



City of Toronto
Consolidated Financial Statements

For The Year Ended
December 31, 2002

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, 2002 and the consolidated statements of financial activities and changes in financial position 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, 2002 and the results of its financial activities and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
May 9, 2003.

Ernst & Young LLP
Chartered Accountants

	2002	2001
	\$000	\$000
FINANCIAL ASSETS		
Cash and short-term investments	60,029	8,564
Accounts receivable	832,826	813,464
Taxes receivable	225,387	319,998
Investments (Note 2)	1,876,650	1,685,687
Investments in government business enterprises (Note 3)	818,896	762,592
Loans receivable (Note 4)	1,114,576	1,140,171
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Total Financial Assets	4,928,364	4,730,476
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LIABILITIES		
Accounts payable and accrued liabilities	1,715,615	1,660,852
Deferred revenue (Note 5)	421,494	391,395
Other liabilities (Note 8)	261,387	238,594
Employee benefit liabilities (Note 6)	1,654,495	1,549,119
Net long-term debt (Note 7)	2,378,420	2,396,741
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Total Liabilities	6,431,411	6,236,701
	<hr/>	<hr/>
NET FINANCIAL LIABILITIES	(1,503,047)	(1,506,225)
	<hr/>	<hr/>
NON-FINANCIAL ASSETS		
Inventories and prepaid expenses	124,293	130,747
	<hr/>	<hr/>
Net Liabilities	(1,378,754)	(1,375,478)
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MUNICIPAL POSITION		
FUND BALANCES		
Operating fund – To be used to offset taxation or user charges (Schedule 1)	2,256,489	2,001,965
Capital fund - Capital operations not yet permanently financed (Schedule 2)	(509,328)	(286,290)
Reserves and reserve funds (Note 5 and Schedule 3)	891,392	787,302
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TOTAL FUND BALANCES	2,638,553	2,502,977
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Less: amounts to be recovered in future years (Note 9)	(4,017,307)	(3,878,455)
	<hr/>	<hr/>
TOTAL MUNICIPAL POSITION	(1,378,754)	(1,375,478)
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The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statement of Financial Activities
For the Year Ended December 31, 2002**



	2002 BUDGET \$000	2002 ACTUALS \$000	2001 ACTUALS \$000
REVENUES			
Residential and commercial taxation	4,648,426	4,714,363	4,697,816
Taxation from other governments	141,573	70,532	140,085
Deduct: taxation relating to school boards	(1,825,425)	(1,816,420)	(1,867,416)
	<u>2,964,574</u>	<u>2,968,475</u>	<u>2,970,485</u>
User charges (Note 10)	1,714,472	1,625,970	1,525,665
Government transfers	1,738,079	1,576,525	1,403,198
Other	855,812	913,402	846,138
	<u>7,272,937</u>	<u>7,084,372</u>	<u>6,745,486</u>
TOTAL REVENUES			
EXPENDITURES (NOTE 12)			
Community and Neighbourhood Services	2,282,082	1,797,165	1,649,909
Works and Emergency Services	1,665,944	1,461,866	1,356,627
Economic Development, Culture and Tourism	337,110	288,587	288,438
Urban Development Services	110,766	97,101	85,664
Corporate Services	381,187	304,521	243,612
Finance	42,810	42,316	45,949
Other (Note 11 (a))	466,944	405,382	544,549
Agencies, Boards and Commissions (Note 11 (b))	2,191,482	2,684,256	2,631,102
	<u>7,478,325</u>	<u>7,081,194</u>	<u>6,845,850</u>
TOTAL EXPENDITURES			
NET REVENUES (EXPENDITURES) AND INCREASE (DECREASE) IN NET FINANCIAL ASSETS			
	<u>(205,388)</u>	<u>3,178</u>	<u>(100,364)</u>
FINANCING			
New debt issued	349,799	152,078	255,042
Principal repayments on debt	(134,928)	(115,322)	(145,636)
Interest earned on sinking funds	-	(33,086)	(36,714)
Solid waste landfill obligations (Note 8)	-	29,806	(1,937)
Employee benefit liabilities (Note 6)	-	105,376	172,570
	<u>214,871</u>	<u>138,852</u>	<u>243,325</u>
NET INCREASE IN AMOUNTS TO BE RECOVERED			
DECREASE IN NON-FINANCIAL ASSETS			
	<u>-</u>	<u>(6,454)</u>	<u>(14,048)</u>
INCREASE IN FUND BALANCES			
	9,483	135,576	128,913
FUND BALANCES - BEGINNING OF YEAR			
	<u>811,776</u>	<u>2,502,977</u>	<u>2,374,064</u>
FUND BALANCES - END OF YEAR			
	<u>821,259</u>	<u>2,638,553</u>	<u>2,502,977</u>

