TREASURER'S REPORT

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

The financial statements must be prepared in accordance with the generally accepted accounting principles as set by the Canadian Institute of Chartered Accountant's (CICA) Public Sector Accounting Board (PSAB). To ensure that the statements are in compliance, they are subjected to external audit by an independent auditor.

The Consolidated Financial Statements encompass the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Provides a summary of the City's financial assets and liabilities
Consolidated Statement of Financial Activities	Provides a summary of funds raised by the City and the use of such funds in the year. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.
Consolidated Statement of Cash Flows	Summarizes how the City's cash position changed during the year by highlighting the City's sources and uses of cash.
Analysis of Current Operations	Outlines funds raised by the City in the year for current operations and what those funds were used for and how they compared to the budget.
Analysis of Capital Operations	Provides a summary of funds raised by the City in the year for capital operations and what those funds were used for and how they compared to the budget.
Analysis of Reserves and Reserve Funds	Summarizes funds raised by the City in the year for reserve funds and what those funds were used for and how they compared to the budget.

The consolidated financial statements combine the financial results of the City's departments with the financial results of the agencies, boards, commissions (ABCs) and government business enterprises that the City effectively controls. There are 79 entities that are included in the financial statements and these are listed in Note 1 to the Financial Statements. The remaining notes to the financial statements provide further detail about the City's financial results and are an integral part of the statements.

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

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position is sometimes referred to as the municipal equivalent of the private sector's balance sheet. However, there is one important distinction in that the net book value of the City's physical or "fixed" assets (land, infrastructure, buildings and equipment) are not disclosed. Instead, this statement focuses on the City's financial assets and financial liabilities. The difference between the two is the City's net liability position and represents the net amount that must be financed in future budgets.

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

Operating Funds
The Operating Fund is primarily made up of the City's financial interest in its government business enterprises which consist of Toronto Hydro, Toronto Parking Authority, Toronto Economic Development Corporation (TEDCO) and Enwave. The fund includes the net financial interest in the City's agencies, boards and commissions (ABCs) of which the Toronto Transit Commission (TTC) is the most prominent. The smallest portion of the fund represents the previous year's City surplus.

Capital Fund
The Capital Fund represents the net position of the City's capital projects. If the fund is in a deficit position, as it is in 2004, it indicates that the financing (such as a debt issuance) for these projects has yet to occur.

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

In addition to the reserves and reserve funds, the City also has received funds for specific purposes that have been deferred until related expenditures occur in the future. For example, developer charges and parkland dedication fees received are not recognized as revenues until such time as the projects for which the funds were raised are constructed. A breakdown of the City's deferred revenues can be found in Note 5 to the Financial Statements.

Consolidated Statement of Financial Activities
The Consolidated Statement of Financial Activities is often viewed as the municipal equivalent to the private sector's income statement. However, like the Statement of Financial Position, there is an important distinction. Although the statements are on an accrual basis of accounting for most assets and liabilities, they are not based upon "full" accrual accounting in that the cost of the City's physical assets are not amortized and depreciated over their useful life. Instead, the costs of the City's physical assets are expensed 100% in the year they are purchased or built.

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

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

2004 HIGHLIGHTS

- The City collected revenues of $7.379 billion and spent $7.752 billion for a net consolidated expenditure of $373 million before long-term financing.
- As a result, the City's net financial liabilities increased from $1.6 billion to $1.97 billion.
- The level of unfinanced capital expenditure was increased by $140 million.
- Cash and investments increased by $216 million to a total of $2.438 billion.
- The City's investment in its government business enterprises increased by $76 million in 2004 to total $1.035 billion.
- Net long-term debt to third parties increased by $204 million to stand at $1.681 billion at the end of the year.
- Mortgage debt obligations of Toronto Community Housing Corporation declined by $24.5 million to a total of $992.6 million at year end.
- The employee benefit liability increased $186 million to $1.978 billion.

