

2007 CONSOLIDATED FINANCIAL STATEMENTS

CITY OF TORONTO
2007 FINANCIAL REPORT



..... MANAGEMENT'S REPORT

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

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles established by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board. A summary of the significant accounting policies is disclosed in Note 1 to the 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, reviews and approves the financial statements before they are submitted to Council. In accordance with Council's directive, the Auditor General oversees the work of the external auditors performing financial statement attest audits. While it is important to recognize that the external audit is an independent process, the Auditor General's role is to ensure that all significant audit issues are appropriately addressed and resolved. In this context, the Auditor General participates in all significant meetings held between the external auditors and management.

The 2007 consolidated financial statements have been examined by the City of Toronto's external auditors, Ernst & Young LLP, Chartered Accountants, and their report precedes the consolidated financial statements.

Toronto, Canada
May 2, 2008



Cam Weldon
Treasurer



Joseph P. Pennachetti
Deputy City Manager & Chief Financial Officer



Shirley Hoy
City Manager

..... **AUDITORS' REPORT**

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

We have audited the consolidated statement of financial position of the **City of Toronto** as at December 31, 2007 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, 2007 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 15, 2008

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

..... CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2007

(with comparative figures as at December 31, 2006)

	2007	2006
	(\$000)	(\$000)
FINANCIAL ASSETS		
Cash	117,346	127,682
Accounts receivable	709,433	714,066
Property taxes receivable	220,372	221,617
Other assets	11,151	5,220
Investments (Note 2)	3,578,526	2,820,677
Note receivable – Toronto Hydro Corporation (Note 3)	735,175	980,231
Receivable from Toronto District School Board (Note 8)	46,003	49,707
Investments in government business enterprises (Note 4)	1,142,253	1,080,544
Total Financial Assets	6,560,259	5,999,744
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	2,031,351	1,842,975
Deferred revenue (Note 5)	1,235,482	867,889
Other liabilities (Notes 16)	170,511	174,602
Landfill closure and post-closure liabilities (Note 6)	128,363	128,724
Mortgages payable (Note 7)	899,148	930,543
Net long-term debt (Note 8)	2,758,180	2,261,455
Employee benefit liabilities (Note 9)	2,332,518	2,245,511
Total Financial Liabilities	9,555,553	8,451,699
NET FINANCIAL LIABILITIES	(2,995,294)	(2,451,955)
NON-FINANCIAL ASSETS		
Inventories and prepaid expenses	159,464	166,790
NET LIABILITIES	(2,835,830)	(2,285,165)
MUNICIPAL POSITION		
FUND BALANCES		
Operating fund (Schedule 1)	2,346,593	2,484,827
Capital fund (Note 11 and Schedule 2)	(171,008)	(193,683)
Reserves and reserve funds (Note 13 and Schedule 3)	1,177,460	1,057,493
TOTAL FUND BALANCES	3,353,045	3,348,637
Amounts to be recovered in future years:		
From reserves and reserve funds on hand	(297,207)	(297,633)
From future revenues	(5,891,668)	(5,336,169)
TOTAL AMOUNTS TO BE RECOVERED (Note 10)	(6,188,875)	(5,633,802)
TOTAL MUNICIPAL POSITION	(2,835,830)	(2,285,165)

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

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

for the year ended December 31, 2007

(with comparative figures for the year ended December 31, 2006)

	2007 BUDGET	2007 ACTUALS	2006 ACTUALS
	(\$000) (Note 15)	(\$000)	(\$000)
REVENUES			
Residential and commercial property taxation	3,153,888	3,186,766	3,074,783
Taxation from other governments	81,400	99,181	112,480
User charges	1,993,612	1,966,890	1,856,407
Funding transfers from other governments	2,335,829	1,940,866	2,254,726
Net government business enterprise earnings (Note 4)	—	95,105	107,822
Other	1,309,013	1,536,472	1,128,267
TOTAL REVENUES	8,873,742	8,825,280	8,534,485
EXPENDITURES			
General government	641,156	573,416	569,225
Protection to persons and property	1,423,427	1,466,430	1,322,819
Transportation	2,725,313	2,395,965	2,241,737
Environmental services	1,035,608	1,056,280	841,794
Health services	351,222	351,409	336,663
Social and family services	1,853,410	1,773,621	1,722,911
Social housing	797,129	803,784	747,494
Recreation and cultural services	787,100	841,320	740,744
Planning and development	128,893	106,394	75,357
TOTAL EXPENDITURES (Note 12)	9,743,258	9,368,619	8,598,744
NET EXPENDITURES AND INCREASE IN NET FINANCIAL LIABILITIES	(869,516)	(543,339)	(64,259)
FINANCING			
New long-term debt issued	723,459	787,047	532,644
Principal repayments on long-term debt	(261,011)	(256,530)	(199,460)
Principal repayments on mortgages	—	(31,395)	(34,853)
Interest earned on sinking funds	—	(30,088)	(28,536)
Changes in solid waste landfill liabilities	—	(361)	3,699
Changes in environmental liabilities	—	6,565	—
Changes in property and liability claims	—	(7,172)	(42,792)
Changes in employee benefit liabilities	—	87,007	133,223
NET INCREASE IN AMOUNTS TO BE RECOVERED IN FUTURE YEARS	462,448	555,073	363,925
(DECREASE) INCREASE IN NON-FINANCIAL ASSETS	—	(7,326)	21,371
INCREASE (DECREASE) IN FUND BALANCES	(407,068)	4,408	321,037
FUND BALANCES – BEGINNING OF YEAR	1,085,879	3,348,637	3,027,600
FUND BALANCES – END OF YEAR	678,811	3,353,045	3,348,637