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

**Consolidated Statement of Changes in Financial Position
For the Year Ended December 31, 2002**



	2002 \$000	2001 \$000
OPERATING		
Net revenues (expenditures)	3,178	(100,364)
Uses:		
Increase in accounts receivable	(19,362)	(100,751)
Sources:		
Decrease in taxes receivable	94,611	57,409
Increase in accounts payable and accrued liabilities	54,763	205,226
Increase in deferred revenue	30,099	15,106
Increase in other liabilities	22,793	46,811
Increase in employee benefit liabilities	105,376	172,570
	307,642	497,122
Net increase in cash from operating	291,458	296,007
INVESTING		
Increase in investments	(190,963)	(314,205)
Increase in investments in government business enterprises	(56,304)	(84,109)
Decrease in loans receivable	25,595	3,495
Net decrease in cash from investing	(221,672)	(394,819)
FINANCING		
New debt issued	152,078	255,042
Principal repayments on debt by City	(115,322)	(145,636)
Interest earned on sinking funds	(33,086)	(36,714)
Principal repayments on debt by school boards	(21,991)	(20,952)
Net increase (decrease) in cash from financing	(18,321)	51,740
NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	51,465	(47,072)
CASH AND SHORT-TERM INVESTMENTS – BEGINNING OF YEAR	8,564	55,636
CASH AND SHORT-TERM INVESTMENTS – END OF YEAR	60,029	8,564

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

Schedule 1

	2002 BUDGET \$000	2002 ACTUALS \$000	2001 ACTUALS \$000
REVENUES			
Residential and commercial taxation	4,648,426	4,714,363	4,697,816
Taxation from other governments	141,573	70,532	140,085
Deduct: taxation relating to school boards	<u>(1,825,425)</u>	<u>(1,816,420)</u>	<u>(1,867,416)</u>
	2,964,574	2,968,475	2,970,485
User charges (Note 10)	1,714,472	1,625,970	1,525,665
Government transfers	1,569,126	1,445,962	1,392,433
Investment income	65,036	55,147	57,928
Other	<u>231,485</u>	<u>506,448</u>	<u>427,020</u>
TOTAL REVENUES	<u>6,544,693</u>	<u>6,602,002</u>	<u>6,373,531</u>
EXPENDITURES			
Community and Neighbourhood Services	2,225,845	1,758,134	1,642,078
Works and Emergency Services	1,116,835	1,082,778	1,057,585
Economic Development, Culture and Tourism	259,012	255,855	245,085
Urban Development Services	83,160	79,731	79,151
Corporate Services	222,446	222,418	186,292
Finance	39,055	39,856	42,939
Other (Note 11 (a))	463,002	396,778	528,531
Agencies, Boards and Commissions (Note 11 (b))	<u>1,831,579</u>	<u>2,278,580</u>	<u>2,166,491</u>
TOTAL EXPENDITURES	<u>6,240,934</u>	<u>6,114,130</u>	<u>5,948,152</u>
NET REVENUES FOR THE YEAR	<u>303,759</u>	<u>487,872</u>	<u>425,379</u>
FINANCING AND TRANSFERS			
Principal repayments on debt	(134,928)	(115,322)	(145,636)
Interest earned on sinking funds	-	(33,086)	(36,714)
Employee benefit liabilities (Note 6)	-	105,376	172,570
Transfers from (to) reserves	(28,207)	(64,913)	(39,855)
Transfers from (to) reserve funds	(21,002)	80,288	(10,243)
Transfers to capital fund	<u>(143,663)</u>	<u>(199,654)</u>	<u>(174,795)</u>
TOTAL FINANCING AND TRANSFERS	<u>(327,800)</u>	<u>(227,311)</u>	<u>(234,673)</u>
DECREASE IN NON-FINANCIAL ASSETS	<u>-</u>	<u>(6,037)</u>	<u>(14,048)</u>
CHANGE IN OPERATING FUND BALANCE FOR THE YEAR	(24,041)	254,524	176,658
OPERATING FUND BALANCE - BEGINNING OF YEAR	<u>24,041</u>	<u>2,001,965</u>	<u>1,825,307</u>
OPERATING FUND BALANCE - END OF YEAR	<u>-</u>	<u>2,256,489</u>	<u>2,001,965</u>

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

Schedule 2

	2002 BUDGET \$000	2002 ACTUALS \$000	2001 ACTUALS \$000
REVENUES			
Government of Canada transfers	76,767	63,406	2,301
Province of Ontario transfers	92,186	67,157	8,464
Other municipalities	-	9,129	2,655
Other	454,540	241,140	231,126
TOTAL REVENUES	623,493	380,832	244,546
EXPENDITURES			
Community and Neighbourhood Services	56,237	39,031	7,831
Works and Emergency Services	549,109	379,088	299,042
Economic Development, Culture and Tourism	78,098	32,732	43,353
Urban Development Services	27,606	17,370	6,513
Corporate Services	158,741	82,103	57,320
Finance	3,755	2,460	3,010
Other (Note 11 (a))	3,942	8,604	16,018
Agencies, Boards and Commissions (Note 11 (b))	359,903	405,676	464,611
TOTAL EXPENDITURES	1,237,391	967,064	897,698
NET EXPENDITURES FOR THE YEAR	(613,898)	(586,232)	(653,152)
FINANCING AND TRANSFERS			
New debt issued	349,799	152,078	255,042
Solid waste landfill obligations (Note 8)	-	29,806	(1,937)
Transfers from operating fund	143,663	199,654	174,795
Transfers from (to) reserves	88,601	(19,329)	43,445
Transfers from reserve funds	31,835	1,402	27,784
TOTAL FINANCING AND TRANSFERS	613,898	363,611	499,129
DECREASE IN NON-FINANCIAL ASSETS	-	(417)	-
CHANGE IN CAPITAL FUND BALANCE FOR THE YEAR	-	(223,038)	(154,023)
CAPITAL FUND BALANCE – BEGINNING OF YEAR	-	(286,290)	(132,267)
CAPITAL FUND BALANCE – END OF YEAR	-	(509,328)	(286,290)