ANALYSIS

Current Operations – Budget to Actual Comparison

Net revenues	2004 (in thousands of dollars) Budget	Actual	Difference
Property tax revenues	3,070,841	3,096,416	25,575
User charges	1,782,545	1,681,994	(100,551)
Government transfers	1,617,969	1,527,933	(90,036)
Other revenues	445,612	623,957	178,345
	6,916,967	6,930,300	13,333
Expenditures	6,579,276	6,627,847	(48,571)
Net revenues	337,691	302,453	(35,238)

Revenues for certain ABC's including the TTC, Exhibition Place and the Zoo are budgeted as a single amount under user charges and amount to $777 million. Actual revenues for these entities totalled $806 million and comprise both user charges ($722 million) and other revenues ($84 million). This accounts for $54 million of the unfavourable variance in user charges. Other principal reasons for the unfavourable results in user charges are a $31 million shortfall in the sale of water and a $7 million reduction in paid waste tonnage at solid waste transfer stations. In addition to the $84 million in other revenues described above, these revenues also include earnings from government business enterprises of $112 million which were not budgeted. Note 4 and Appendix 2 to the financial statements provide more detail on the City's investments in government business enterprises and results of their operations during the year.

Government transfers were under budget due to reduced spending in cost shared social assistance and child care programs.

Expenditures	2004 (in thousands of dollars) Budget	Actual	Difference
General government	439,777	518,169	(78,392)
Protection to persons and property	1,115,219	1,232,623	(117,404)
Transportation	1,366,887	1,340,054	26,833
Environmental services	538,377	536,389	1,988
Health services	286,347	302,864	(16,517)
Social and family services	1,575,337	1,488,463	86,874
Social housing	685,065	628,977	56,088
Recreational and cultural services	536,834	544,099	(7,265)
Planning and development	35,433	36,209	(776)
Total	6,579,276	6,627,847	(48,571)

The City budgets for employee benefits on a cash basis but reports these costs on an accrual basis in these financial statements. As a result, the 2004 budget does not include $186 million of employee benefit costs that have been incurred but are payable in future years whereas the actual expenditures reported in these financial statements include these costs. In addition, there are $48 million in WSIB claims, retiree benefits, sick leave pay-outs and employee separation costs that have been allocated to programs and included in actual costs reported in these financial statements. There is no corresponding program expenditure budget for these costs as they relate primarily to pre-amalgamation events and are fully financed from reserves. The reserves are in turn replenished from budgeted reserve transfers that are part of the financing section of the statement of financial activities.

General government expenditures include the costs of Council, CAO, Auditor General, Facilities & Real Estate, Finance, Clerks, Human Resources, Corporate Communications, Information & Technology, Legal, consolidated grants, computer leases, miscellaneous non-program costs and the allowance for property tax appeals. The two principal reasons for 2004 actuals exceeding budget are tax write-offs exceeding budget by $24 million and GST recoveries budgeted at $26 million but allocated to specific programs upon receipt.

Also included in general government expenditures are $33 million in self-insured general insurance claims. Unlike employee benefits mentioned above, these costs have not been allocated to programs. However, similar to employee benefits, these costs do not have a corresponding expenditure budget as they are financed from the self-insurance reserve. This reserve is in turn replenished from a budgeted reserve transfer that is part of the financing section of the statement of financial activities.

Protection to persons and property includes the costs of Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act (POA) Courts. Actual costs were higher than budget due to a negotiated settlement for additional employee benefits for firefighters of $29 million and expensed in 2004.

Social and family services expenditures were under budget due to the demand for social assistance, shelter and support beds being less than expected and a reduction in the number of subsidized child care spaces. Social housing costs were lower than budget as a result of improved TCHC financial results.

Recreational and cultural services includes parks, recreation, cultural services, the Library Board, and other related City ABCs (e.g. Exhibition Place, Toronto Zoo and Hummingbird Centre). The unfavourable variance in the program is primarily due to the Library where book purchases are accounted for by the Library as a capital expenditure but budgeted as an operating expenditure by the City. The actual cost of $14.4 million is recorded as a transfer to the capital fund in the financing section of the statement.

Adjustments to prior year's results

Certain comparative figures have been restated as described in notes 4 and 18 to the consolidated financial statements and are reflected in the analyses which follow in this report.

Net government business enterprise earnings for 2003 have been restated for Toronto Hydro changes in accounting policies and a third party metering error affecting 2003 results. This had a favourable impact of $17,353,000 on the value of the City's investment in Toronto Hydro as at December 31, 2003. In addition, PSAB requirements relating to the Reporting Entity were updated for 2004 and, upon review, the approach to accounting for other changes in investments in government business enterprises was changed. Additional investments in Enwave and dividends received from Toronto Hydro are no longer reported as both operating revenues and a capital expenditure. These are now reported directly as investments in government business enterprises on the Statement of Financial Position and increase the value of these investments for additional investments or decrease the values of these investments for dividends received. Details of these changes are described further in note 4 to the consolidated financial statements.