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2007

(with comparative figures for the year ended December 31, 2006)

	2007	2006
	(\$000)	(\$000)
OPERATIONS		
Net expenditures for the year	(543,339)	(64,259)
Uses of cash:		
Increase in other assets	(5,931)	(823)
Decrease in other liabilities	(4,091)	(41,521)
Decrease in deferred revenue	—	(15,079)
Decrease in landfill post closure liabilities	(361)	—
	(10,383)	(57,423)
Sources of cash:		
Decrease in accounts receivable	4,633	11,192
Decrease in property taxes receivable	1,245	33,329
Increase in accounts payable and accrued liabilities	188,376	41,983
Increase in deferred revenue	367,593	—
Increase in landfill closure and post-closure liabilities	—	3,699
Increase in employee benefit liabilities	87,007	133,223
	648,854	223,426
Net increase in cash from operations	95,132	101,744
INVESTING		
Net increase in investments	(757,849)	(230,634)
Net increase in investments in government business enterprises	(61,709)	(67,976)
Net decrease in receivable from Toronto Hydro Corporation	245,056	—
Net decrease in receivable from Toronto District School Board	3,704	8,314
Net decrease in cash from investing	(570,798)	(290,296)
FINANCING		
New long-term debt issued	787,047	532,644
Principal repayments on long-term debt	(256,530)	(199,460)
Principal repayments mortgages	(31,395)	(34,853)
Interest earned on sinking funds	(30,088)	(28,536)
Principal repayments on debt by Toronto District School Board	(3,704)	(8,314)
Net increase in cash from financing	465,330	261,481
NET (DECREASE) INCREASE - CASH	(10,336)	72,929
CASH - BEGINNING OF YEAR	127,682	54,753
CASH - END OF YEAR	117,346	127,682

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

ANALYSIS OF CONSOLIDATED CURRENT OPERATIONS – SCHEDULE 1

for the year ended December 31, 2007

(with comparative figures for the year ended December 31, 2006)

	2007 BUDGET	2007 ACTUALS	2006 ACTUALS
	(\$000)	(\$000)	(\$000)
	(Note 15)		
EXPENDITURES			
General government			
Council	19,524	16,529	18,753
Administration	379,528	359,293	374,469
Ontario property assessment	33,000	31,719	30,376
Allowance for property tax appeals	75,000	76,918	75,627
	507,052	484,459	499,225
Protection to persons and property			
Fire	344,128	349,613	347,718
Police	831,134	911,540	782,502
Building services	93,537	87,915	82,189
Other	42,055	43,362	36,551
	1,310,854	1,392,430	1,248,960
Transportation			
Transit	1,220,697	1,259,089	1,160,194
Road/traffic signals maintenance	387,840	394,966	338,873
	1,608,537	1,654,055	1,499,067
Environmental services			
Water	167,037	158,670	159,718
Wastewater	206,054	206,782	187,269
Solid waste	228,837	224,723	233,480
	601,928	590,175	580,467
Health services			
Ambulance	145,178	152,436	144,312
Public health services	194,101	192,023	186,709
	339,279	344,459	331,021
Social and family services			
Social assistance	1,284,080	1,216,140	1,184,201
Long-term care	197,750	203,437	186,812
Child care assistance	334,272	334,120	329,223
	1,816,102	1,753,697	1,700,236
Social housing	601,793	609,646	578,953
Recreation and cultural services			
Parks	129,130	125,366	119,772
Recreation	244,116	266,983	242,559
Other	265,956	250,866	245,670
	639,202	643,215	608,001
Planning and development			
Planning	35,686	33,208	32,756
Business development	10,432	12,143	11,828
	46,118	45,351	44,584
Total Expenditures	7,470,865	7,517,487	7,090,514

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

ANALYSIS OF CONSOLIDATED CURRENT OPERATIONS – SCHEDULE 1

for the year ended December 31, 2007

(with comparative figures for the year ended December 31, 2006)

	2007 BUDGET	2007 ACTUALS	2006 ACTUALS
	(\$000)	(\$000)	(\$000)
	(Note 15)		
REVENUES			
Residential and commercial property taxation	3,153,888	3,186,766	3,074,783
Taxation from other governments	81,400	99,181	112,480
User charges:			
Transit fares	769,000	784,394	746,810
Water sales	620,843	618,565	568,220
Fines	124,330	141,050	134,272
Licenses and permits	109,500	101,767	94,430
Fees and service charges	369,939	321,114	312,675
Government transfers:			
Social assistance	732,250	708,677	675,500
Child care assistance	222,934	244,411	233,687
Health services	145,548	142,641	125,981
Social housing	375,824	413,225	392,358
Other	393,114	242,190	368,184
Investment income	204,682	195,612	191,792
Net government business enterprises earnings (Note 4)	—	95,105	107,822
Other	350,271	524,383	481,844
Total Revenues	7,653,523	7,819,081	7,620,838
NET REVENUES FOR THE YEAR	182,658	301,594	530,324
FINANCING AND TRANSFERS			
Principal repayments on long-term debt	(261,011)	(256,530)	(199,460)
Principal repayments on mortgages	—	(31,395)	(34,853)
Interest earned on sinking funds	—	(30,088)	(28,536)
Changes in employee benefit liabilities	—	87,007	133,223
Changes in property and liability claims	—	(7,172)	(42,792)
Transfers to reserves	(42,347)	(76,194)	(79,583)
Transfers from (to) reserve funds	264,165	(63,329)	39,555
Transfers to capital fund	(143,465)	(54,801)	(236,284)
Total Financing and Transfers	(182,658)	(432,502)	(448,730)
(Decrease) Increase in Non-Financial Assets	—	(7,326)	21,371
NET (DECREASE) INCREASE IN OPERATING FUND BALANCE FOR THE YEAR	—	(138,234)	102,965
OPERATING FUND BALANCE – BEGINNING OF YEAR	—	2,484,827	2,381,862
OPERATING FUND BALANCE – END OF YEAR	—	2,346,593	2,484,827