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

Schedule 3

	2002 BUDGET \$000	2002 ACTUALS \$000	2001 ACTUALS \$000
RESERVES (Note 5)			
TRANSFERS FROM (TO) OTHER FUNDS			
Operating fund	28,207	64,913	39,855
Capital fund	(88,601)	19,329	(43,445)
NET TRANSFERS FROM (TO) OTHER FUNDS FOR THE YEAR	(60,394)	84,242	(3,590)
RESERVES BALANCE – BEGINNING OF YEAR	235,778	235,316	238,906
RESERVES BALANCE – END OF YEAR	175,384	319,558	235,316
RESERVE FUNDS (Note 5)			
REVENUES			
Sale of land	16,753	7,822	25,905
Investment income	31,682	32,046	28,210
Other	56,316	61,670	73,294
TOTAL REVENUES	104,751	101,538	127,409
TRANSFERS FROM (TO) OTHER FUNDS			
Operating fund	21,002	(80,288)	10,243
Capital fund	(31,835)	(1,402)	(27,784)
NET TRANSFERS TO OTHER FUNDS	(10,833)	(81,690)	(17,541)
CHANGE IN RESERVE FUNDS BALANCE FOR THE YEAR	93,918	19,848	109,868
RESERVE FUNDS BALANCE – BEGINNING OF YEAR	551,957	551,986	442,118
RESERVE FUNDS BALANCE – END OF YEAR	645,875	571,834	551,986
TOTAL RESERVES AND RESERVE FUNDS	821,259	891,392	787,302

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

1. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. The consolidated financial statements are the representation of management and necessarily involves the use of best estimates and careful judgement.

Basis of Consolidation

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

Consolidated entities -

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

Arenas:

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

Community Centres:

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

Business Improvement Areas:

Bloor-Bathurst-Madison Business Improvement Area
Bloor by the Park Business Improvement Area
Bloorcourt Village Business Improvement Area
Bloordale Village Business Improvement Area
Bloor West Village Business Improvement Area
Bloor-Yorkville Business Improvement Area
Corso Italia Village Business Improvement Area
Danforth by the Valley Business Improvement Area
Dovercourt Village Business Improvement Area
Downtown Yonge Street Business Improvement Area
Eglinton Way Business Improvement Area
Elm Street Business Improvement Area
Forest Hill Village Business Improvement Area
Gerrard India Bazaar Business Improvement Area
Greektown on the Danforth Business Improvement Area
Harbord Street Business Improvement Area
Hillcrest Village Business Improvement Area
Junction Gardens Business Improvement Area
Keele-Eglinton Business Improvement Area
Kennedy Road Business Improvement Area
Kingsway Business Improvement Area
Lakeshore Business Improvement Area
Little Italy Business Improvement Area
Long Branch Business Improvement Area
Mimico by the Lake Business Improvement Area
Mimico Village Business Improvement Area
Mount Dennis Business Improvement Area
Old Cabbagetown Business Improvement Area
Parkdale Village Business Improvement Area
Pape Village Business Improvement Area
Queen Broadview Village Business Improvement Area
Roncesvalles Village Business Improvement Area
St. Clair Gardens Business Improvement Area

St. Lawrence Neighbourhood Business Improvement Area
Upper Village Business Improvement Area
Village of Islington Business Improvement Area
Weston Business Improvement Area
Yonge-Lawrence Village Business Improvement Area
Yonge-Queen-Dundas Business Improvement Area
York-Eglinton Business Improvement Area

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

Government Business Enterprises

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

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

Trust Funds

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

School Boards

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of school boards are not reflected in these consolidated financial statements.

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.

Use of Estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions on such areas as employee benefits, assessment appeals and environmental provisions. These estimates and assumptions are based on the City's best information and judgement and may differ significantly based on actual results.

Investments

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

Capital Assets

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

Solid Waste Landfill Provision

The estimated costs to close and maintain solid waste landfill sites are based on estimated future expenditures in current dollars, adjusted for estimated inflation, and are accrued and amortized over the estimated remaining capacity of each landfill site. The annual provision is reported as an operating fund expenditure and the accumulated provision is reported as a liability on the Consolidated Statement of Financial Position.

Environmental Provisions

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

Deferred Revenue

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

Employee Benefit Plans

The City has adopted the following policies with respect to employee benefit plans:

- The contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due;
- The costs of post-employment benefits 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 pensions and other retirement benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance; accrued obligations and related costs of funded benefits are net of plan assets;
- Employee benefit liabilities are discounted using current interest rates on long term bonds.
- Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment; and
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets are amortized on a straight-line basis over the average remaining service period for active employees, ten years for workplace safety insurance benefits and seven years for long-term disability benefits and over the remaining expected life of members of the inactive plans.

