)	–
Operating fund	(67,417)	50,174	63,329
Capital fund	(116,099)	(97,192)	(103,419)
TOTAL TRANSFERS TO OTHER FUNDS	(183,516)	(172,117)	(40,090)
NET INCREASE (DECREASE) IN RESERVE FUNDS DURING THE YEAR	(112,109)	(85,269)	(103,981)
RESERVE FUNDS – BEGINNING OF YEAR	922,527	922,527	818,546
RESERVE FUNDS – END OF YEAR (NOTE 15)	810,418	837,258	922,527
TOTAL RESERVES AND RESERVE FUNDS	1,028,196	1,332,849	1,177,460

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

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 ("CICA").

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 and the Toronto Waterfront Revitalization Corporation which is accounted for by proportionate consolidation, 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:

- Board of Governors of Exhibition Place
- Board of Management of the Toronto Zoo
- Heritage Toronto
- The North York Performing Arts Centre Corporation
- The Sony Centre for the Performing Arts
- St. Lawrence Centre for the Arts
- Toronto Atmospheric Fund ("TAF")
- Toronto Board of Health
- Toronto Community Housing Corporation ("TCHC")
- Toronto Economic Development Corporation ("TEDCO") after November 13, 2008
- Toronto Licensing Commission
- Toronto Police Services Board
- Toronto Public Library Board
- Toronto Transit Commission
- Toronto Waterfront Revitalization Corporation ("TWRC") (proportionately)
- Yonge-Dundas Square
- Build Toronto Inc. (Incorporated November 13, 2008)
- Invest Toronto Inc. (Incorporated November 13, 2008)

Arenas:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

Community Centres:

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

Business Improvement Areas:

- Albion/Islington Square
- The Beach
- Bloor Annex
- Bloor by the Park
- Bloorcourt Village
- Bloordale Village
- Bloor Street
- Bloor West Village
- Bloor-Yorkville
- Chinatown
- Church-Wellesley Village
- College Promenade
- Corso Italia
- Crossroads on the Danforth
- Danforth Mosaic
- Danforth Village
- Dundas West
- The Danforth
- Dovercourt Village
- Downtown Yonge Street
- Eglinton Hill
- The Eglinton Way
- Emery Village
- Fairbank Village
- Forest Hill Village
- Gerrard India Bazaar
- Greektown on the Danforth
- Harbord Street
- Hillcrest Village
- Historic Queen East
- Junction Gardens
- Kennedy Road
- Kingsway
- Knob Hill Plaza
- Korea Town
- Lakeshore Village
- Liberty Village
- Little Italy
- Little Portugal
- Long Branch
- Mimico by the Lake
- Mimico Village
- Mirvish Village
- Mount Dennis
- Mount Pleasant
- Oakwood Village
- Old Cabbagetown
- Parkdale Village
- Pape Village
- Queens Quay Harbourfront
- Queen Street West
- Regal Heights Village
- Riverside
- Roncesvalles Village
- Rosedale Main Street
- Sheppard East Village
- St. Clair Gardens
- St. Lawrence Market Neighbourhood
- Toronto Entertainment District
- Trinity Bellwoods
- Uptown Yonge
- Upper Village (York)
- Village of Islington
- West Queen West
- Weston Village
- Wexford Heights
- Wychwood Heights
- Yonge-Lawrence Village
- York-Eglinton

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

All inter-fund 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 Energy Corporation ("Enwave")
- TEDCO (prior to November 14, 2008)
- 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 16).

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 expenditures on the Consolidated Statement of Financial Activities in the year of acquisition. Effective January 1, 2009, this will change with the implementation of Section 3150 – Tangible Capital Assets of the Public Sector Accounting Handbook (Note 20).

Use of estimates

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenditures during the reporting year. Significant estimates and assumptions, which include employee benefits, assessment appeals, claims provisions, landfill closure and post-closure liabilities and environmental provisions, are based on management's best information and judgement. Actual amounts, which are accounted for as they become known, may differ significantly from these estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

Tax revenues

Annually, the City bills and collects over \$3 billion in property tax revenues for municipal purposes. A further \$1.9 billion in provincial education taxes are billed and collected each year on behalf of the Province of Ontario (the "Province") for education purposes. The authority to levy and collect property taxes is established under the *City of Toronto Act, 2006*, the Assessment Act, the Education Act, and other legislation.

The amount of the total annual property tax levy is determined each year through Council's approval of the annual Operating Budget. Municipal tax rates are set annually by Council for each class or type of property, in accordance with legislation and Council-approved policies, in order to raise the revenues required to meet operating budget requirements. Education tax rates are established by the Province each year in order to fund the cost of education on a province-wide basis.

Property assessments, on which property taxes are based, are established by the Municipal Property Assessment Corporation ("MPAC"), a not-for-profit corporation funded by all of Ontario's municipalities. The current value assessment ("CVA") of a property represents an estimated market value of a property as of a fixed date. Assessed values for all properties within the municipality are provided to the City in the form of the returned assessment roll in December of each year.

The amount of property tax levied on an individual property is the product of the CVA of the property and the tax rate for the class, together with any adjustments that reflect Council-approved mitigation or other tax policy measures, rebate programs, etc.

Property taxes are billed by the City twice annually. The interim billing, issued in January, is based on 50% of the total property's taxes in the previous year, and provides for the cash requirements of the City for the initial part of the year prior to Council's approval of the final operating budget and the approved property tax levy for the year. Final bills are issued in May, following Council's approval of the capital and operating budget for the year, the total property tax levy, and the property tax rates needed to fund the City's operations.

Taxation revenues are recorded at the time tax billings are issued. Additional property tax revenue can be added throughout the year, related to new properties that become occupied, or that become subject to property tax, after the return of the annual assessment roll used for billing purposes. The City may receive up to four supplementary assessment rolls over the course of the year from MPAC that identify new or omitted assessments. Property taxes for these supplementary and/or omitted amounts are then billed according to the approved tax rate for the property class.

Taxation revenues in any year may also be reduced as a result of reductions in assessment values resulting from assessment and/or tax appeals. Each year, an amount is identified within the annual operating budget to cover the estimated amount of revenue loss attributable to assessment appeals, tax appeals or other deficiencies in tax revenues (e.g., uncollectible amounts, write-offs, etc.).

In Toronto, annual property tax increases for properties within the commercial, industrial and multi-residential tax classes have been subject to limitations on the maximum allowable year-over-year increase since 1998, in order to mitigate dramatic tax increases due to changes in assessed values.

| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

In October 2005, Council adopted a staff report entitled “Enhancing Toronto’s Business Climate – It’s Everybody’s Business,” that introduced a number of new tax policy initiatives that began in 2006. These changes included limiting allowable annual tax increases on these property classes to 5% of the previous year’s full CVA taxation level, and gradually reducing the proportion of the total property tax levy that is borne by the commercial, industrial and multi-residential classes through 2020.

Beginning in 2008, the City implemented two new taxes: the Municipal Land Transfer Tax (MLTT) and the Personal Vehicle Tax (PVT). These taxes apply to land sales and renewals of vehicle licenses. The revenues are transaction-based and are recognized at the time of the transaction: sale of land or renewal of the vehicle licence.

During 2008, there was an Assessment Review Board decision (the “Bank Towers”) which would negatively impact the City’s assessment base, as well as the commercial assessment base of all Ontario municipalities. The City and MPAC have appealed this decision, and believe that the rationale for their appeal is strong.

Investments

Investments are recorded at amortized cost less any amounts written off to reflect a permanent decline in value. The majority of investments consists of authorized investments pursuant to provisions of the *City of Toronto Act, 2006* and comprises government and corporate bonds, debentures and short-term instruments of various financial institutions. TCHC and TAF have their own investment policies, which allow them to invest in equities.

Investment income earned on available operating funds, capital funds, reserve and reserve funds (other than obligatory funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue balances.

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. Where the costs are deemed to be likely and reasonably determinable, claims are reported as an operating expenditure, and are included in other liabilities 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. Where the costs are deemed to be likely and reasonably determinable, claims are reported as an operating expenditure, and are included in other liabilities on the consolidated statement of financial position.

Landfill closure and post-closure liabilities

The costs to close existing landfill sites and to maintain closed solid waste landfill sites are based on estimated future expenditures in current dollars, adjusted for estimated inflation. These costs are reported as a liability on the consolidated statement of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

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 recorded as deferred revenue and are recognized as revenue in the fiscal year the related expenditures are incurred or services are 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 estimates of retirement ages of employees, salary escalation, expected health 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 the employee benefits are amortized over the estimated average remaining service life of the related employee group. Employee future benefit liabilities are discounted using current interest rates on long-term municipal debentures. The costs of workplace safety and insurance obligations are actuarially determined and are expensed in the period they occur.

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, eligibility criteria have been met and reasonable estimates of the amounts can be made.

Reserves and reserve funds

Reserves and reserve funds are comprised of funds set aside for specific purposes by Council and funds 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

2. Restatement of Prior Period Consolidated Financial Statements

The comparative figures have been restated to account for the following items:

- a) The comparative 2007 Consolidated Financial Statements have been restated to reflect an error in the valuation of sick leave benefits, which are included in employee benefit liabilities. The actuarial error understated the accumulated sick leave benefits and resulted in an understatement of employee benefit liabilities.