Project financing loans provided to Toronto Community Housing Corporation ("TCHC") have also been restated. Loans were previously expensed when advanced in accordance with cash flow requirements for budget purposes. These loans are now recorded as a City receivable and then eliminated upon consolidation with the accounts of TCHC. Details of this restatement are provided in note 18 to the consolidated financial statements.

Comparison to the prior year

Net revenues for 2004 have declined when compared with 2003.

	(in thousands of dollars)		
Net revenues	**2004**	**2003**	**Difference**
Property tax revenues	3,096,416	2,983,563	112,853
User charges	1,681,994	1,635,996	45,998
Government transfers	1,527,933	1,547,682	(19,749)
Other revenues	623,957	581,758	42,199
	6,930,300	6,748,999	181,301
Expenditures	6,627,847	6,407,681	220,166
Net revenues	302,453	341,318	(38,865)

Property tax revenues increased in 2004 due to 3% and 1 1/2% tax rate increases in the residential and non-residential classes and an increase in supplementary taxes of $9.5 million. Other revenues increased primarily because of an increase in gross investment earnings.

	(in thousands of dollars)		
Expenditures	**2004**	**2003**	**Difference**
General government	518,169	478,387	39,782
Protection to persons and property	1,232,623	1,149,021	83,602
Transportation	1,340,054	1,322,586	17,468
Environmental services	536,389	537,799	(1,410)
Health services	302,864	286,938	15,926
Social and family services	1,488,463	1,451,508	36,955
Social housing	628,977	656,785	(27,808)
Recreational and cultural services	544,099	491,526	52,573
Planning and development	36,209	33,131	3,078
Total	6,627,847	6,407,681	220,166

Overall, the increase in costs of 3.4% over 2003 levels is generally attributable to wage increases and inflation as service delivery levels were essentially unchanged.

Capital Operations – Budget to Actual Comparison

Net Expenditures	2004 Budget	2004 Actual	2003 Actual
	(in thousands of dollars)		
Expenditures	1,505,590	1,123,689	952,825
Revenues	667,778	404,920	388,918
Debentures	490,017	375,000	300,000
Operating fund transfers	183,064	163,402	515,732
Net reserve/reserve fund transfers	137,408	35,197	38,701
Landfill obligations	-	4,795	(5,643)
Total revenues and financing	1,478,267	983,314	1,237,708
Net expenditures (financing)	27,323	140,375	(284,883)

Capital expenditure levels continue to be well under budget. Several uncontrollable factors impacted the implementation of the 2004 capital program in accordance with plans. Principal among these were delays in obtaining firm funding commitments for cost-shared projects from other levels of governments, late closings of land acquisition transactions and approval of specifications from the Province.

Current Accounts

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

Taxes Receivable

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

	2004	2003
	(in millions of dollars)	
Current year	154.5	168.9
Prior year	25.7	36.4
Previous years	39.6	35.7
Interest/penalty	29.5	29.6
Less: allowance for doubtful accounts	(23.3)	(23.6)
Net receivables	226.0	247.0

Accounts Payable

The breakdown of accounts payable and accrued liabilities at December 31, 2004 with 2003 comparatives is as follows:

	(in millions of dollars)	
Accounts Payable	**2004**	**2003**
Local Board trade payables	306.8	300.5
City trade payables and accruals	748.3	737.9
Payable to school boards	291.7	174.2
Provision for assessment appeals	263.9	244.4
Credit balances on property tax accounts	75.2	61.0
Payroll liabilities	68.2	62.7
Total	1,754.1	1,580.7

The increase in amounts payable to school boards represents amounts being held on deposit and being invested on their behalf.

Accounts Receivable

The breakdown of accounts receivable and accrued amounts owed to the City at December 31, 2004 with 2003 comparatives is as follows:

	(in millions of dollars)	
Accounts Receivable	**2004**	**2003**
Government of Canada	54.1	14.1
Government of Ontario	36.6	1.2
Other municipal governments	1.3	1.0
School board	3.8	8.8
Water fees	103.7	100.7
Other	413.4	389.2
Total	612.9	515.0

Increases in amounts due from the federal and provincial levels of government are attributed to new funding available for infrastructure and transit expenditures.