Government Transfers

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

2. Investments

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

	2002		2001	
	Cost \$000	Market Value \$000	Cost \$000	Market Value \$000
Federal Government bonds	619,611	639,943	551,345	561,935
Provincial Government bonds	423,560	446,285	417,010	426,621
Municipal Government bonds	314,514	329,794	195,311	197,169
Other	518,965	512,804	522,021	521,726
	<u>1,876,650</u>	<u>1,928,826</u>	<u>1,685,687</u>	<u>1,707,451</u>

The weighted average yield on the cost of the bond investment portfolio during the year was 5.14% (2001 - 5.08%). Maturity dates on investments in the portfolio range from January 2003 to June 2029. Included in the City's investment portfolio are City of Toronto debentures at coupon rates varying from 5.15% to 8.00% and with a carrying value of \$107,732,000 (2001 - \$77,392,000). Investments other than government bonds consist of pooled investment funds held by the Toronto Community Housing Corporation as at December 31, 2002 amounting to \$113,879,000 (2001 - \$141,693,000) and term deposits and bankers' acceptances.

3. Investments in Government Business Enterprises

Government business enterprises consist of Toronto Hydro Corporation, Toronto Parking Authority, TEDCO and Enwave. The City holds an interest of approximately 31% (2001 - 43%) in Enwave and a 100% interest in the other government business enterprises.

(a) Details of the continuity of the book value of these investments are as follows:

	2002 \$000	2001 \$000
Balance - beginning of year	762,592	678,483
Adjustment to results reported by TEDCO for prior year	(139)	-
Balance – beginning of year, as restated	<u>762,453</u>	<u>678,483</u>
Results of operations	55,293	19,880
Net increase in value of Enwave investment arising on investments in additional Enwave shares by the other shareholder and dilution of City's interest	<u>1,150</u>	<u>340</u>
Change in equity during the year recorded as other revenues on the Consolidated Statement of Financial Activities	56,443	20,220
Change in equity during the year and reflected as part of fund balances, beginning of year	<u>-</u>	<u>63,889</u>
Total change in equity during the year	<u>56,443</u>	<u>84,109</u>
Balance - end of year	<u>818,896</u>	<u>762,592</u>

- (b) Condensed supplementary financial information for each government business enterprise is set out below:

	2002	2001
	\$000	\$000
(i) TORONTO HYDRO CORPORATION		
FINANCIAL POSITION		
Current assets	564,085	352,313
Capital assets	1,573,216	1,563,459
Other assets	<u>186,443</u>	<u>150,908</u>
Total assets	<u>2,323,744</u>	<u>2,066,680</u>
Current liabilities	1,509,454	331,729
Long-term liabilities	<u>152,490</u>	<u>1,118,597</u>
Total liabilities	<u>1,661,944</u>	<u>1,450,326</u>
Net assets	<u>661,800</u>	<u>616,354</u>
RESULTS OF OPERATIONS		
Revenues	2,441,718	2,105,063
Operating expenses	<u>2,396,272</u>	<u>2,093,627</u>
Net income	<u>45,446</u>	<u>11,436</u>
(ii) TORONTO PARKING AUTHORITY		
FINANCIAL POSITION		
Current assets	15,203	7,298
Capital assets	98,379	81,937
Other assets	<u>19,500</u>	<u>27,324</u>
Total assets	133,082	116,559
Current liabilities	<u>24,001</u>	<u>17,228</u>
Net assets	<u>109,081</u>	<u>99,331</u>
RESULTS OF OPERATIONS		
Revenues	86,141	78,249
Operating expenses	<u>76,391</u>	<u>69,600</u>
Net income	<u>9,750</u>	<u>8,649</u>

	2002 \$000	2001 \$000
(iii) TEDCO		
FINANCIAL POSITION		
Current assets	16,101	15,815
Capital assets	30,108	30,470
Other assets	31,872	30,799
	<hr/>	<hr/>
Total assets	78,081	77,084
	<hr/>	<hr/>
Current liabilities	8,207	8,290
Long-term liabilities	57,396	57,201
	<hr/>	<hr/>
Total liabilities	65,603	65,491
	<hr/>	<hr/>
Net assets	12,478	11,593
	<hr/>	<hr/>
RESULTS OF OPERATIONS		
Revenues	8,549	9,415
Operating expenses	7,525	7,644
	<hr/>	<hr/>
Net income	1,024	1,771
	<hr/>	<hr/>
(iv) ENWAVE		
FINANCIAL POSITION		
Current assets	9,259	5,998
Capital assets	130,624	95,076
Other assets	3,775	3,783
	<hr/>	<hr/>
Total assets	143,658	104,857
	<hr/>	<hr/>
Current liabilities	12,968	9,107
Long-term liabilities	17,288	14,165
	<hr/>	<hr/>
Total liabilities	30,256	23,272
	<hr/>	<hr/>
Net assets	113,402	81,585
	<hr/>	<hr/>
City's share at 31% (2001 - 43%)	35,537	35,314
	<hr/>	<hr/>
RESULTS OF OPERATIONS		
Revenues	35,083	44,056
Operating expenses	38,042	48,621
	<hr/>	<hr/>
Net loss	(2,959)	(4,565)
	<hr/>	<hr/>
City's share at 31% (2001 - 43%)	(927)	(1,976)
	<hr/>	<hr/>