As a result of the restatement, as at December 31, 2007, sick leave benefits increased by \$200,835 and the unamortized actuarial losses increased by \$132,043. As a result, the employee benefit liabilities and the amounts to be recovered increased by \$68,792 in the Consolidated Statement of Financial Position. In the Consolidated Statement of Financial Activities, there was no change in the fund balances as the aggregate increase in expenditures of \$68,792 was offset by an increase of \$68,792 in the changes in employee benefit liabilities, included in financing.

- b) A change on the method of reporting the TWRC was implemented in 2008. During 2008, the City reviewed the organizational structure of TWRC and determined that there was a change in 2003 that affected the City's influence and control of the organization. Prior to 2003, the TWRC was solely controlled by the Province, but on May 15, 2003, the TWRC was continued as a corporation without share capital. As the Government of Canada, the Province of Ontario and the City of Toronto each contribute one third of the capital required for the TWRC's priority projects. TWRC should be proportionately consolidated in the consolidated financial statements of the City. As amounts paid to and received from TWRC were previously treated as expenditures or revenues on an accrual basis, the 2007 comparative Consolidated Financial Statements have been restated to reflect the correction in reporting of the TWRC adopted in 2008.

Restatement of comparative figures in these Consolidated Financial Statements for proportionate consolidation of TWRC resulted in an increase in financial assets of \$20,069, an increase in financial liabilities of \$6,717, an increase in the operating fund of \$313, an increase in the capital fund of \$13,039. There are also increases in total revenues of \$35,256 and total expenditures of \$29,147, and increases in fund balances – beginning of year of \$7,243 and fund balances – end of year of \$13,352.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

The detailed impacts of the restatement on 2007 reported values are as follows:

Consolidated Statement of Financial Position

	2007 (as reported)	2007 (as restated)	Change
	\$	\$	\$
Cash	117,346	135,949	18,603
Accounts receivable	709,433	710,810	1,377
Other assets	11,151	11,240	89
Accounts payable and accrued liabilities	(2,031,351)	(1,946,308)	85,043
Other liabilities	(170,511)	(262,271)	(91,760)
Employee benefit liabilities	(2,332,518)	(2,401,310)	(68,792)
Net liabilities	(2,835,830)	(2,891,270)	(55,440)
Operating fund	2,346,593	2,346,906	313
Capital fund	(171,008)	(157,969)	13,039
Amounts to be recovered from future revenues	(5,891,668)	(5,960,460)	(68,792)
Total municipal position	(2,835,830)	(2,891,270)	(55,440)

Consolidated Statement of Financial Activities

	2007 (as reported)	2007 (as restated)	Change
	\$	\$	\$
Total revenues	(8,825,280)	(8,860,536)	(35,256)
Total expenditures	9,368,620	9,466,559	97,939
Increase in employee benefits liabilities	(87,007)	(155,799)	(68,792)
Increase in fund balance	(4,408)	(10,517)	(6,109)
Fund balances – beginning of year	(3,348,637)	(3,355,880)	(7,243)
Fund balances – end of year	(3,353,045)	(3,366,397)	(13,352)

Consolidated Statement of Cash Flows

	2007 (as reported)	2007 (as restated)	Change
	\$	\$	\$
Net expenditures for the year	(543,339)	(606,023)	(62,684)
Decrease in accounts receivable	4,633	3,462	(1,171)
Increase in other assets	(5,931)	(5,801)	130
Increase in accounts payable and accrued liabilities	188,376	99,243	(89,133)
Increase (decrease) in other liabilities	(4,091)	87,669	91,760
Increase in employee benefit liabilities	87,007	155,799	68,792
Net decrease in cash during the year	(10,336)	(2,642)	7,694
Cash – beginning of the year	127,682	138,591	10,909
Cash – end of year	117,346	135,949	18,603

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

Consolidated Statement of Current Operations – Schedule 1

	2007 (as reported)	2007 (as restated)	Change
	\$	\$	\$
Expenditures			
General Government	484,459	491,541	7,082
Protection to persons and property	1,392,430	1,426,550	34,120
Transportation services	1,654,055	1,656,981	2,926
Environmental services	590,175	593,947	3,772
Health services	344,459	349,179	4,720
Social and family services	1,753,697	1,761,551	7,854
Social housing	609,646	609,646	–
Recreation and cultural services	643,215	650,896	7,681
Planning and development	45,351	66,323	20,972
Total Expenditures	7,517,487	7,606,614	89,127
Government Transfer – Social housing	242,190	253,371	(11,181)
Other Revenue	524,383	498,917	25,466
Increase in employee benefit liabilities	87,007	155,799	(68,792)
Net (increase) in operating fund for the year	(138,234)	(138,144)	(90)
Operating fund balance – beginning of year	2,484,827	2,485,050	(223)
Operating fund balance – end of year	2,346,593	2,346,906	(313)

Consolidated Statement of Capital Operations – Schedule 2

	2007 (as reported)	2007 (as restated)	Change
	\$	\$	\$
Planning and development expenditures	61,043	69,856	8,813
Other revenues	101,999	116,831	14,832
Net (increase) in capital fund for the year	22,675	28,694	(6,019)
Capital fund balance – beginning of year	(193,683)	(186,663)	(7,020)
Capital fund balance – end of year	(171,008)	(157,969)	(13,039)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

3. Investments

Investments, as at December 31, consist of the following:

	Cost	2008 Market Value	Carrying Value
	\$	\$	\$
Federal government bonds	750,499	815,295	750,499
Provincial government bonds	1,093,143	1,140,870	1,093,143
Municipal government bonds	520,338	545,367	520,338
Money market instruments	663,158	663,158	663,158
Corporate bonds	435,132	444,025	435,132
Other	396,670	356,036	356,889
	3,858,940	3,964,751	3,819,159

	Cost	2007 Market Value	Carrying Value
	\$	\$	\$
Federal government bonds	742,566	762,229	742,566
Provincial government bonds	991,557	1,020,633	991,557
Municipal government bonds	416,213	432,512	416,213
Money market instruments	398,640	398,801	398,640
Corporate bonds	453,887	453,038	453,887
Other	575,663	575,487	575,663
	3,578,526	3,642,700	3,578,526

Municipal government bonds include bonds held in trust by the insurance carrier as collateral for the provision of automobile and primary liability insurance with a carrying value of \$50,908 (2007 – \$70,392).

The weighted average yield on the cost of the bond investment portfolio during the year was 4.62% (2007 – 5.36%). Maturity dates on investments in the portfolio range from 2009 to 2037 (2007 – 2008 to 2037). Included in the City's investment portfolio are City of Toronto debentures at coupon rates varying from 3.65% to 8.65% (2007 – 3.95% to 8.00%) with a carrying value of \$241,200 (2007 – \$196,417).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

Other investments include the following:

	2008		
	Cost	Market Value	Carrying Value
	\$	\$	\$
City investments	42,349	41,468	42,349
TCHC	180,090	143,119	143,119
– Pooled investments			
– Cash management funds	118,187	118,187	118,187
– Term deposits and other	41,222	41,222	41,222
TAF	14,770	11,988	11,960
Other	52	52	52
	396,670	356,036	356,889

	2007		
	Cost	Market Value	Carrying Value
	\$	\$	\$
City investments	121,150	120,211	121,150
TCHC	172,423	173,176	172,423
– Pooled investments			
– Cash management funds	19,182	19,182	19,182
– Term deposits and other	244,699	244,699	244,699
TAF	18,209	18,219	18,209
	575,663	575,487	575,663

4. Note Receivable – Toronto Hydro Corporation

The note receivable from Toronto Hydro Corporation bears interest at a rate of 6.11% per annum. Toronto Hydro Corporation made a principal payment of \$245,058 in 2007 and is required to pay the remaining principal amount of the note as follows: \$245,058 on the last business day before each of December 31, 2009, December 31, 2011 and on May 6, 2013. Interest is calculated and payable quarterly in arrears on the last business day of March, June, September and December of each year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

5. Investments in Government Business Enterprises

Government business enterprises consist of 100% interest in Toronto Hydro Corporation, Toronto Parking Authority, TEDCO (prior to November 14, 2008), and an approximate 43% interest in Enwave. Details of the continuity of the book value of these investments are as follows:

	2008	2007
	\$	\$
Balance – beginning of year	1,142,253	1,080,544
Results of operations (Appendix 1)	234,047	129,815
Dividends received (Appendix 1)	(116,416)	(46,200)
Distribution to City (Appendix 1)	(72,702)	(34,710)
Subscription to additional Enwave shares	–	6,450
Change in net value of streetlighting assets eliminated on sale to Toronto Hydro Corporation (Appendix 1)	6,355	6,354
Balance – end of year (Appendix 1)	1,193,537	1,142,253

Condensed financial results for each government business enterprise are disclosed in Appendix 1 to the notes to these Consolidated Financial Statements. The results presented in Appendix 1 relate to fiscal years ended December 31 for Toronto Hydro Corporation and Toronto Parking Authority, October 31 for Enwave, and the period ended November 13 for TEDCO. As at November 14, 2008, TEDCO was determined to no longer qualify for government business entity status as the scope and scale of TEDCO operations was reduced, and certain portions of its business were transferred to other organizations.