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

ANALYSIS OF CONSOLIDATED CAPITAL OPERATIONS – SCHEDULE 2

for the year ended December 31, 2007

(with comparative figures for the year ended December 31, 2006)

	2007 BUDGET	2007 ACTUALS	2006 ACTUALS
	(\$000) (Note 15)	(\$000)	(\$000)
EXPENDITURES			
General government	134,104	88,957	70,000
Protection to persons and property			
Fire	26,362	17,922	18,467
Police	74,920	49,295	44,495
Other	11,291	6,783	10,897
	112,573	74,000	73,859
Transportation			
Transit	737,304	512,586	548,169
Roads	379,472	229,324	194,501
	1,116,776	741,910	742,670
Environmental services			
Water	195,790	120,511	162,234
Wastewater	188,097	104,015	84,505
Solid waste	49,793	241,579	14,588
	433,680	466,105	261,327
Health services			
Ambulance	9,391	5,517	5,422
Public health services	2,552	1,433	220
	11,943	6,950	5,642
Social and family services			
Social assistance	16,889	10,569	9,250
Long-term care	10,800	7,787	4,901
Child care assistance	9,619	1,568	8,524
	37,308	19,924	22,675
Social housing	195,336	194,138	168,541
Recreation and cultural services			
Parks	31,876	20,799	39,415
Recreation	73,679	105,327	49,721
Other	42,343	71,979	43,607
	147,898	198,105	132,743
Planning and development			
Planning	9,429	2,627	3,510
Business development	73,346	58,416	27,263
	82,775	61,043	30,773
Total Expenditures	2,272,393	1,851,132	1,508,230

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

ANALYSIS OF CONSOLIDATED CAPITAL OPERATIONS – SCHEDULE 2

for the year ended December 31, 2007

(with comparative figures for the year ended December 31, 2006)

	2007 BUDGET	2007 ACTUALS	2006 ACTUALS
	(\$000)	(\$000)	(\$000)
	(Note 15)		
REVENUES			
Government of Canada transfers	230,674	141,128	175,502
Province of Ontario transfers	235,485	9,972	150,914
Other municipalities	13,608	61,040	22,376
Development contributions applied	510,494	547,988	310,977
Other	172,159	102,000	56,650
Total Revenues	1,162,420	862,128	716,419
NET EXPENDITURES FOR THE YEAR	(1,109,973)	(989,004)	(791,811)
FINANCING AND TRANSFERS			
New long-term debt issued	723,459	787,047	532,644
Changes in solid waste landfill liabilities (Note 6)	—	(361)	3,699
Changes in environment liabilities	—	6,565	—
Transfers from operating fund	143,465	54,801	236,284
Transfers from reserves	111,984	60,208	54,912
Transfers from reserve funds	102,558	103,419	15,748
Total Financing and Transfers	1,081,466	1,011,679	843,287
NET INCREASE (DECREASE) IN CAPITAL FUND BALANCE FOR THE YEAR	(28,507)	22,675	51,476
CAPITAL FUND BALANCE – BEGINNING OF YEAR	28,507	(193,683)	(245,159)
CAPITAL FUND BALANCE – END OF YEAR	—	(171,008)	(193,683)

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



ANALYSIS OF CONSOLIDATED RESERVES AND CONSOLIDATED RESERVE FUNDS – SCHEDULE 3

for the year ended December 31, 2007
(with comparative figures for the year ended December 31, 2006)

	2007 BUDGET	2007 ACTUALS	2006 ACTUALS
	(\$000)	(\$000)	(\$000)
	(Note 15)		
RESERVES			
TRANSFERS FROM (TO) OTHER FUNDS			
Reserve fund	—	—	17,791
Operating fund	42,347	76,194	79,583
Capital fund	(111,984)	(60,208)	(54,912)
TOTAL TRANSFERS FROM (TO) OTHER FUNDS FOR THE YEAR	(69,637)	15,986	42,462
RESERVES BALANCE – BEGINNING OF YEAR	238,947	238,947	196,485
RESERVES BALANCE – END OF YEAR (NOTE 13)	169,310	254,933	238,947
RESERVE FUNDS			
REVENUES			
Sale of land	21,995	5,557	8,505
Government Transfers	—	38,622	132,600
Investment income	35,804	44,539	44,461
Other	—	55,353	11,662
TOTAL REVENUES	57,799	144,071	197,228
TRANSFERS FROM (TO) OTHER FUNDS			
Reserves	—	—	(17,791)
Operating fund	(264,165)	63,329	(39,555)
Capital fund	(102,558)	(103,419)	(15,748)
TOTAL TRANSFERS TO OTHER FUNDS	(366,723)	(40,090)	(73,094)
NET INCREASE (DECREASE) IN RESERVE FUNDS BALANCE FOR THE YEAR	(308,924)	103,981	124,134
RESERVE FUNDS BALANCE – BEGINNING OF YEAR	818,425	818,546	694,412
RESERVE FUNDS BALANCE – END OF YEAR (NOTE 13)	509,501	922,527	818,546
TOTAL RESERVES AND RESERVE FUNDS	678,811	1,177,460	1,057,493