- (c) Related party transactions between the City and its government business enterprises are as follows:

	2002 \$000	2001 \$000
Received by the City:		
Interest on note receivable from Toronto Hydro Corporation (Note 4)	66,656	41,884
Share of operating income from Toronto Parking Authority	28,736	25,948
Interest on loans to TEDCO	133	164
Purchased by the City:		
Streetlighting electricity and maintenance services from Toronto Hydro	14,854	13,113

4. Loans Receivable

Loans receivable as at December 31 are as follows:

	2002 \$000	2001 \$000
Note receivable from Toronto Hydro, maturing December 31, 2003 and bearing interest at 6.8% per annum	980,231	980,231
Debenture debt recoverable from school boards from 2001 to 2007 at interest rates ranging from 6.1% to 8.5% per annum	114,689	136,680
Other	19,656	23,260
	<u>1,114,576</u>	<u>1,140,171</u>

5. Reserves and Reserve Funds

Reserves and reserve funds comprise funds set aside for specific purposes by Council and funds which are set aside for specific purposes by legislation, regulation or agreement. For financial reporting purposes, reserve funds set aside by legislation, regulation or agreement are reported as deferred revenue on the Consolidated Statement of Financial Position, are provided for information purposes in the details listed below but are not included in the Analysis of Consolidated Reserves and Consolidated Reserve Funds on Schedule 3.

Details of reserves and reserve funds as at December 31 are as follows:

	2002 \$000	2001 \$000
(a) RESERVES		
Water Capital Financing Stabilization	81,684	83,082
Working Capital	81,663	81,663
Vehicle and Equipment	51,842	9,654
Wastewater Stabilization	40,471	8,848
Water Stabilization	29,154	46,355
Waste Management	15,166	1,999
Winter Control Stabilization	13,195	-
Arbitration and Legal Awards	3,652	3,715
Other reserves	2,731	-
	319,558	235,316
(b) RESERVE FUNDS		
(i) Set aside for specific purposes by Council		
Employee Benefits	141,446	154,285
Sick Leave	93,401	97,546
Social Assistance Stabilization	81,656	81,117
Social Housing Stabilization	34,318	34,683
Solid Waste Management Perpetual Care	32,733	28,445
Land Acquisition	27,038	18,084
Capital Financing	25,548	27,784
Capital Revolving Fund – Affordable Housing	23,139	18,027
Provincial Offence Courts Stabilization	19,647	-
Workers' Compensation	19,574	8,965
Child Care Capital	14,135	9,334
Insurance	11,832	12,669
Enwave Capital	7,738	7,351
Election	5,599	2,673
Roadway and Sidewalk Repair	5,145	3,690
Mayor's Homeless Initiative	4,783	4,544
Child Care Expansion	2,773	3,050
Environmental Liability	2,708	2,573
Wheel Trans Vehicle	2,501	791
Road Enhancement	2,163	2,055
Emergency Technology Acquisition	2,027	5,000
Civic Centre Expansion	1,443	561
Exhibition Place Stabilization	1,403	1,334
Casa Loma Capital Maintenance	1,110	239
Cultural Facilities Capital Grant	1,018	-
All Borough Loan	442	1,546
TTC Operating Stabilization	63	19,739
Other reserve funds less than \$1,000,000	6,451	5,901
	571,834	551,986

	2002 \$000	2001 \$000
RESERVE FUNDS		
(ii) Set aside for specific purposes by legislation, regulation or agreement		
Development Charges	108,459	86,630
Parkland Acquisition	55,960	48,483
Homes for the Aged	25,891	19,896
Social Housing Federal	17,961	-
Subdividers' Deposits	16,321	14,806
Wastewater Capital	16,058	12,225
Ontario Works	13,305	13,945
Parking	9,489	9,148
National Child Benefit Supplement	8,102	6,741
Toronto Performing Arts Centre Capital	5,065	4,707
Client ID and Benefits	3,889	3,695
Hummingbird Centre Capital	3,813	3,551
Better Buildings Partnership	3,306	7,578
Infrastructure	2,605	2,475
Water Capital	1,864	4,784
Toronto Zoo	1,079	1,025
Other	4,477	3,021
	<hr/>	<hr/>
Total reserve funds set aside for specific purposes by legislation, regulation or agreement	297,644	242,710
Less: amounts reclassified to deferred revenue	297,644	242,710
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Total reserve funds	571,834	551,986
	<hr/>	<hr/>
Total reserves and reserve funds	891,392	787,302
	<hr/>	<hr/>