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

	2008	2007
	\$	\$
Received by the City:		
These amounts are included in expenses of the appropriate government business enterprise in the condensed financial results reported in Appendix 1 to these Consolidated Financial Statements		
Interest on note receivable from Toronto Hydro Corporation (Note 4)	44,919	59,892
Purchased by the City:		
This amount is included in revenues of Toronto Hydro Corporation in the condensed financial results reported in Appendix 1 to these Consolidated Financial Statements		
Streetlighting, electricity, and maintenance services from Toronto Hydro Corporation	117,485	126,583

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

6. Deferred Revenue

(a) Obligatory reserve funds

Revenues received that have been set aside for specific purposes by Provincial legislation, City bylaws, or agreements are included in deferred revenue and reported on the consolidated statement of financial position. Details of these deferred revenues are as follows:

	2008	2007
	\$	\$
Restricted by Provincial Legislation		
Development Charges	277,003	212,404
Recreational Land (Planning Act)	170,505	107,841
Subdividers' Deposits	13,811	19,991
Building Code Act Service Improvement	10,894	8,492
	472,213	348,728
Restricted by Other Agreements		
Public Transit Funds	614,080	353,453
Water and Wastewater	214,841	195,884
Community Services	54,118	55,815
Third Party Agreements	15,687	13,473
State of Good Repair	9,116	10,192
Donations	–	3,005
Parking Authority	1,088	830
	908,930	632,652
Total	1,381,143	981,380

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

(b) Advanced Payments and Contributions

Revenues received for advance payments for tickets and building permits, program registration fees, contributions from developers according to Section 37 of the Planning Act and revenues deferred for TCHC's capital assets replacements, are included in deferred revenue and reported on the consolidated statement of financial position. Details of these deferred revenues are as follows:

	2008	2007
	\$	\$
Community Services	51,551	40,357
Planning Act	27,629	27,520
Section 37/45	8,358	38,665
Long Term Care – Public Health and Housing	4,323	6,161
Police	7,735	9,955
Parks	7,437	11,218
Investing in Ontario Act	238,183	–
Ontario Bus Replacement Program	23,579	–
Others	39,579	11,749
Agencies, Boards and Community Centres	129,628	108,477
Total	538,002	254,102
Total Deferred Revenue (6 (a) and 6 (b))	1,919,145	1,235,482

7. Other Liabilities

Other liabilities consist of the following:

	2008	2007
	\$	\$
Property and liability claims provision (Note 12)	141,667	110,104
Toronto Transit Commission – environmental liabilities (Note 19)	6,540	6,565
TEDCO – environmental liabilities (Note 19)	47,791	–
TCHC bank indebtedness	60,860	17,847
TTC unsettled accident claims	94,804	73,913
Miscellaneous	66,447	53,842
Total	418,109	262,271

TCHC has a committed revolving credit facility of \$200,000 (2007 – \$200,000) that is available for short-term advances and letters of credit. Short-term advances are available by way of Bankers' Acceptance ("BA") and are repayable at maturity of the term on May 8, 2009. The interest charges are at the BA rate plus 0.5% for an effective rate of 3.75% (2007 – 5.18%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

8. Landfill Closure and Post-Closure Liabilities

The Ontario Environmental Protection Act (the “Act”) sets out the regulatory requirements for the closure and maintenance of landfill sites. Under the 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.

Inactive Sites

The City has identified 161 (2007 – 161) inactive landfill sites for which it retains responsibility for all costs relating to closure and post-closure care.

Post-closure care activities for landfill sites are expected to occur in perpetuity 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% (2007 – 5.5%). The estimated present value of future expenditures for closure and post-closure care as at December 31, 2008 was \$137,588 (2007 – \$127,305).

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, 2008 was \$32,804 (2007 – \$32,655) and is included as part of the State of Good Repair Reserve Fund (Note 15), and the balance in the Keele Valley Site Post-Closure Trust Fund as at December 31, 2008 was \$7,395 (2007 – \$7,296) (Note 16).

Active Sites

In 2007, the City acquired the Green Lane Landfill, securing the City’s long-term disposal requirements. The landfill is located in the Township of Southwold, Elgin County, Ontario. The purchase, in the amount of \$220,310, was finalized on April 2, 2007. The landfill is projected to reach its approved capacity by the end of 2034, based on Toronto achieving a 70% residential waste diversion rate. The post-closure care period is expected to occur in perpetuity.

The estimated liability for the care of this landfill site 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% (2007 – 5.5%). The estimated present value of future expenditures for closure and post-closure care as at December 31, 2008 is \$1,753 (2007 – \$1,058), based on the percentage of total approved capacity used of 23.11% (2007 – 21.15%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

In order to help reduce the future impact of these obligations, the City has established two reserve fund accounts. The Green Lane account holds surpluses from the operations of the Green Lane landfill site, and the Green Lane Perpetual Care account provides funding for the future costs of long-term post-closure care of the Green Lane landfill site. The balance in the Green Lane account as at December 31, 2008 was \$1,341 (2007 – \$1,306) and the balance in the Green Lane Perpetual Care account as at December 31, 2008 was \$435 (2007 – \$156). Total contributions to the Green Lane Perpetual Care account of \$271 (2007 – \$154) were based on a contribution rate of 70¢ (2007 – 71¢) per tonne of waste disposed. Both of these reserve fund accounts are included as part of State of Good Repair Reserve Fund (Note 15).

The total amount of Landfill closure and post-closure liabilities are included in the consolidated statement of financial position and comprise of the following:

	2008	2007
	\$	\$
Inactive Landfill Sites	137,588	127,305
Active Landfill Site (Green Lane)	1,753	1,058
Total Landfill closure and post-closure liabilities	139,341	128,363

9. Mortgages Payable

Mortgages payable as at December 31, are as follows:

	2008	2007
	\$	\$
Mortgages issued by TCHC, bearing interest at rates ranging from 2.86% to 11.00% (2007 – 3.70% to 11.00%) per annum, with maturities ranging from 2009 to 2031, and collateralized by housing properties owned by TCHC not reflected in these Consolidated Financial Statements with a net book value of approximately \$1,415,000 (2007 – \$1,363,000)	869,402	899,148

Principal repayments relating to the mortgages payable as at December 31, 2008 are due as follows:

	\$
2009	34,977
2010	36,860
2011	38,733
2012	40,794
2013	42,851
Thereafter	675,187
Total	869,402

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

10. 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 District School Board ("TDSB") 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.

In 2007, TCHC entered into a Credit Agreement with TCHC Issuer Trust, which in turn has entered into an agreement with various agents to issue \$250,000 of 4.877% Debenture Series A bonds due May 11, 2037. TCHC Issuer Trust has advanced the proceeds of the bond offering to TCHC as a loan pursuant to the Credit Agreement and Master Covenant Agreement between TCHC and TCHC Issuer Trust. TCHC will use these advances for long-term financing of social housing projects and related programs of TCHC and its affiliates.

The net long-term debt reported on the consolidated statement of financial position comprises the following:

	2008	2007
	\$	\$
Long-term debentures issued by the City, bearing interest at various rates ranging from 2.51% to 8.65% (2007 – 3.65% to 8.65%) per annum	2,983,525	2,891,403
Long-term debt issued by TCHC bearing interest at various rates ranging from 4.51% to 5.11% (2007 – 4.51% to 5.11%) per annum	325,559	330,045
Long-term debentures issued by the City on behalf of the TDSB bearing interest at 6.1% (2007 – 6.1%) per annum	75,846	75,846
Loans payable to the Province bearing interest at 2.76% (2007 – 2.76%) per annum	170,171	170,171
Loan payable bearing interest at 8.05% (2007 – 8.05%) per annum	1,399	1,490
Sinking fund deposits bearing interest between 4% to 6% (2007 – 4% to 6%) per annum	(781,201)	(680,932)
Sinking fund deposits – TDSB bearing interest at 5% (2007 – 5% to 6%) per annum	(34,072)	(29,843)
	2,741,227	2,758,180

Principal repayments are due as follows:

	\$
2009	413,348
2010	339,092
2011	313,821
2012	292,420
2013	265,950
Thereafter	1,116,596
Total	2,741,227

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

Included in net long-term debt are outstanding debentures of \$2,658,000 (2007 – \$2,483,000) for which there are sinking fund assets with a carrying value of \$824,178 (2007 – \$711,228) and a market value of \$880,033 (2007 – \$754,785). 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 \$101,260 (2007 – \$97,916) and a market value of \$107,526 (2007 – \$101,070).

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

	2008	2007
	\$	\$
Property taxes	2,373,896	2,381,981
Toronto Community Housing Corporation	325,559	330,045
Toronto District School Board (Note 12)	41,772	46,003
Water billings	–	151
	2,741,227	2,758,180

11. Employee Benefit Liabilities

An actuarial valuation report was prepared in 2007 for the valuation of post-retirement, post-employment, sick leave gratuity and self-insured Workplace Safety Insurance Board ("WSIB") benefit plans for the City, Toronto Police Services and the City's Agencies, Boards and Commissions as at December 31, 2006 with results extrapolated to December 31, 2007, 2008 and 2009. 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:

	2008	2007
Discount rate for accrued benefit obligation:		
Post employment	4.65%	4.65%
Post retirement, sick leave and WSIB	5.0%	5.0%
Rate of compensation increase	3.0%	3.0%
Health care inflation – Hospital and other medical	4.5%	4.5%
Health care inflation – Dental care	7.0%	7.0%
Health care inflation – Drugs	10.0%	10.0%

	2008	2007
Discount rate for benefit costs:		
Post employment	4.65%	4.65%
Post retirement, sick leave and WSIB	5.0%	5.0%
Rate of compensation increase	3.0%	3.0%
Health care inflation – Hospital and other medical	4.5%	4.5%
Health care inflation – Dental care	7.0%	7.0%
Health care inflation – Drugs	10.0%	10.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

The health care inflation rate for dental care and drugs is assumed to reduce 4% by 2013 and to 5% by 2017, respectively.