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

1. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

Basis of Consolidation

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

Consolidated entities:

Agencies, Boards and Commissions:

- Board of Governors of Exhibition Place
- Board of Management of the Toronto Zoo
- Heritage Toronto
- Sony Centre for the Performing Arts
- North York Performing Arts Centre Corporation
- St. Lawrence Centre for the Arts
- Toronto Atmospheric Fund
- Toronto Board of Health
- Toronto Community Housing Corporation
- Toronto Licensing Commission
- Toronto Police Services Board
- Toronto Public Library Board
- Toronto Transit Commission
- Yonge-Dundas Square

Arenas:

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

Community Centres:

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

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
- Cliffside
- College Promenade
- Corso Italia
- Danforth Village
- Dundas West
- The Danforth
- Dovercourt Village
- Downtown Yonge
- Eglinton Hill
- The Eglinton Way
- Emery Village
- Fairbank Village
- Forest Hill Village
- Gerrard India Bazaar
- Greektown on the Danforth
- Harbord Street
- Hillcrest Village
- Junction Gardens
- Kennedy Road
- Kingsway
- Knob Hill Plaza
- Korea Town
- Lakeshore Village
- Liberty Village
- Little Italy
- Long Branch
- Mimico by the Lake
- Mimico Village
- Mirvish Village
- Mount Dennis
- Old Cabbagetown
- Old Queen Street
- Parkdale Village
- Pape Village
- Queens Quay Harbourfront
- Riverside
- Roncesvalles Village
- Rosedale Main Street
- Sheppard East Village
- St. Clair Gardens
- St. Clair Avenue West
- St. Lawrence Market Neighbourhood
- Uptown Yonge
- Upper Village
- Upper Village (York)
- Village of Islington
- West Queen West
- Weston Village
- Wexford
- Wychwood Heights
- Yonge-Lawrence Village
- York-Eglinton

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

Government Business Enterprises

The following entities are accounted for in these consolidated financial statements as government business enterprises using the modified equity basis of accounting. Under the modified equity basis, the accounting principles of government business enterprises are not adjusted to conform to the City's accounting principles and inter-organizational transactions and balances are not eliminated. Inter-organizational gains and losses are however eliminated on assets remaining within the government reporting entities at the reporting date.

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

Trust Funds

Trust funds and their related operations administered by the City are not included in the consolidated financial statements, but are reported separately on the Trust Fund Statement of Continuity and the Trust Fund Balance Sheet (Note 14).



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Basis of Accounting

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

Capital Assets

The historical cost and accumulated depreciation of capital assets are not reported. Capital assets are reported as an expenditure on the Consolidated Statement of Financial Activities in the year of acquisition. Effective January 1, 2009, this will change with implementation of Section 3150 – Tangible Capital Assets of the Public Sector Accounting Handbook (see Note 17 – Tangible Capital Assets).

Use of Estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures for the year. These estimates and assumptions, including such areas as employee benefits, assessment appeals, claims provisions, landfill liabilities and environmental provisions, are based on the City's best information and judgement and may differ significantly based on actual results.

Tax Revenues

Annually, the City bills and collects \$3.3 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 (for 2007), 2006 — the Municipal Act, 2001, 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 costs 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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

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.

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 to begin in 2006. These changes include limiting allowable annual tax increases on these property classes to 5 per cent 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 over a 15-year time period (2006 to 2020).

Investments

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

Investment income earned on available current 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. Claims are reported as an operating expenditure in the year of the loss, where the costs are deemed to be likely and can be reasonably determined, and are reported as a liability on the consolidated statement of financial position.

Environmental Provisions

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Landfill Closure and Post-Closure Liabilities

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

Deferred Revenue

Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are 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 prorated on service and management's best estimate 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 bonds. 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, any 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

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:

	2007		2006	
	Cost	Market Value	Cost	Market Value
	(\$000)	(\$000)	(\$000)	(\$000)
Federal government bonds	742,566	762,229	865,087	885,671
Provincial government bonds	991,557	1,020,633	858,960	883,206
Municipal government bonds	416,213	432,512	404,383	421,569
Money market instruments	398,640	398,801	26,247	26,247
Corporate bonds	453,887	453,038	314,966	315,690
Other	575,663	575,487	351,034	364,364
	3,578,526	3,642,700	2,820,677	2,896,747

Municipal government bonds include bonds held in trust by the insurance carrier to provide financial security as required for the provision of automobile and primary liability insurance with the carrying value of \$70,391,966 (2006 – \$70,391,966).

The weighted average yield on the cost of the bond investment portfolio during the year was 5.36% (2006 – 4.65%). Maturity dates on investments in the portfolio range from 2008 to 2037 (2006 – 2007 to 2037). Included in the City's investment portfolio are City of Toronto debentures at coupon rates varying from 3.95% to 8.0% and with a carrying value of \$196,417,000 (2006 – \$192,596,000). Other investments include pooled fixed income and equity funds held by the Toronto Community Housing Corporation ("TCHC") as at December 31, 2007 amounting to \$172,423,000 (2006 – \$147,818,000).