6. Employee Benefit Liabilities

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

	2002 \$000	2001 \$000
Pension Liabilities	67,133	61,443
Sick leave benefits	268,368	262,095
Workplace Safety and Insurance Board obligations	276,827	268,436
Other employment and post-employment benefits	<u>1,042,167</u>	<u>957,145</u>
	<u>1,654,495</u>	<u>1,549,119</u>

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

	2002 \$000	2001 \$000
Balance – beginning of year	1,549,119	1,376,549
Current service cost	119,327	182,684
Interest cost	92,501	90,941
Expected benefits paid	<u>(106,452)</u>	<u>(101,055)</u>
Balance – end of year	<u>1,654,495</u>	<u>1,549,119</u>

The total expenditures related to benefits include the following components:

	2002 \$000	2001 \$000
Current period benefit cost	119,327	182,684
Interest cost	<u>92,501</u>	<u>90,941</u>
Total expenditures related to benefits	<u>211,828</u>	<u>273,625</u>

(a) PENSION AGREEMENTS

- (i) 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 which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. Due to significant surpluses, OMERS declared a temporary contribution holiday for all active employees and participating employees, effective August 1, 1998 through to December 31, 2002. As a result of this contribution holiday, no contributions were required on account of current service in 2002 or 2001. Contributions to the OMERS pension plan recommenced in January 2003.

The amount contributed for past service to OMERS for the year ended December 31, 2002 was \$121,200 (2001 - \$435,000) and is included as an expenditure on the Consolidated Statement of Financial Activities.

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

The plans provide increases in pensions to retirees and their spouses to the extent that an actuarial surplus is available. As at December 31, 2002, there were 100 (2001 - 144) active members with an average age of 58. There were also 6,654 (2001 - 6,849) pensioners and 2,879 (2001 - 2,875) spousal beneficiaries in receipt of pension, with an average age of 73. Pension payments and refunds during the year were approximately \$212,169,000 (2001 - \$215,000,000).

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

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

Three of the plans are in a net surplus position. The net pension assets of these plans as at December 31 includes the following components:

	2002 \$000	2001 \$000
Accrued benefit obligation – end of year	1,590,376	1,494,846
Pension fund assets - end of year	<u>1,515,708</u>	<u>1,707,688</u>
	(74,668)	212,842
Unamortized actuarial losses	<u>437,915</u>	<u>139,163</u>
Accrued benefit asset	<u>363,247</u>	<u>352,005</u>

Since there is currently uncertainty about the City's right to the accrued benefit asset of \$363,247,000 (2001 - \$352,005,000), this amount has not been reflected on the Consolidated Statement of Financial Position.

The remaining two plans are in a deficit position. The net pension liability, included in employee benefits on the statement of financial position, includes the following components as at December 31:

	2002 \$000	2001 \$000
Accrued benefit obligation – end of year	1,006,469	975,087
Pension fund assets - end of year	<u>735,369</u>	<u>851,160</u>
	271,100	123,927
Unamortized actuarial losses	<u>203,967</u>	<u>62,484</u>
Accrued benefit liability	<u>67,133</u>	<u>61,443</u>

Actuarial valuations for funding purposes for each of the five plans are carried out annually using the projected benefit method prorated on service. The most recent actuarial funding reports were prepared as at December 31, 2001. The accrued benefit obligation as at December 31, 2002 is based on actuarial valuations for accounting purposes as at December 31, 2002. The unamortized actuarial losses in the five plans are being amortized on a straight-line basis. As most of the members are no longer active, the actuarial losses are being amortized over a ten to fifteen year period, being the expected average remaining life expectancy of the inactive members.

The actuarial valuations were based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases and employee turnover and mortality. The assumptions used reflect the City's best estimates. The inflation rate is estimated at 2.5% per annum and the rate of compensation increase is estimated at 4% per annum. The discount rate used to determine the accrued benefit obligation is 6.9% per annum.

Pension fund assets are valued at market values. The expected rate of return on plan assets is 7.3% per annum net of all administrative expenses. The return on the market value of plan assets during the year was negative 2.2% (2001- negative 0.9%).

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

	2002 \$000	2001 \$000
Current period benefit cost	576	961
Amortization of actuarial losses	4,448	
Interest cost on the average accrued benefit obligation	63,310	64,104
Expected return on average pension plan assets	<u>(61,066)</u>	<u>(67,511)</u>
Net expenditures (recoveries) related to pensions	<u>7,268</u>	<u>(2,446)</u>

The net expenditures (recoveries) related to pensions in a deficit position is included in the Consolidated Statement of Financial Activities as a component of expenditures.

(b) OTHER BENEFITS

Employee benefit liabilities, other than pensions, are partially funded as described below.

(i) Liability for Sick Leave Benefits

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the City's employment. The liability for the accumulated sick leave represents the extent to which sick leave benefits have vested and could be taken in cash by employees on termination. A sick leave reserve fund is established to help reduce the future impact of these obligations. As at December 31, 2002 the balance in the sick leave reserve fund (Note 5(b)(i)) is \$93,401,000 (2001 - \$97,546,000).

(ii) **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, 2002 the balance in the Workers' Compensation reserve fund (Note 5(b)(i)) is \$19,574,000 (2001 - \$8,965,000).