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:

	2008	2007 (restated Note 2)
	\$	\$
Future payments required for:		
Pension liabilities, other than OMERS	149,929	72,339
Sick leave benefits	467,579	450,172
Workplace Safety and Insurance Board obligations	333,246	315,117
Other employment and post-employment benefits	1,878,470	1,828,704
Total employee benefit obligation	2,829,224	2,666,332
Less: unamortized actuarial loss	240,007	265,022
Employee benefit liabilities	2,589,217	2,401,310

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

	2008	2007 (restated Note 2)
	\$	\$
Balance – beginning of year	2,401,310	2,245,511
Current service costs	251,882	159,237
Interest cost	130,236	122,134
Amortization of actuarial loss	20,757	28,522
Benefits paid	(167,963)	(154,094)
Plan amendments	(47,005)	–
Balance – end of year	2,589,217	2,401,310

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

	2008	2007 (restated Note 2)
	\$	\$
Current service costs	251,882	159,237
Amortization of actuarial loss	20,757	28,522
Interest cost	130,236	122,134
Total expenditures	402,875	309,893

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

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 of employment. A sick leave reserve fund is established to help reduce the future impact of these obligations.

As of December 31, 2008, the balance in the sick leave reserve fund is \$47,823 (2007 – \$63,365) and is included as part of Employee Benefits Reserve Fund (Note 15). Payments during the year amounted to \$27,841 (2007 – \$21,418).

A new short-term disability plan for all management and non-union employees (approximately 4,000) was approved in 2007 and became effective March 1, 2008. Existing employees in this group, who have a vested payout entitlement (10 or more years of service) will have their sick days and service frozen as of March 1, 2008 and will be entitled to a future payout of this frozen entitlement upon termination based on the former municipality's policy provisions. Employees with less than 10 years of service as of March 1, 2008 had their days frozen and will not be entitled to a future payout. Instead, they can use these days to top up their short-term disability plan if necessary. The new short-term disability plan does not have a cash payout provision and will help contain sick leave benefit liabilities over time.

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, 2008, the balance in the Workers' Compensation Reserve Fund is \$14,859 (2007 – \$13,086) and is included as part of the Employee Benefits Reserve Fund (Note 15). Payments during the year by the City to the WSIB amounted to \$43,388 (2007 – \$40,766).

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, 2008, the balance in the employee benefits reserve fund is \$159,650 (2007 – \$163,581) and is included as part of Employee Benefits Reserve Fund (Note 15). Payments during the year amounted to \$48,719 (2007 – \$38,006).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

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 a result, the City does not recognize any share of the OMERS pension surplus or deficit. Employer contributions for current service amounted to \$116,070 (2007 – \$112,146) and are matched by employee contributions in a similar amount.

The amount contributed for past service to OMERS for the year ended December 31, 2008 was \$664 (2007 – \$1,779). Employer's contributions for current and past service are included as an expenditure on the consolidated statement of financial activities.

The Toronto Transit Commission ("TTC") 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. The Commission's pension plan is operated by a separate legal entity, the TTC Pension Fund Society (the "Society"). The Society also administers the defined benefit supplemental plans designed to pay employees the differences between their earned pension under the bylaws of the Society and the maximum allowable pension under the Income Tax Act (Canada). Employer contributions to these plans during 2008 amounted to \$69,043 (2007 – \$57,706).

The City 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, 2008, there were 21 (2007 – 25) active members with an average age of 63. There were also 5,247 (2007 – 5,493) pensioners and 2,845 (2007 – 2,869) spousal beneficiaries in receipt of a pension, with an average age of 77. Pension payments and refunds during the year were approximately \$192,086 (2007 – \$195,335).

Employees contribute a portion (varying amounts ranging from 5% to 5.5%) of their salary to the pension plans for current service and the City contributes an equal amount. Member contributions ceased upon completion of 35 years of service.

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 short-term investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

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, 2007, with the results extrapolated to December 31, 2008. The accrued benefit obligation as at December 31, 2008 is based on actuarial valuations for accounting purposes as at December 31, 2008. The unamortized actuarial losses in the five plans are all amortized in 2008.

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 2.25% per annum (2007 – 2.5%) and the rate of compensation increase is estimated at 3.75% to 4.5% per annum (2007 – 2.14% to 2.5%) for determining the accrued benefit obligation. The discount rate used to determine the accrued benefit obligation is 6.8% (2007 – 5.0%) and the benefit cost is 5.5% (2007 – 5%) per annum.

Pension plan assets are valued at market values. The expected rate of return on plan assets is 6.6% (2007 – 6.5%) per annum, net of all administrative expenses. The actual return on the market value of plan assets during the year was a loss of 13.3% (2007 – gain of 1%). The pension plans hold the following mix of assets: cash 0 to 5%, Canadian equities 20 to 30%, fixed income 45 to 50%, and other U.S. and foreign equities 20 to 30%.

Other Pension Plans

As at December 31, 2008, one plan, the Toronto Civic Employees Pension Plan, is in a surplus position. Since there is uncertainty about the City's right to this accrued benefit asset, this amount has not been reflected in the consolidated statement of financial position.

The other four plans, Metropolitan Toronto Police Pension, City of York Employee Pension, Metropolitan Toronto Pension and Toronto Firefighters Pension Plans are in a deficit position. The net actuarial deficits of these plans are included in employee benefit liabilities on the consolidated statement of financial position as at December 31 and include the following components:

	Pension assets market value end of year	Actuarial Pension Obligation end of year	2008 Net Actuarial Surplus (Deficit)	2007 Net Actuarial Surplus (Deficit)
Toronto Civic Employees Pension Plan	366,668	316,009	50,659	142,117
Metropolitan Toronto Police Pension Plan	523,571	610,907	(87,336)	(72,339)
City of York Employee Pension Plan	48,040	57,408	(9,368)	3,327
Metropolitan Toronto Pension Plan	553,535	575,471	(21,936)	98,101
Toronto Firefighters Pension Plan	267,276	298,565	(31,289)	23,909
Total of plans in deficit			(149,929)	(72,339)

I NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

Total expenditures in the consolidated statement of financial activities include the following components related to the four plans in the deficit position (2007 – one plan in deficit).

	2008	2007
	\$	\$
Amortization of actuarial losses	113,420	2,003
Interest cost on the average accrued benefit obligation	95,630	38,299
Expected return on average pension plan assets	(112,738)	(45,022)
Net losses (revenues) related to pension plans	96,312	(4,720)

12. 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:

	2008	2007 (restated Note 2)
	\$	\$
TCHC mortgages payable (Note 9)	869,402	899,148
Net long-term debt (Note 10)	2,741,227	2,758,180
Employee benefit liabilities (Note 11)	2,589,217	2,401,310
Property and liability claims provisions (Notes 7 and 19)	141,667	110,104
Landfill closure and post-closure liabilities (Note 8)	139,341	128,363
TTC environment liabilities (Notes 7 and 19)	6,540	6,565
	6,487,394	6,303,670
Less amounts recoverable from Toronto District School Board (Note 10)	41,772	46,003
	6,445,622	6,257,667

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

13. 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:

	2008	2007 (restated Note 2)
	\$	\$
Capital financing received in advance of expenditures	108,414	225,975
Capital expenditures yet to be financed	(697,150)	(383,944)
Capital Fund Balance (Schedule 2)	(588,736)	(157,969)
Capital expenditures yet to be financed are to be funded in future years as follows:		
Long-term liabilities	623,524	325,245
Developer recoveries and reserves	22,988	20,313
Other	50,638	38,386
	697,150	383,944

Approval has been received for future issuance of \$729,856 in long-term liabilities, which includes the \$623,524 noted above. The remaining \$106,332 in approved long-term debt is for capital expenditures yet to be incurred.