Significant Trends

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

Financial Activities
Capital and Operating

Consolidated Net Expenditures	Avg. Annual Increase	2004	2003	2002	2001	2000
		(in thousands of dollars)				
Revenues	3.85%	7,378,993	7,230,705	7,084,372	6,745,486	6,345,333
Expenditures	4.25%	7,751,536	7,360,506	7,081,194	6,845,850	6,563,672
Net (expenditures) revenues	A	(372,543)	(129,801)	3,178	(100,364)	(218,339)

Financing		2004	2003	2002	2001	2000
		(in thousands of dollars)				
Net new debentures and mortgages net of repayment		198,003	138,826	3,670	72,692	37,814
Increase in unfunded liabilities		190,820	131,612	135,182	170,633	87,791
Increase (decrease) in inventories and prepaid expenses		1,536	18,483	(6,454)	(14,048)	8,535
Total financing and inventory change	B	390,359	288,921	132,398	229,277	134,140
Increase (decrease) in Fund balances	(A+B)	17,816	159,120	135,576	128,913	(84,199)

The trend of expenditure levels exceeding revenues continued in 2004 and has been financed with the issuance of increasingly higher levels of debenture debt ($198 million total net) and increases in unfunded liabilities ($190.8 million). The increase in employee benefit liabilities, while not requiring cash funding in the current year, will require higher tax levies in future years in the absence of a new deal and the realization of other sources of revenue.

Revenues

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

Consolidated Revenues	Avg. Annual Increase	2004	2003	2002	2001	2000
		(in thousands of dollars)				
Property taxes	2.62%	3,096,416	2,983,563	2,968,475	2,970,485	2,795,450
User charges	4.44%	1,681,994	1,635,996	1,625,970	1,525,665	1,145,721
Senior government transfers	4.68%	1,600,688	1,636,202	1,576,589	1,403,198	1,339,393
Other	5.93%	999,895	974,944	913,338	846,138	794,769
Total	3.86%	7,378,993	7,230,705	7,084,372	6,745,486	6,345,333

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

Financial Position

Net Liabilities	2004	2003	2002	2001	2000
	(in thousands of dollars)				
Liabilities	7,335,200	6,615,416	6,431,411	6,236,701	5,603,089
Financial Assets, inventories and prepaid expenses	5,511,966	5,163,189	5,052,657	4,861,223	4,342,023
Net Liabilities	1,823,234	1,452,227	1,378,754	1,375,478	1,261,066

As mentioned earlier in this report, the City's physical or "fixed" assets, including land, buildings, equipment and infrastructure, are not disclosed in these financial statements but needs to be considered in any review of the City's financial position. The City's net liabilities have increased by an average annual rate of 3.7 % over the last five years and is attributable to increases in long-term debt to third parties and in employee benefit liabilities. The following table illustrates this:

Long-Term Debt	Avg. Annual Increase	2004	2003	2002	2001	2000
		(in thousands of dollars)				
Third Party Debt:						
Debentures	8.61%	1,505,361	1,301,457	1,158,827	1,171,388	1,089,201
Provincial loan	-3.18%	175,331	175,331	183,750	183,750	200,000
TCHC Mortgages	-1.53%	992,571	1,017,078	1,035,843	1,041,603	1,055,800
	3.37%	2,673,263	2,493,866	2,378,420	2,396,741	2,345,001
Employee Benefit Liabilities	9.50%	1,977,775	1,791,750	1,654,495	1,549,119	1,376,549
Total	5.76%	4,651,038	4,285,616	4,032,915	3,945,860	3,721,550

Additional information on the mortgage obligations of Toronto Community Housing Corporation can be found in Note 7 in the financial statements. Note 8 provides additional information about the provincial loan and the City's debenture debt. Further detail about the City's employee benefits liabilities can be found in Note 9 to the financial statements.

	(in thousands of dollars)				
Reserves and Reserve Funds	**2004**	**2003**	**2002**	**2001**	**2000**
Reserves	178,801	269,685	319,558	235,316	238,906
Reserve Funds	700,128	663,478	571,834	551,986	442,118
Total	878,929	933,163	891,392	787,302	681,024

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

SUMMARY:

The City's net financial liabilities increased in 2004 largely due to increases in long-term debt and unfunded employee benefit liabilities. In absence of new revenue sources, the City will need to rely increasingly on debt to finance its capital program and to implement significant property tax increases to finance the operating program. As a result, this unsustainable financial position must be addressed through a new deal which must include new revenue sources which grow with the economy.