3. Note Receivable – Toronto Hydro Corporation

The note receivable from Toronto Hydro Corporation was amended on September 5, 2006 to fix the interest rate, effective May 1, 2006, at 6.11% per annum and to establish an agreed repayment schedule. Toronto Hydro Corporation made a principal payment of \$245,058,000 in 2007 and is required to pay the remaining principal amount of the note as follows: \$245,058,000 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 (Note 4).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

4. Investments in Government Business Enterprises

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

	2007	2006
	(\$000)	(\$000)
Balance – beginning of year	1,080,544	1,012,568
Results of operations (Appendix 1)	95,105	107,822
Dividends received (Appendix 1)	(46,200)	(46,200)
Subscription to additional Enwave shares	6,450	—
Change in net value of streetlighting assets eliminated on sale to Toronto Hydro Corporation (Appendix 1)	6,354	6,354
Balance – end of year (Appendix 1)	1,142,253	1,080,544

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

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

	2007	2006
	(\$000)	(\$000)
Received by the City:		
These amounts are included in expenses of the appropriate government business enterprise in the condensed financial results reported in Appendix 1 to these consolidated financial statements		
Interest on note receivable from Toronto Hydro Corporation (Note 3)	59,892	62,160
Share of operating income from Toronto Parking Authority	34,710	32,719
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		
Street lighting, electricity and maintenance services from Toronto Hydro Corporation	30,378	24,568

At its May 23, 24 and 25, 2007 Council Meeting, Council approved a \$132 million loan to TEDCO for the construction of an office and broadcast facility located at 125 Queens Quay East. The loan will bear interest at 5% per annum, compounded monthly, and will be paid at the end of the development period in early 2010. As at December 31, 2007, no amounts have been advanced on the facility.


NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007

5. Deferred Revenue

(a) Restricted (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 revenues are as follows:

	2007	2006
	(\$000)	(\$000)
Restricted by Provincial Legislation		
Development Charges	212,404	194,599
Recreational Land (Planning Act)	107,841	93,391
Subdividers' Deposits	19,991	18,943
Building Code Act Service Improvement	8,492	4,321
	348,728	311,254
Restricted by Other Agreements		
Public Transit Funds	353,453	—
Water / Wastewater	195,884	153,695
Community Services	55,815	71,160
Third Party Agreements	13,473	18,133
State of Good Repair	10,192	9,376
Donations	3,005	2,910
Parking Authority	830	690
Police OMERS Type 3	—	73,303
	632,652	329,267
Total	981,380	640,521

..... **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
December 31, 2007

(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, which are all included in deferred revenue and reported on the consolidated statement of financial position. Details of these revenues are as follows:

	2007	2006
	(\$000)	(\$000)
Community Services	40,357	25,595
Planning	27,520	17,635
Section 37/45 (Planning Act)	38,665	25,107
Long Term Care – Public Health and Housing	6,161	3,284
Police	9,955	7,815
Parks	11,218	11,990
Others	11,749	17,616
Agencies, Boards & Community Centres	108,477	118,326
Total	254,102	227,368
Total Deferred Revenue (5 (a) and 5 (b))	1,235,482	867,889

6. Landfill Closure and Post-Closure Liabilities

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

Inactive Sites

The City has approximately 161 (2006 – 161) inactive landfill sites and retains responsibility for all costs relating to closure and post-closure care. The City closed its last remaining active landfill site, Keele Valley, on December 31, 2002 and completed its closure activities on this site during 2005.

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

The estimated liability for the care of landfill sites is the present value of future cash flows associated with closure and post-closure costs discounted using the City's average long-term borrowing rate of 5.5% (2006 – 5%). The estimated present value of future expenditures for closure and post-closure care as at December 31, 2007 was \$127,305,000 (2006 – \$128,724,000).

In order to help reduce the future impact of these obligations, the City has established a reserve fund for the care of these sites and maintains a trust fund in satisfaction of requirements of the Ministry of the Environment. The balance in the solid waste management perpetual care reserve fund as at December 31, 2007 was \$32,655,000 (2006 – \$35,796,000) and is included as part of State of Good Repair Reserve Fund (Note 13), and the balance in the Keele Valley Site Post-Closure Trust Fund as at December 31, 2007 was \$7,296,000 (2006 – \$7,095,000) (Note 14).



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

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 \$220,310,000 purchase 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 for 100 years.

The estimated liability for the care of landfill sites is the present value of future cash flows associated with closure and post-closure costs discounted using the City's average long-term borrowing rate of 5.5%. The estimated present value of future expenditures for closure and post-closure care as at December 31, 2007, based on the percentage of total approved capacity used up to December 31, 2007 which was 21.15% resulting in an estimated liability as at December 31, 2007 of \$1,057,500.

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, 2007 was \$1,305,957 and the balance in the Green Lane Perpetual Care account as at December 31, 2007 was \$156,041. Total contributions to the Green Lane Perpetual Care account of \$153,940 were based on a contribution rate of \$0.71 per tonne of waste disposed. Both of these reserve fund accounts are included as part of State of Good Repair Reserve Fund (Note 13).

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

	2007	2006
	(\$000)	(\$000)
Inactive Landfill Sites	127,305	128,724
Active Landfill Site (Green Lane)	1,058	—
Total Landfill closure and post-closure liabilities	128,363	128,724

.....**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
December 31, 2007

7. Mortgages Payable

The mortgages payable are obligations of TCHC which has provided a security interest in the housing properties owned by TCHC. These properties have a net book value of \$1,363,379,000 (2006 – \$1,351,312,000) and have not been reflected in the consolidated statement of financial position.

Interest rates of the mortgages range from 3.7% to 11.0%. Principal repayments relating to the mortgages outstanding as at December 31, 2007 are due as follows:

	<u>\$000</u>
2008	32,793
2009	34,558
2010	36,483
2011	38,409
2012	40,488
Thereafter	<u>716,417</u>
Total	<u>899,148</u>

8. Net Long-Term Debt

Provincial legislation restricts the use of long-term debt to finance only capital expenditures. Provincial legislation allows the City to issue debt on behalf of the Toronto 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 \$250,000,000, 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.


NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007

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

	2007	2006
	(\$000)	(\$000)
Long-term debt issued by the City at various rates of interest ranging from 3.65% to 8.65%	2,891,403	2,580,193
Long-term debt issued by TCHC bearing interest between 4.51% to 5.11%	330,045	47,972
Long-term debt issued by the City on behalf of the TDSB bearing interest rate of 6.1%	75,846	75,846
Loans payable to the Province of Ontario at 2.76%	170,171	170,171
Loan payable bearing interest at 8.05%	1,490	1,574
Sinking fund deposits bearing interest between 4% to 6%	(680,932)	(588,162)
Sinking fund deposits – TDSB bearing interest between 5% to 6%	(29,843)	(26,139)
	2,758,180	2,261,455

Principal repayments relating to net long-term debt of \$2,758,180 outstanding as at December 31, 2007 are due as follows:

	\$000
2008	358,266
2009	331,357
2010	311,911
2011	285,566
2012	263,049
Thereafter	1,208,031
Total	2,758,180

Included in net long-term debt are outstanding debentures of \$2,483,000,000 (2006 – \$2,188,000,000) for which there are sinking fund assets with a carrying value of \$711,228,000 (market value – \$754,785,000) (2006 – \$620,429,000 (market value – \$666,704,000)). 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 \$97,916,280 (market value – \$101,070,137) (2006 – \$102,654,000 (market value – \$105,365,000)).

.....**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
December 31, 2007

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

	2007	2006
	(\$000)	(\$000)
Property taxes	2,381,981	2,163,138
Toronto Community Housing Corporation	330,045	47,972
Toronto District School Board (Note 10)	46,003	49,707
Water billings	151	638
	2,758,180	2,261,455

9. 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:

	2007	2006
Discount rate for accrued benefit obligation:		
Post employment	4.65%	5.5%
Post retirement, sick leave and WSIB	5.0%	6.0%
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%	4.5%
Health care inflation – Drugs	10.0%	10.7%

	2007	2006
Discount rate for benefit costs:		
Post employment	5.5%	5.5%
Post retirement, sick leave and WSIB	6.0%	6.0%
Rate of compensation increase	3.0%	3.0%
Health care inflation – Hospital and other medical	4.5%	4.5%
Health care inflation – Dental care	4.5%	4.5%
Health care inflation – Drugs	10.7%	10.7%

The health care inflation rate for drugs is assumed to reduce to 5.0% over 10 years.


NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007

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:

	2007	2006
	(\$000)	(\$000)
Future payments required for:		
Pension liabilities, other than OMERS	72,339	81,104
Sick leave benefits	249,337	285,164
Workplace Safety and Insurance Board obligations	315,117	318,640
Other employment and post-employment benefits	1,828,704	1,732,595
Total employee benefit obligation	2,465,497	2,417,503
Less: unamortized actuarial loss	132,979	171,992
Employee benefit liabilities	2,332,518	2,245,511

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

	2007	2006
	(\$000)	(\$000)
Balance – beginning of year	2,245,511	2,112,288
Current service cost	153,050	135,613
Interest cost	115,650	127,416
Amortization of actuarial loss	18,202	26,313
Expected benefits paid	(199,895)	(156,119)
Balance – end of year	2,332,518	2,245,511

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

	2007	2006
	(\$000)	(\$000)
Current service costs	153,050	135,613
Amortization of actuarial loss	18,202	26,313
Interest cost	115,650	127,416
Total expenditures	286,902	289,342

.....**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
December 31, 2007

Vested Sick Leave Benefit Liability

Under the sick leave benefit plan, employees are credited with a maximum of 18 days sick time per annum. Unused sick leave can accumulate and employees may become entitled to a cash payment, capped at one half of unused sick time to a maximum of 130 days when they leave the City's employment. The liability for the accumulated sick leave represents the extent to which sick leave benefits have vested and could be taken in cash by employees on termination. A sick leave reserve fund is established to help reduce the future impact of these obligations. As at December 31, 2007, the balance in the sick leave reserve fund is \$63,365,000 (2006 – \$71,059,000) and is included as part of Employee Benefits Reserve Fund (Note 13). Payments during the year amounted to \$21,418,000 (2006 – \$22,493,000).

A new short term disability plan for all management and non-union employees (approximately 4,000) was approved in 2007 and becomes 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 municipalities policy provisions. Employees with less than 10 years of service as of March 1, 2008 will have 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, 2007, the balance in the Workers' Compensation Reserve Fund is \$13,086,000 (2006 – \$12,852,000) and is included as part of Employee Benefits Reserve Fund (Note 13). Payments during the year by the City to the WSIB amounted to \$40,766,000 (2006 – \$38,385,000).

Other Employment and Post-Employment Benefits

The City provides health, dental, life insurance and long-term disability benefits to most employees. The accrued liability represents the actuarial valuation of benefits to be paid to employees, including those on long term disability, 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, 2007, the balance in the employee benefits reserve fund is \$163,581,000 (2006 – \$154,337,000) and is included as part of Employee Benefits Reserve Fund (Note 13). Payments during the year amounted to \$38,006,000 (2006 – \$38,810,000).

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 \$112,146,000 (2006 – \$108,676,000) and are matched by employee contributions in a similar amount.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

The amount contributed for past service to OMERS for the year ended December 31, 2007 was \$1,779,000 (2006 – \$2,105,000). Employer's contributions for current and past service are included as an expenditure on the consolidated statement of financial activities.