14. Expenditures by Object

Expenditures by object comprise the following:

	2008	2007 (restated Note 2)
	\$	\$
Salaries, wages and benefits	4,442,882	4,235,706
Materials	2,152,109	1,929,987
Contracted services	1,669,520	1,708,706
Interest on long-term debt	232,116	213,723
Transfer payments	1,331,767	1,190,895
Other	134,911	187,542
	9,963,305	9,466,559

| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

15. Details of Reserve and Reserve Fund

	2008	2007
	\$	\$
RESERVES		
Corporate	364,467	213,869
Stabilization	76,387	–
Water and Wastewater	51,870	41,064
Donations	2,844	–
Community Initiatives	23	–
	495,591	254,933
RESERVE FUNDS		
Employee Benefits (Note 11)	222,332	240,032
Stabilization	–	85,194
Corporate	296,622	358,776
Community Initiatives	130,780	116,877
State of Good Repair (Note 8)	187,524	121,648
	837,258	922,527
TOTAL RESERVES AND RESERVE FUNDS	1,332,849	1,177,460

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

16. Trust Funds

Trust funds administered by the City amounting to \$45,422 (2007 – \$47,894) have not been included on the consolidated statement of financial position nor have their operations been included in the consolidated statement of financial activities. Trust fund balances as at December 31 are as follows:

	2008	2007
	\$	\$
Toronto Atmospheric Trust Fund	18,463	24,088
Homes for the Aged Trust Fund – Residents	7,514	7,463
Keele Valley Site Post-Closure Trust Fund (Note 8)	7,395	7,296
Development Charges Trust Fund – Railway Lands	6,269	3,366
Community Services Levies Trust Fund	1,154	1,116
Contract Aftercare Trust Fund	1,047	1,022
Waterpark Place Trust Fund	1,027	993
90 Lisgar Street Trust Fund	591	–
Development Charges Trust Fund – Queen's Quay	516	499
Heritage and Culture Trust Funds	432	389
Lakeshore Pedestrian Bridge Trust Fund	236	228
Police Trust Funds	175	258
Candidates' Municipal Election Surpluses Trust Fund	128	271
Children's Greenhouse Trust Fund – Allan Gardens	108	105
Green Lane Small Claims Trust Fund	103	100
Ricoh Coliseum Trust Fund	–	461
Other trust funds	264	239
	45,422	47,894

17. Budget Data

In accordance with the Public Sector Accounting Handbook Section 1200 (subsection 122), the budget data for 2008 included in these Consolidated Financial Statements include budget figures as originally approved by Council except for reserves and reserve funds, which have been modified to reflect funding contributions contained in approved operating and capital budgets.

18. Segmented Information

The City of Toronto provides a wide range of services to its citizens. Certain services are delivered on behalf of another level of government, a number of services are cost shared, and some services are fully funded by the municipality. Services are delivered through a number of different agencies, boards, commissions, and divisions, with certain services delivered directly, while others may be fully or partially contracted through other organizations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

For each reported segment, revenues and expenditures represent both amounts that are directly attributable to the segment, as well as amounts that are allocated to the segment on a reasonable basis. The accounting policies used in the segments are consistent with the accounting policies followed in the preparation of these Consolidated Financial Statements, as disclosed in Note 1.

The Segmented Information is provided in the notes to Consolidated Financial Statements – Appendices 2 to 4.

19. Contingencies and Commitments

The City is subject to various litigation 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 aggregate amount of \$236,471 (2007 – \$184,017).

A class action claiming \$500,000 in damages, plus interest and costs, was served on the TTC 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 acts of negligence on the part of the defendants. The Plaintiff's motion for certification was dismissed and is currently under appeal. Management believes that the ultimate disposition of this matter will not materially exceed amounts recorded in the accounts. Any additional losses related to this claim will be recorded in the year during which the liability is determinable.

In February 2005, December 2007 and December 2008, contracts were awarded by the TTC for purchase of low-floor buses which comprised of 694 diesel-electric hybrid buses and 300 diesel buses at a total purchase price of \$702,700. As at December 31, 2008, 561 hybrid and 180 diesel buses had been delivered at a cost of \$516,000 and the outstanding commitment is \$186,700.

On December 21, 2006, a contract was awarded by the TTC for the purchase of 234 subway cars or 39 train sets at a total purchase price of \$674,900. As at December 31, 2008, the TTC had incurred costs of \$277,300. The first train set is scheduled for delivery in September 2009. As at December 31, 2008, the outstanding commitment is \$397,600.

In October 2008, a contract was awarded by the TTC for the purchase of 110 Wheel-Trans low-floor para-transit buses at a total cost of \$33,100. The first bus delivery is scheduled for June 2009. At December 31, 2008, the outstanding commitment is \$33,100.

At December 31, 2008, the TTC has various capital project contractual commitments of \$164,000 (2007 – \$84,500).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

The TTC has a long-term provision for environmental costs of \$6,540 (2007 – \$6,565) to cover estimated costs of remediating sites with known contamination for which the TTC is responsible. Given that the estimate of environmental liabilities is based on a number of assumptions, actual costs may vary. The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation.

TEDCO owns and controls lands in the Port Area with varying degrees of environmental contamination. The costs to remediate these lands depend on the timing and the final approved use of sites. Where costs cannot be reasonably determined at this time, a contingent liability exists. The recorded environmental liability costs are \$47,791. In 2007, these liabilities were not shown separately as TEDCO qualified as a GBE, represented as a single line item on the consolidated statement of financial position as an investment. Had TEDCO not qualified as a GBE in 2007, an environmental liability of \$45,076 would have been recorded in these Consolidated Financial Statements as at December 31, 2007.

The Ministry of the Environment has issued Certificates of Approval for 25 (2007 – 23) of the identified 161 (2007 – 161) 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 8).

Loan Guarantees

City Council has approved the Policy for the Provision of Line of Credit and Loan Guarantees for Cultural and Community-Based Organizations that have a financial relationship with the City. The Capital Loan and Line of Credit Guarantee Policy is limited to an aggregate of \$125,000 and the Operating Loan and Line of Credit policy is limited to an aggregate of \$10,000 that can be issued by the City for these organizations. The City has provided unconditional loan guarantees to certain third parties amounting to \$92,895 (2007 – \$94,862), primarily related to possible defaults in financial agreements for certain construction projects and for several cultural non-profit organizations. These are closely monitored and, to date, there have been no losses on loan guarantees.

As at December 31, 2008, the City is committed to future minimum annual operating lease payments for premises and equipment as follows:

	\$
2009	26,403
2010	21,794
2011	18,900
2012	14,774
2013	8,698
Thereafter	38,415
	128,984

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (all dollar amounts in thousands of dollars)

20. Tangible Capital Assets

Effective January 1, 2007, The City adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the CICA with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets by way of a note to the Consolidated Financial Statements until Section 3150 – Tangible Capital Assets of the Public Sector Accounting Handbook comes into effect on January 1, 2009. These provisions require local government to record tangible capital assets at cost and amortize these assets over their estimated useful lives.

Tangible capital assets are significant economic resources managed by local government and a key component of cost in the delivery of many local government programs and services. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, computer hardware and software, dams, canals and bridges.

The City continues to record tangible capital assets including assets held under capital leases at cost in the period they were acquired on the consolidated statement of financial activities and as an expenditure within the capital fund. This will change when the new standard for accounting for tangible capital assets is implemented for the 2009 reporting year.

During 2008, the City continued working towards finalizing compliance with the new reporting requirements for accounting for tangible capital assets. As at December 31, 2008, the City had significantly completed the inventory of assets in the following categories: land, land improvements, buildings, transportation infrastructure including roads, bridges, equipment and vehicles, and water and wastewater infrastructure. An audit of the 2008 opening asset inventory including costs, amortization and estimated useful life is expected to commence in June 2009, to be followed in August 2009 by the audit of the 2008 transactions.

21. Comparative Consolidated Financial Statements

These consolidated financial statements have been reclassified from statements previously presented to reflect the restatement of items described in Note 2, as well as to conform to the presentation of the 2008 Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED SCHEDULE OF GOVERNMENT BUSINESS ENTERPRISES – APPENDIX 1

for the year ended December 31, 2008 (in thousands of dollars)

Condensed Financial Results (\$)

Fiscal Year Ended	Toronto Hydro Corporation		Toronto Parking Authority		TEDCO		Enwave		Total
	December 31		December 31		Period ended Nov. 13		October 31		
	2008	2007	2008	2007	2008	2007	2008	2007	
Financial Position									
Assets									
Current	769,684	677,380	56,043	21,711		13,605	22,576	21,678	734,374
Capital	1,853,606	1,822,822	129,635	131,463		16,322	285,049	271,275	2,241,882
Other	156,493	172,323	40,478	45,967		63,966	21,074	26,101	308,357
	2,779,783	2,672,525	226,156	199,141		93,893	328,699	319,054	3,284,613
Liabilities									
Current	561,414	296,791	57,143	30,039		20,938	23,577	22,028	369,796
Long-term	1,237,078	1,447,039	6,008	8,008		60,657	95,495	93,720	1,609,424
	1,798,492	1,743,830	63,151	38,047		81,595	119,072	115,748	1,979,220
Net equity	981,291	928,695	163,005	161,094		12,298	209,627	203,306	1,305,393
City's share (Note 5)	940,355	881,404	163,005	161,094		12,298	90,177	87,457	1,142,253
Results of Operations									
Revenues	2,517,611	2,427,444	138,596	106,180	8,005	12,816	79,206	75,020	2,621,460
Expenses	2,348,599	2,344,613	63,983	59,923	5,343	13,655	72,885	71,380	2,489,571
PSAB adjustments for status change					(14,959)				(14,959)
Net income (loss)	169,012	82,831	74,613	46,257	(12,297)	(839)	6,321	3,640	131,889
City's share (Note 5)	169,012	82,831	74,613	46,257	(12,297)	(839)	2,719	1,566	129,815
Distribution to City (Note 5)									
Dividends paid to City (Note 5)	116,416	46,200	72,702	34,710					34,710
									46,200
Net book value of assets sold from the City to Toronto Hydro Corporation (Note 5)	40,937	47,292							47,292

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE – SERVICE – APPENDIX 2
for the year ended December 31, 2008 (in thousands of dollars)