(iii) **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 (Note 5(b)(i)) is established to help reduce the future impact of these obligations. As at December 31, 2002 the balance in the employee benefits reserve fund is \$141,446,000 (2001 - \$154,285,000).

Due to the complexities in valuing the plans, actuarial valuations are conducted on a periodic basis. The liabilities reported in these consolidated financial statements are based on a valuation as of December 31, 1998. Many of the estimates and assumptions used in 1998 may change significantly with the next detailed valuation. The significant actuarial assumptions adopted in measuring the City's accrued benefit obligations for other retirement and post-employment benefits are as follows:

	2002	2001
Discount rate	6% to 6.5%	6% to 8%
Rate of compensation increase	3%	3% to 4.5%
Health care inflation	5%	8%
Health care inflation – ultimate	4%	4% to 5.5%
Year ultimate health care inflation to be reached	2003	2003

7. Net Long-Term Debt

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

	2002 \$000	2001 \$000
Installment and sinking fund debenture debt issued at various rates of interest ranging from 5% to 10.5% and outstanding at the end of the year	1,889,480	1,870,279
The total value of sinking fund deposits which have accumulated to the end of the year to retire sinking fund debentures included in the amount above	<u>(732,731)</u>	<u>(698,891)</u>
	1,156,749	1,171,388
Mortgages payable on housing properties at various interest rates ranging from 4% to 13%	1,035,843	1,041,603
Non-interest bearing loans payable to the Province of Ontario	183,750	183,750
Loan payable bearing interest at 8.05%	<u>2,078</u>	<u>-</u>
	<u>2,378,420</u>	<u>2,396,741</u>

- (b) Principal payments relating to net long-term liabilities of \$2,378,420,000 outstanding as at December 31, 2002 are due as follows:

	\$000
2003	188,729
2004	287,851
2005	226,165
2006	144,760
2007	127,632
Thereafter	<u>1,403,283</u>
	<u>2,378,420</u>

- (c) Included in net long-term debt are outstanding debentures of \$1,720,000,000 (2001 - \$1,845,000,000) secured by sinking fund assets with a carrying value of \$734,300,000 (market value - \$776,045,000). Sinking fund assets are comprised of short-term notes and deposits, government and government-guaranteed bonds and debentures and corporate bonds. Government and government-guaranteed bonds and debentures include City of Toronto debentures with a carrying value of \$201,944,000 (market value - \$211,569,000).

8. Landfill Closure and Post-Closure Liabilities

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

The City has approximately 150 inactive landfill sites and retains responsibility for all costs relating to closure and post-closure care. The City closed the Keele Valley landfill site on December 31, 2002.

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

The estimated liability for the care of landfill sites is the present value of future cash flows associated with closure and post-closure costs discounted using the City's average long-term borrowing rate of 7%. This estimate amounts to \$99,081,000 as at December 31, 2002 (2001 - \$69,275,000) and is included in other liabilities on the Consolidated Statement of Financial Position.

The estimated present value of future expenditures for closure and post-closure care as at December 31, 2002 is \$99,081,000, none of which remains to be recognized as expenditures.

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 (Note 5(b)(i)) as at December 31, 2002 was \$32,733,000 (2001 - \$28,445,000) and the balance in the Keele Valley Site Post-Closure Trust Fund (Note 13) as at December 31, 2002 was \$6,466,000 (2001 - \$6,591,000).

9. Amounts to be Recovered in Future Years

Amounts to be recovered in future years comprise the gross amounts of the following liabilities as at December 31, some of which have been partially funded through reserve funds as reported in Note 5:

	2002 \$000	2001 \$000
Capital outlay to be recovered in future years		
· Gross long-term debt outstanding (Note 7)	2,378,420	2,396,741
· Less amounts recoverable from school boards (Note 4)	<u>114,689</u>	<u>136,680</u>
	<u>2,263,731</u>	<u>2,260,061</u>
Amounts to be financed in future years		
· Sick leave benefits (Note 6)	268,368	262,095
· Workplace Safety and Insurance Board obligations (Note 6)	276,827	268,436
· Other employment and post-employment benefits (Note 6)	1,042,167	957,145
· Accrued pension liabilities (Note 6)	67,133	61,443
· Solid waste landfill liabilities (Note 8)	<u>99,081</u>	<u>69,275</u>
	<u>1,753,576</u>	<u>1,618,394</u>
	<u>4,017,307</u>	<u>3,878,455</u>

10. User Charges

User charges on the Consolidated Statement of Financial Activities comprise the following:

	2002 \$000	2001 \$000
Transit fares	648,810	645,687
Sale of water	465,401	425,017
Fines	125,248	72,138
Licences and permits	82,251	72,390
Fees and service charges	<u>304,260</u>	<u>310,433</u>
	<u>1,625,970</u>	<u>1,525,665</u>

11. Expenditures

(a) Other Expenditures

Other expenditures include expenditures in the following areas:

- Mayor and members of Council
- Chief Administrator's Office
- Audit services
- Consolidated grants
- Capital and corporate financing
- Property tax provision and write-offs
- Assessment function

(b) Agencies, Boards and Commissions

Expenditures reported for Agencies, Boards and Commissions relate to the expenditures incurred by those organizations described in Note 1 and included in these consolidated financial statements.