The Toronto Transit Commission 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 Toronto Transit Commission 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 by-laws of the Society and the maximum allowable pension under the Income Tax Act (Canada). Employer contributions to these plans during 2007 amounted to \$57,706,000 (2006 – \$51,269,000).

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 rates of pay.

The plans provide increases in pensions to retirees and their spouses to the extent that an actuarial surplus is available. As at December 31, 2007, there were 25 (2006 – 28) active members with an average age of 62. There were also 5,493 (2006 – 5,744) pensioners and 2,869 (2006 – 2,889) spousal beneficiaries in receipt of a pension, with an average age of 76. Pension payments and refunds during the year were approximately \$195,335,000 (2006 – \$199,650,000).

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

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. The accrued benefit obligation as at December 31, 2007 is based on actuarial valuations for accounting purposes as at December 31, 2007. The unamortized actuarial losses in the five plans are being amortized on a straight-line basis. As most of the members are no longer active, the actuarial losses are being amortized over a 10 to 13 year period, being the expected average remaining life expectancy of the inactive members.

The actuarial valuations were based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases and employee turnover and mortality. The assumptions used reflect the City's best estimates. The inflation rate is estimated at 2.5% per annum (2006 – 2.5%) and the rate of compensation increase is estimated at 2.14% to 2.5% per annum (2006 – 3.75% to 4.5%) for determining the accrued benefit obligation. The discount rate used to determine the accrued benefit obligation is 5% (2006 – 5%) and benefit cost is 5% (2006 – 5%) per annum.

Pension plan assets are valued at market values. The expected rate of return on plan assets is 6.5% (2006 – 6.5%) per annum, net of all administrative expenses. The actual return on the market value of plan assets during the year was 1% (2006 – 12.6%).

..... **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007

Metropolitan Toronto Police Pension Plan

The net actuarial deficit of the Metropolitan Toronto Police Pension Plan is included in employee benefit liabilities on the consolidated statement of financial position as at December 31 and includes the following components:

	2007	2006
	(\$000)	(\$000)
Pension assets – market value – end of year	674,163	721,471
Actuarial Pension Liability – end of year	(732,572)	(796,818)
Unamortized actuarial gains	(13,930)	(5,757)
Net Actuarial Deficit	(72,339)	(81,104)

Total expenditures in the consolidated statement of financial activities include the following components related to the Metropolitan Toronto Police Pension Plan.

	2007	2006
	(\$000)	(\$000)
Amortization of actuarial losses	2,003	3,535
Interest cost on the average accrued benefit obligation	38,299	39,093
Expected return on average pension plan assets	(45,022)	(43,728)
Net revenues related to pension plans	(4,720)	(1,100)

These net revenues related to the Metropolitan Toronto Police Pension Plan are included in the consolidated statement of financial activities as a component of expenditures.


NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007

Other Pension Plans

As at December 31, the net actuarial surplus includes the following components:

	Metropolitan Toronto Pension Plan		Toronto Civic Employees Pension Plan		City of York Employee Pension Plan		Toronto Firefighters Pension Plan	
	December 31		December 31		December 31		December 31	
	2007	2006	2007	2006	2007	2006	2007	2006
	(\$000)		(\$000)		(\$000)		(\$000)	
Pension assets – market value – end of year	688,514	740,652	467,382	500,607	57,156	58,821	336,525	362,578
Actuarial Pension Liability – end of year	(676,852)	(741,864)	(350,044)	(378,439)	(64,806)	(70,678)	(341,747)	(371,368)
Unamortized actuarial losses	86,439	118,151	24,779	12,557	10,977	13,096	29,131	31,455
Net Actuarial Surplus	98,101	116,939	142,117	134,725	3,327	1,239	23,909	22,665

Since there is uncertainty about the City's right to this net accrual surplus, this amount has not been reflected on the consolidated statement of financial position.

10. Amounts to be Recovered in Future Years

Amounts to be recovered in future years comprise the gross amounts of the following liabilities as at December 31:

	2007	2006
	(\$000)	(\$000)
TCHC mortgages (Note 7)	899,148	930,543
Net long-term debt (Note 8)	2,758,180	2,261,455
Employee benefit liabilities (Note 9)	2,332,518	2,245,511
Property and liability claims provisions (Note 16)	116,669	117,276
Landfill closure and post-closure liabilities (Note 6)	128,363	128,724
	6,234,878	5,683,509
Less amounts recoverable from Toronto District School Board (Note 8)	46,003	49,707
	6,188,875	5,633,802

..... **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
December 31, 2007

11. Capital Fund

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

	2007	2006
	(\$000)	(\$000)
Capital financing received in advance of expenditures	212,935	141,593
Capital expenditures yet to be financed	(383,943)	(335,276)
Capital Fund Balance (Schedule 2)	(171,008)	(193,683)
Capital expenditures yet to be financed are to be funded in future years as follows:		
Long-term liabilities	325,245	297,952
Developer recoveries and reserves	20,313	25,259
Other	38,385	12,065
	383,943	335,276

Approval has been received for future issuance of \$457,791,000 in long-term liabilities, which includes the \$325,245,000 noted above. The remaining \$132,546,000 in approved long-term debt is for capital expenditures yet to be incurred.