	General Government	Protection	Transportation	Environmental	Health	Social & Family	Social Housing	Recreation and Cultural	Planning & Development	Consolidated
Taxation	3,550,684	–	–	–	–	–	–	–	–	3,550,684
User charges	47,037	134,234	942,991	753,938	2,809	62,402	15,047	132,014	17,951	2,108,423
Government transfers	55,393	23,458	275,555	10,113	241,476	1,236,621	346,677	17,208	16,118	2,222,619
Net GBE earnings	234,047	–	–	–	–	–	–	–	–	234,047
Other	307,168	37,986	457,086	96,557	4,711	20,461	329,253	118,272	25,438	1,396,932
TOTAL REVENUES	4,194,329	195,678	1,675,632	860,608	248,996	1,319,484	690,977	267,494	59,507	9,512,705
Salaries, wages and benefits	353,451	1,312,755	1,126,223	242,740	299,664	485,726	98,885	481,311	42,127	4,442,882
Materials	287,763	115,515	945,481	251,435	24,244	49,781	244,363	169,453	64,074	2,152,109
Contracted services	163,410	30,347	468,191	389,235	33,716	255,625	172,588	127,677	28,731	1,669,520
Interest on long-term debt	13,358	10,359	103,025	9,356	844	3,672	71,129	19,057	1,316	232,116
Transfer payments	(99,784)	44,859	56,740	61,435	16,068	1,003,586	178,477	20,467	49,919	1,331,767
Other	47,996	13,563	(14,430)	22,154	2,607	11,827	27,344	23,554	296	134,911
TOTAL EXPENDITURES	766,194	1,527,398	2,685,230	976,355	377,143	1,810,217	792,786	841,519	186,463	9,963,305
NET REVENUES / (EXPENDITURES)	3,428,135	(1,331,720)	(1,009,598)	(115,747)	(128,147)	(490,733)	(101,809)	(574,025)	(126,956)	(450,600)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE – SERVICE – APPENDIX 2 (CONT.)
for the year ended December 31, 2007 (in thousands of dollars)

	General Government	Protection	Transportation	Environmental	Health	Social & Family	Social Housing	Recreation & Cultural	Planning & Development	Consolidated
Taxation	3,285,947	–	–	–	–	–	–	–	–	3,285,947
User charges	42,902	128,798	888,397	672,063	2,310	62,651	18,366	133,662	17,741	1,966,890
Government transfers	(15,742)	22,760	131,210	7,734	228,066	1,205,199	316,037	45,471	11,312	1,952,047
Net GBE earnings	129,815	–	–	–	–	–	–	–	–	129,815
Other	421,050	32,421	500,790	34,840	3,383	30,750	347,358	122,966	32,279	1,525,837
TOTAL REVENUES	3,863,972	183,979	1,520,397	714,637	233,759	1,298,600	681,761	302,099	61,332	8,860,536
Salaries, wages and benefits	297,903	1,325,052	1,040,108	228,705	284,902	473,972	97,548	447,875	39,641	4,235,706
Materials	422,640	81,804	768,215	343,811	22,063	(101,675)	206,142	145,805	41,182	1,929,987
Contracted services	187,191	24,053	501,317	357,107	30,446	238,613	178,939	175,547	15,493	1,708,706
Interest on long-term debt	13,387	10,103	89,328	7,317	803	3,986	69,717	17,766	1,316	213,723
Transfer payments	(300,289)	43,935	28,491	98,001	14,770	1,155,626	85,331	26,653	38,377	1,190,895
Other	(40,334)	15,603	(28,568)	25,111	3,145	10,953	166,107	35,355	170	187,542
TOTAL EXPENDITURES	580,498	1,500,550	2,398,891	1,060,052	356,129	1,781,475	803,784	849,001	136,179	9,466,559
NET REVENUES /(EXPENDITURES)	3,283,474	(1,316,571)	(878,494)	(345,415)	(122,370)	(482,875)	(122,023)	(546,902)	(74,847)	(606,023)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE – ENTITY – APPENDIX 3

for the year ended December 31, 2008 (in thousands of dollars)

	City	Police Services	Toronto Transit Commission	Toronto Public Library	Toronto Community Housing Corporation	Other Agencies Boards & Commissions	TOTAL
Taxation	3,550,684	–	–	–	–	–	3,550,684
User charges	1,173,186	6,293	840,888	3,832	15,047	69,177	2,108,423
Government transfers	2,163,214	29,268	–	5,976	–	24,161	2,222,619
Net GBE earnings	234,047	–	–	–	–	–	234,047
Other	907,408	24,989	74,874	3,758	319,372	66,531	1,396,932
TOTAL REVENUES	8,028,539	60,550	915,762	13,566	334,419	159,869	9,512,705
Salaries, wages and benefits	2,336,433	834,965	948,306	137,070	98,885	87,223	4,442,882
Materials	1,530,927	94,832	168,669	4,341	244,363	108,977	2,152,109
Contracted services	1,282,504	18,626	137,358	39,658	172,588	18,786	1,669,520
Interest on long-term debt **	152,462	6,527	–	1,998	71,129	–	232,116
Transfer payments	1,170,344	8,170	49,177	–	112,324	(8,248)	1,331,767
Other	94,887	3,155	–	981	27,344	8,544	134,911
TOTAL EXPENDITURES	6,567,557	966,275	1,303,510	184,048	726,633	215,282	9,963,305
NET REVENUES /(EXPENDITURES)	1,460,982	(905,725)	(387,748)	(170,482)	(392,214)	(55,413)	(450,600)

** As at December 31, the City has issued \$1,496,274 in debentures for capital expenditures made on behalf of the TTC (2007: \$1,406,688). Included in interest on long-term debt is \$77,717 related to this debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE – ENTITY – APPENDIX 3 (CONT.)

for the year ended December 31, 2007 (in thousands of dollars)

	City	Police Services	Toronto Transit Commission	Toronto Public Library	Toronto Community Housing Corporation	Other Agencies Boards & Commissions	TOTAL
Taxation	3,285,947	–	–	–	–	–	3,285,947
User charges	1,078,821	6,302	784,394	4,144	18,366	74,863	1,966,890
Government transfers	1,855,654	22,097	65,337	1,957	–	7,002	1,952,047
Net GBE earnings	129,815	–	–	–	–	–	129,815
Other	1,061,887	21,295	38,408	4,157	333,957	66,133	1,525,837
TOTAL REVENUES	7,412,124	49,694	888,139	10,258	352,323	147,998	8,860,536
Salaries, wages and benefits	2,173,884	898,376	863,528	123,206	97,548	79,164	4,235,706
Materials	1,430,642	47,553	146,551	21,891	206,165	77,185	1,929,987
Contracted services	1,331,476	13,563	140,699	21,212	178,939	22,817	1,708,706
Interest on long-term debt **	130,442	6,264	–	7,300	69,717	–	213,723
Transfer payments	1,134,484	9,763	38,078	–	–	8,570	1,190,895
Other	589	6,788	2,781	778	166,107	10,499	187,542
TOTAL EXPENDITURES	6,201,517	982,307	1,191,637	174,387	718,476	198,235	9,466,559
NET REVENUES /(EXPENDITURES)	1,210,607	(932,613)	(303,498)	(164,129)	(366,153)	(50,237)	(606,023)

** As at December 31, the City has issued \$1,406,688 in debentures for capital expenditures made on behalf of the TTC (2006: \$1,227,407). Included in interest on long-term debt is \$67,310 related to this debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE – SERVICE WITH BUDGET – APPENDIX 4

for the year ended December 31, 2008 with 2007 Comparatives (in thousands of dollars)

	BUDGETS			ACTUALS		
	2008			2007		
	Revenue	Expenditure	Net	Revenue	Expenditure	Net
General Government	4,190,006	738,292	3,451,714	4,194,329	766,194	3,428,135
Fire	8,061	370,469	(362,408)	10,383	412,572	(402,189)
Police	38,542	915,379	(876,837)	60,550	966,275	(905,725)
Other Protection Services	128,870	148,141	(19,271)	124,745	148,551	(23,806)
Total Protection Services	175,473	1,433,989	(1,258,516)	195,678	1,527,398	(1,331,720)
Transit						
Other Transportation Services	1,583,430	2,184,750	(601,320)	1,485,679	2,043,144	(557,465)
Total Transportation Services	277,522	711,474	(433,952)	189,953	642,086	(452,133)
Total Transportation Services	1,860,952	2,896,224	(1,035,272)	1,675,632	2,685,230	(1,009,598)
Water/Waste Water						
Solid Waste	786,096	753,313	32,783	715,076	626,895	88,181
Total Environmental Services	93,252	347,737	(254,485)	145,532	349,460	(203,928)
Total Environmental Services	879,348	1,101,050	(221,702)	860,608	976,355	(115,747)
Ambulance Services	89,203	148,795	(59,592)	91,803	162,761	(70,958)
Public Health Services	159,545	213,987	(54,442)	157,193	214,382	(57,189)
Total Health Services	248,748	362,782	(114,034)	248,996	377,143	(128,147)
General Assistance	918,459	1,296,496	(378,037)	872,211	1,238,267	(366,056)
Assistance to aged persons	172,300	221,556	(49,256)	166,292	222,017	(55,725)
Child Care	273,139	360,750	(87,611)	280,981	349,933	(68,952)
Total Social and Family Services	1,363,898	1,878,802	(514,904)	1,319,484	1,810,217	(490,733)
Social Housing	482,444	747,260	(264,816)	690,977	792,786	(101,809)
Parks and Recreation	154,016	555,505	(401,489)	190,896	523,937	(333,041)
Libraries	12,572	189,244	(176,672)	21,527	205,139	(183,612)
Cultural Services	128,077	132,742	(4,665)	55,071	112,443	(57,372)
Total Recreation and Cultural Services	294,665	877,491	(582,826)	267,494	841,519	(574,025)
Planning and Development	18,893	119,805	(100,912)	59,507	186,463	(126,956)
Consolidated	9,514,427	10,155,695	(641,268)	9,512,705	9,963,305	(450,600)