12. Expenditures by Object

Expenditures by object of expenditure comprise the following:

	2002	2001
	\$000	\$000
Salaries, wages and benefits	3,119,386	2,868,404
Materials	1,646,260	1,918,956
Contracted services	890,699	759,208
Interest on long-term debt	110,626	123,967
Transfer payments	184,796	297,507
Other	1,129,427	877,808
	<u>7,081,194</u>	<u>6,845,850</u>

13. Trust Funds

Trust funds administered by the City amounting to \$46,840,000 (2001 - \$48,021,000) have not been included on the Consolidated Statement of Financial Position nor have their operations been included on the Consolidated Statement of Financial Activities. Trust fund balances as at December 31 are as follows:

	2002	2001
	\$000	\$000
Toronto Atmospheric Trust Fund	24,431	25,243
Keele Valley Site Post-Closure	6,466	6,591
Homes for the Aged – Residents	6,308	6,614
Library Trusts	1,941	1,906
Development Charges Trust – Railway Lands	1,452	1,414
Police Trust Funds	1,171	1,528
Candidates Municipal Election Surpluses	1,131	1,100
Contract Aftercare	915	900
Waterpark Place	844	824
Community Services Levies	703	-
Development Charges Trust – Queen's Quay	425	-
Ontario Home Renewal Program	377	286
Heritage and Culture Trusts	330	1,224
Lakeshore Pedestrian Bridge	193	188
Other trust funds	153	203
	<u>46,840</u>	<u>48,021</u>

14. Public Liability Insurance

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

The insurance reserve fund as reported on the Consolidated Statement of Financial Position as a part of reserve funds (Note 5(b)) is available to cover self-insured exposures, including public liability claims. The provision during the year for insurance claims is included in the various categories on the Consolidated Statement of Financial Activities.

15. Budget Data

Budget data for 2002 included in these consolidated financial statements represents budgets approved by Council except for reserves and reserve funds, which have been modified to reflect funding contributions contained in approved operating and capital budgets.

16. Contingencies and Commitments

- (a) The City is subject to various legal claims arising in the normal course of its operations. The ultimate disposition of these claims may differ from amounts which have been recorded in the accounts.
- (b) A class action claiming \$500,000,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission on November 18, 1998. The action was initiated against the former Toronto Hydro-Electric Commission as the representative of the defendant class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

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

- (c) A similar class action claiming \$64,000,000 in restitutionary payments plus interest was commenced against the former Toronto Hydro-Electric Commission on April 28, 1994. The action was initiated against the Toronto Hydro-Electric Commission directly as a municipal electrical utility which made late payment charges on overdue utility bills at any time after April 1, 1981. In the action, the proposed representative plaintiffs allege that late payment charges resulted in the Toronto Hydro-Electric Commission receiving interest at effective rates in excess of 60% per year, which is illegal under section 347(1)(b) of the Criminal Code. The Electricity Distributors Association, in cooperation with Toronto Hydro Corporation, is undertaking the defense of the action. The action is at a preliminary stage. No examinations for discovery have been conducted and no class has been certified for purposes of the action. At this time it is not possible to quantify the effect, if any, of the action on these consolidated financial statements.
- (d) A class action claiming \$500 million in damages, plus interest and costs was served on the Toronto Transit Commission on November 30, 2001. The claim is based on alleged exposure by workers to asbestos during construction work at the Sheppard Subway Station. The claim also names the Ministry of Labour and an environmental consultant company as defendants and alleges various violations of the Occupational Health and Safety Act and its regulations. The action has not proceeded to the stage involving the motion of certification. At this time, it is not possible to quantify the effect, if any, of this claim in these consolidated financial statements.
- (e) Capital commitments outstanding as at December 31, 2002 include the purchase and delivery of 220 buses for which payments amounting to \$113,100,000 are to be made.
- (f) The City is a defendant in an action commenced by the Toronto Port Authority against the City, TEDCO and others, seeking return of lands transferred from the Toronto Harbour Commission to the City and TEDCO during the period from 1992 to 1994 as well as further compensation in respect of lost revenues from these lands. Management believes that the ultimate disposition of these matters will not materially exceed amounts recorded in the accounts.

- (g) The Ministry of the Environment has issued Certificates of Approval for nine of the estimated 150 inactive landfill sites and has requested applications for Certificates of Approval on the remaining inactive sites prior to the commencement of any remediation work. It is not possible to quantify the effect, if any, of this request on these consolidated financial statements beyond those amounts recorded as landfill closure and post-closure liabilities (Note 8).
- (h) The City has provided unconditional loan guarantees to certain third parties amounting to \$19,140,000 as at December 31, 2002, primarily related to possible defaults in financial agreements for certain construction projects.
- (i) As at December 31, 2002, the City is committed to future minimum annual operating lease payments for premises and equipment as follows:

	\$000
2003	40,292
2004	32,239
2005	19,187
2006	8,182
2007	3,886
Thereafter	12,141

17. Comparative Amounts

Comparative amounts in these consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2002 consolidated financial statements.