STATISTICAL INFORMATION

FIVE-YEAR REVIEW SUMMARY

(Not subject to audit; all dollar amounts are in thousands except per capita figure) (See accompanying notes and schedules to financial statements)

	2008	2007	2006	2005	2004
Population (Note 1)	2,738,600	2,730,100	2,631,725	2,698,400	2,672,300
Households (Note 1)	1,082,00	1,073,800	1,029,580	1,026,400	1,013,000
Areas in square kilometres	634	634	634	634	634
Full-time employees	42,627	41,452	40,649	40,477	39,538
Housing Starts	19,710	8,854	12,726	15,602	13,560
Building Permit Values	\$5,899,802	\$6,988,434	\$5,962,598	\$3,445,171	\$5,897,820

TAXATION ASSESSMENT UPON WHICH TAX RATES WERE SET (NOTE 2)

Residential, Multi-residential, New Multi-residential, Farmlands, and Managed Forest	\$258,854,050	\$255,450,742	\$252,977,740	\$222,340,480	\$219,714,382
Commercial, Industrial and Pipeline	61,789,182	61,551,518	61,443,667	54,229,676	54,370,026
TOTAL	\$320,643,232	\$317,002,260	\$314,421,407	\$276,570,156	\$274,084,408

Total per capita	\$117,083	\$116,114	\$119,474	\$102,494	\$102,565
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TAX RATES (URBAN AREA) – (NOTE 2)

Residential, New Multi-residential, Farmlands and Managed Forest (expressed in %) Note – Full Rate Only

City purposes	0.6109226%	0.5888434%	0.5668587%	0.6107432%	0.5929546%
School board purposes	0.2640000%	0.2640000%	0.2640000%	0.2960000%	0.2960000%
TOTAL	0.8749226%	0.8528434%	0.8308587%	0.9067432%	0.8889546%

Multi-residential (expressed in %)

City purposes	2.1191990%	2.0881901%	2.0605153%	2.2639951%	2.2305370%
School board purposes	0.2640000%	0.2640000%	0.2640000%	0.2960000%	0.2960000%
TOTAL	2.3831990%	2.3521901%	2.3245153%	2.5599951%	2.5265370%

Commercial (expressed in %)

City purposes	2.1514381%	2.1174565%	2.0876138%	2.2932935%	2.2587459%
School board purposes	1.9683050%	1.9758210%	1.9758210%	2.2156590%	2.2156590%
TOTAL	4.1197431%	4.0932775%	4.0634348%	4.5089525%	4.4744049%

Industrial (expressed in %)

City purposes	2.2855806%	2.3093771%	2.3197551%	2.5733817%	2.5342463%
School board purposes	2.0507090%	2.0599070%	2.0599070%	2.3136150%	2.3136150%
TOTAL	4.3362896%	4.3692841%	4.3796621%	4.8869967%	4.8478613%

Pipeline (expressed in %)

City purposes	1.1751488%	1.1326782%	1.0903891%	1.1748039%	1.1405863%
School board purposes	1.7985840%	1.8026370%	1.8026370%	1.8205630%	1.8205630%
TOTAL	2.9737328%	2.9353152%	2.8930261%	2.9953669%	2.9611493%

Note 1: Source of population data and number of households is from the City of Toronto, City Planning Division – which uses the data from the last Annual Demographic Estimate of Statistics Canada.

Note 2: Taxation related information reflect Current Value Assessment (CVA).

FIVE-YEAR REVIEW SUMMARY

(Not subject to audit; all dollar amounts are in thousands except per capita figure) (See accompanying notes and schedules to financial statements)

	2008	2007	2006	2005	2004
TAXES RECEIVABLE, END OF THE YEAR					
Amount	\$246,074	\$220,372	\$221,617	\$254,946	\$225,963
Per Capita	\$90	\$81	\$84	\$94	\$85
NET LONG-TERM DEBT – END OF YEAR					
Amount	\$2,741,227	\$2,758,180	\$2,261,455	\$1,965,121	\$1,680,692
Per Capita	\$1,001	\$1,010	\$859	\$728	\$629
INTEREST CHARGES FOR NET LONG-TERM DEBT					
Amount	\$173,723	\$154,413	\$135,565	\$125,213	\$109,239
Per Capita	\$63	\$57	\$52	\$46	\$41
LONG-TERM DEBT SUPPORTED BY PROPERTY TAXES					
Gross Long-Term Debt	\$3,556,500	\$3,468,955	\$2,875,756	\$2,615,328	\$2,287,514
Net Long-Term Debt (Net of Sinking Fund deposits)	\$2,741,227	\$2,758,180	\$2,261,455	\$1,965,121	\$1,680,692
LONG-TERM DEBT AND MORTGAGES CHARGES					
(includes principal repayments, interest on long-term debt and interest earned on sinking funds)					
Amount	\$583,407	\$531,736	\$460,749	\$420,299	\$357,387
Per Total Current Expenditures	7.29%	6.99%	6.48%	6.18%	5.47%
DEBT REPAYMENT LIMIT (Note 3)					
(as determined by the Province of Ontario)	n/a	n/a	\$1,020,307	\$951,398	\$940,553
TAXES COLLECTED					
City Collection	\$3,529,681	\$3,282,427	\$3,222,222	\$3,094,979	\$2,976,647
Taxes Transferred to the School Board	1,870,204	1,851,618	1,837,372	1,828,613	1,808,041
TOTAL	\$5,399,885	\$5,134,045	\$5,059,594	\$4,923,592	\$4,784,688
TRUST FUNDS BALANCE – END OF YEAR					
	\$45,422	\$47,894	\$47,358	\$48,704	\$47,965

Note 3: Debt Repayment limit from the Province not applicable due to the new *City of Toronto Act, 2006* (COTA) effective 2007.

FIVE-YEAR REVIEW SUMMARY

(Not subject to audit; all dollar amounts are in thousands except per capita figure) (See accompanying notes and schedules to financial statements)

	2008	2007	2006	2005	2004
SUMMARY OF CONSOLIDATED REVENUES AND EXPENDITURES – (Note 4)					
CONSOLIDATED OPERATIONS					
REVENUE BY SOURCE					
Residential and Commercial property taxation	3,469,974	3,186,766	3,074,783	2,998,391	2,895,376
Taxation from other government	80,710	99,181	112,480	83,618	79,599
User Charges	2,108,423	1,966,890	1,856,407	1,766,557	1,681,994
Funding transfers from other governments	2,222,619	1,952,047	2,271,929	1,831,399	1,600,688
Net government business enterprises earnings	234,047	129,815	107,822	102,376	112,215
Other	1,396,932	1,525,837	1,135,994	943,337	863,173
TOTAL	9,512,705	8,860,536	8,559,415	7,725,678	7,233,045
CONSOLIDATED EXPENDITURES BY FUNCTION					
General Government	766,194	580,498	569,225	583,129	602,039
Protection to persons and property	1,527,398	1,500,550	1,322,819	1,253,880	1,287,582
Transportation	2,685,230	2,398,891	2,241,737	1,956,011	1,879,314
Environment Services	976,355	1,060,052	841,794	781,706	755,952
Health Services	377,143	356,129	336,663	324,191	310,547
Social and family services	1,810,217	1,781,475	1,722,911	1,610,249	1,520,593
Social housing	792,786	803,784	747,494	682,210	611,545
Recreation and cultural services	841,519	849,001	740,744	690,954	632,041
Planning and development	186,463	136,179	93,136	75,421	57,591
TOTAL	9,963,305	9,466,559	8,616,523	7,957,751	7,657,204
CONSOLIDATED SUMMARY OF FUNDING TRANSFERS FROM OTHER GOVERNMENTS					
Social Assistance	732,840	708,677	675,500	650,208	623,899
Child Care Assistance	262,478	244,411	233,687	203,273	185,659
Health Services	151,526	142,641	125,981	104,954	89,957
Social Housing	446,501	413,225	392,358	365,436	354,844
Other	420,916	253,371	385,387	268,023	273,574
Government of Canada Transfer – Capital	182,927	141,128	175,502	164,427	12,661
Province of Ontario Transfer – Capital	3,694	9,972	150,914	75,078	60,094
Province of Ontario Transfer – Reserve Funds	21,737	38,622	—	—	—
Province of Ontario Transfer – Best Start Program (one time program in 2006)	—	—	132,600	—	—
TOTAL	2,222,619	1,952,047	2,271,929	1,831,399	1,600,688

Note 4: During 2008, the City reviewed the organizational structure of TWRC and it was determined that proportionate consolidation of TWRC was required. This has resulted in restatement of comparative figures effective 2006 onwards. In addition, during 2009, the City identified an error in the actuarial valuation of sick leave liabilities. As a result, the actuary prepared a revised valuation and the employee benefit liabilities were restated for 2007. (see Note 2 of the consolidated financial statements).

FIVE-YEAR REVIEW SUMMARY

(Not subject to audit; all dollar amounts are in thousands except per capita figure) (See accompanying notes and schedules to financial statements)

	2008	2007	2006	2005	2004
CURRENT FUND OPERATIONS: (Note 4)					
REVENUE BY SOURCE					
Residential and Commercial property taxation	\$3,469,974	\$3,186,766	\$3,074,783	\$2,998,391	\$2,895,376
Taxation from other government	80,710	99,181	112,480	83,618	79,599
User Charges	2,108,423	1,966,890	1,856,407	1,766,557	1,681,994
Government Transfers	2,014,261	1,762,325	1,812,913	1,591,894	1,527,933
Investment Income	165,695	195,612	192,276	138,863	125,437
Net government business enterprises earnings	234,047	129,815	107,822	102,376	112,215
Other	385,639	498,917	482,067	451,936	361,798
TOTAL	\$8,458,749	\$7,839,506	\$7,638,748	\$7,133,635	\$6,784,352
CURRENT EXPENDITURES BY FUNCTION					
General Government	\$666,511	\$491,541	\$499,225	\$520,988	\$546,505
Protection to persons and property	1,423,640	1,426,550	1,248,960	1,186,236	1,232,623
Transportation	1,805,884	1,656,981	1,499,067	1,409,655	1,330,420
Environment Services	603,145	593,947	580,467	555,938	536,389
Health Services	368,773	349,179	331,021	315,260	302,864
Social and family services	1,794,286	1,761,551	1,700,236	1,596,895	1,488,463
Social housing	558,895	609,646	578,953	582,648	518,070
Recreation and cultural services	683,682	650,896	608,001	596,922	543,199
Planning and development	99,594	66,323	62,271	40,391	36,209
TOTAL	\$8,004,410	\$7,606,614	\$7,108,201	\$6,804,933	\$6,534,742
Financing raised less expenditures	454,339	232,892	530,547	328,702	249,610
Principal repayments on long-term debt	(282,004)	(256,530)	(199,460)	(171,276)	(130,445)
Principal repayments on mortgages	(36,673)	(31,395)	(34,853)	(27,175)	(24,507)
Interest earned on sinking funds	(32,614)	(30,088)	(28,536)	(29,613)	(22,045)
Change in employee benefit liabilities	187,907	155,799	133,223	134,513	186,025
Change in property and liability claims – Note 5	31,563	(7,172)	(42,792)	12,042	28,336
Net Transfers from (to) other City Funds	(309,785)	(194,324)	(276,312)	(181,970)	(100,592)
Increase in Non-Financial Assets	7,043	(7,326)	21,371	1,107	1,536
CURRENT FUND BALANCE – Beginning of year	2,346,906	2,485,050	2,381,862	2,315,532	2,127,614
CURRENT FUND BALANCE – End of Year	\$2,366,682	\$2,346,906	\$2,485,050	\$2,381,862	\$2,315,532

Note 4: During 2008, the City reviewed the organizational structure of TWRC and it was determined that proportionate consolidation of TWRC was required. This has resulted in restatement of comparative figures effective 2006 onwards. In addition, during 2009, the City identified an error in the actuarial valuation of sick leave liabilities. As a result, the actuary prepared a revised valuation and the employee benefit liabilities were restated for 2007. (see Note 2 of the consolidated financial statements).

Note 5: PSAB changes introduced in 2005 resulted in additional costs with respect to property and liability claims on a retroactive basis, impacting 2004 results – (2004 – \$28,336, 2005 – \$12,042, 2006 – (\$47,792), 2007 – (7,172), 2008 – \$31,563)).

FIVE-YEAR REVIEW SUMMARY

(Not subject to audit; all dollar amounts are in thousands except per capita figure) (See accompanying notes and schedules to financial statements)

	2008	2007	2006	2005	2004
CURRENT EXPENDITURES BY OBJECT (Note 4 & 6)					
Salaries wages and benefits	\$4,442,688	\$4,235,481	\$3,879,041	\$3,671,109	\$3,542,336
Materials	864,627	781,582	886,403	1,478,344	1,668,191
Contracted Services	1,042,935	1,044,052	861,986	853,479	654,606
Interest on long-term debt & TCHC mortgage	232,116	213,723	197,900	192,235	180,390
Transfer payments	1,262,499	1,112,155	1,138,805	469,175	413,696
Other	159,545	219,621	144,066	140,591	75,523
TOTAL	\$8,004,410	\$7,606,614	\$7,108,201	\$6,804,933	\$6,534,742

CAPITAL FUND OPERATIONS: (Note 4)

REVENUE BY SOURCE

Government of Canada transfers	\$182,927	\$141,128	\$175,502	\$164,427	\$12,661
Province of Ontario transfers	3,694	9,972	150,914	75,078	60,094
Other municipalities	21,543	61,040	22,376	4,843	1,236
Other	758,944	664,819	374,647	278,044	330,929
TOTAL	\$967,108	\$876,959	\$723,439	\$522,392	\$404,920

CAPITAL EXPENDITURES BY FUNCTION

General Government	\$99,683	\$88,957	\$70,000	\$62,141	\$55,534
Protection to persons and property	103,758	74,000	73,859	67,644	54,959
Transportation	879,346	741,910	742,670	546,356	548,894
Environmental services	373,210	466,105	261,327	225,768	219,563
Health services	8,370	6,950	5,642	8,931	7,683
Social and family services	15,931	19,924	22,675	13,354	32,130
Social Housing	233,891	194,138	168,541	99,562	93,475
Recreational and cultural services	157,837	198,105	132,743	94,032	88,842
Planning and development	86,869	69,856	30,865	35,030	21,382
TOTAL	\$1,958,895	\$1,859,945	\$1,508,322	\$1,152,818	\$1,122,462

Financing raised less expenditures	(991,787)	(982,986)	(784,883)	(630,426)	(717,542)
New long-term debt and mortgages issued	308,823	787,047	532,644	500,000	375,000
Net transfers from (to) other City funds	241,244	218,428	307,036	239,653	198,599
Landfill obligations	10,978	(360)	3,699	10,434	3,568
Change in environment liabilities	(25)	6,565	—	—	—
CAPITAL FUND BALANCE – Beginning of year	(157,969)	(186,663)	(245,159)	(364,820)	(224,445)
CAPITAL FUND BALANCE – End of year	\$(588,736)	\$(157,969)	\$(186,663)	\$(245,159)	\$(364,820)

Note 4: During 2008, the City reviewed the organizational structure of TWRC and it was determined that proportionate consolidation of TWRC was required. This has resulted in restatement of comparative figures effective 2006 onwards. In addition, during 2009, the City identified an error in the actuarial valuation of sick leave liabilities. As a result, the actuary prepared a revised valuation and the employee benefit liabilities were restated for 2007. (see Note 2 of the consolidated financial statements).

Note 6: In 2008, review of classification of expenditure of object was undertaken which required reclassification. Prior year figures have been restated.

FIVE-YEAR REVIEW SUMMARY

(Not subject to audit; all dollar amounts are in thousands except per capita figure) (See accompanying notes and schedules to financial statements)

	2008	2007	2006	2005	2004
CAPITAL EXPENDITURES BY OBJECT (Note 4 & 6)					
Salaries, wages and employee benefits	\$194	\$225	\$161	\$34	\$66
Materials	1,287,482	1,148,405	888,705	662,688	626,138
Contracted Services	626,585	664,654	563,788	475,699	485,223
Transfer payments	69,268	78,740	44,119	26,549	26,142
Other	(24,634)	(32,079)	11,549	(12,152)	(15,107)
TOTAL	\$1,958,895	\$1,859,945	\$1,508,322	\$1,152,818	\$1,122,462
RESERVE AND RESERVE FUND OPERATIONS					
REVENUE BY SOURCE					
Sale of land	\$19,168	\$5,557	\$8,505	\$17,713	\$6,570
Government Transfers	21,737	38,622	132,600	–	–
Investment Income	29,376	44,539	44,461	34,111	31,658
Other	16,567	55,353	11,662	17,827	5,545
TOTAL REVENUES	\$86,848	\$144,071	\$197,228	\$69,651	\$43,773
Net transfers from (to) other City funds	68,541	(24,104)	(30,632)	(57,683)	(98,007)
RESERVE & RESERVE FUND BALANCE					
– Beginning of the year	1,177,460	1,057,493	890,897	878,929	933,163
RESERVE & RESERVE FUND BALANCE					
– End of the year	\$1,332,849	\$1,177,460	\$1,057,493	\$890,897	\$878,929

Note 4: During 2008, the City reviewed the organizational structure of TWRC and it was determined that proportionate consolidation of TWRC was required. This has resulted in restatement of comparative figures effective 2006 onwards. In addition, during 2009, the City identified an error in the actuarial valuation of sick leave liabilities. As a result, the actuary prepared a revised valuation and the employee benefit liabilities were restated for 2007. (see Note 2 of the consolidated financial statements).

Note 6: In 2008, review of classification of expenditure of object was undertaken which required reclassification. Prior year figures have been restated.