12. Expenditures by Object

Expenditures by object comprise the following:

	2007	2006
	(\$000)	(\$000)
Salaries, wages and benefits	4,165,607	3,877,770
Materials	1,573,029	1,436,207
Contracted services	1,248,068	1,050,517
Interest on long-term debt	213,723	197,900
Transfer payments	1,130,853	1,078,589
Other	1,037,339	957,761
	9,368,619	8,598,744


NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2007

13. Details of Reserve and Reserve Fund

	2007	2006
	(\$000)	(\$000)
RESERVES		
Corporate	213,870	216,749
Water and Wastewater	41,064	22,198
	<u>254,934</u>	<u>238,947</u>
RESERVE FUNDS		
Employee Benefits (Note 9)	240,032	238,249
Stabilization	85,194	215,415
Corporate	358,775	205,373
Community Initiatives	116,877	81,851
State of Good Repair (Note 6)	121,648	77,658
	<u>922,526</u>	<u>818,546</u>
Total Reserve and Reserve Funds	<u>1,177,460</u>	<u>1,057,493</u>

14. Trust Funds

Trust funds administered by the City amounting to \$47,894,000 (2006 – \$47,358,000) 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:

	2007	2006
	(\$000)	(\$000)
Toronto Atmospheric Trust Fund	24,088	24,797
Homes for the Aged Trust Fund – Residents	7,463	6,957
Keele Valley Site Post-Closure Trust Fund (Note 6)	7,296	7,095
Development Charges Trust Fund – Railway Lands	3,366	3,219
Community Services Levies Trust Fund	1,116	1,067
Contract Aftercare Trust Fund	1,022	991
Waterpark Place Trust Fund	993	952
Development Charges Trust Fund – Queen’s Quay	499	477
Ricoh Coliseum Trust Fund	461	441
Heritage and Culture Trust funds	389	372
Candidates’ Municipal Election Surpluses Trust Fund	271	141
Police Trust Funds	258	278
Lakeshore Pedestrian Bridge Trust Fund	228	218
Children’s Greenhouse Trust Fund – Allan Gardens	105	100
Green Lane Small Claims Trust Fund	100	—
Other trust funds	239	253
	<u>47,894</u>	<u>47,358</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

15. Budget Data

In accordance with the Public Sector Accounting Handbook Section 1200 (subsection 122), the budget data for 2007 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.

16. Contingencies and Commitments

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

Exposures on property and liability claims are covered by a combination of self-insurance and coverage with insurance carriers. Provisions for property and liability claims are recorded in other liabilities on the consolidated statement of financial position in the amount of \$110,104,000 (2006 – \$117,276,000).

A class action claiming \$500,000,000 in damages, plus interest and costs, was served on the Toronto Transit Commission on November 30, 2001. The claim is based on alleged exposure by workers to asbestos during construction work at the Sheppard Subway Station. The claim also names the Ministry of Labour and an environmental consultant company as defendants and alleges various 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 and December 2007, a contract was awarded by the Toronto Transit Commission for purchase of low-floor buses which comprised of 694 diesel-electric hybrid buses and 180 diesel buses at a total value of \$615,400,000. At December 31, 2007, 209 hybrid and 180 diesel buses had been delivered at a cost of \$240,400,000 and the outstanding commitment is \$375,000,000.

On December 21, 2006, a contract was awarded for \$674,800,000 for purchase of 234 subway cars or 39 train sets. As at December 2007, the Toronto Transit Commission had incurred costs of \$192,200,000. The first train set is scheduled for delivery in September 2009. At December 31, 2007, the outstanding commitment is \$482.6 million.

At December 31, 2007, the Toronto Transit Commission has various capital project contractual commitments of \$84,500,000 (2006 – \$84,000,000).

The Toronto Transit Commission has a long-term provision for environmental costs of \$6,565,000 (2006 – \$6,522,000) to cover estimated costs of remediating sites with known contamination for which the Commission 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.

The Ministry of the Environment has issued Certificates of Approval for 23 (2006 – 18) of the estimated 161 (2006 – 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 6).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Toronto Port Authority ("TPA") Structured Settlement

At its September 2007 Council meeting, Council assumed TEDCO's future obligations of operating payments of \$3 million per annum for the remaining five year period effective January 1, 2008 and ending December 31, 2012 pursuant to the structured settlement agreement between the City, TEDCO and TPA.

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 \$125,000,000 and the Operating Loan and Line of Credit policy is limited to an aggregate of \$10,000,000 that can be issued by the City for these organizations. The City has provided unconditional loan guarantees to certain third parties amounting to \$94,862,000 (2006 – \$31,802,000), 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, 2007, the City is committed to future minimum annual operating lease payments for premises and equipment as follows:

	<u>\$000</u>
2008	24,966
2009	20,864
2010	18,635
2011	15,995
2012	12,969
Thereafter	<u>27,373</u>
	<u>120,802</u>

17. Tangible Capital Assets

Effective January 1, 2007, The City adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants ("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 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 life.

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 expenditure within the capital fund. This will change when the new recommendations for accounting for tangible capital assets is implemented for the 2009 reporting year.

During 2007, the City has worked towards compliance with the new reporting requirements for accounting for tangible capital assets. As of December 31, 2007, The Municipality 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. A complete asset inventory including costs, amortization and estimated useful life is expected to be completed by June 30, 2008.

18. Comparative Consolidated Financial Statements

These consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – APPENDIX 1
December 31, 2007

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – APPENDIX 1
December 31, 2007

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

Fiscal Year Ended	Toronto Hydro Corporation		Toronto Parking Authority		TEDCO		Enwave		Total	
	December 31, 2007	2006	December 31, 2007	2006	December 31, 2007	2006	October 31, 2007	2006	2007	2006
Financial Position										
Assets										
Current	677,380	800,457	21,711	24,399	13,605	9,180	21,678	25,290	734,374	859,326
Capital	1,822,822	1,656,868	131,463	121,734	16,322	39,628	271,275	258,697	2,241,882	2,076,927
Other	172,323	134,381	45,967	29,694	63,966	31,987	26,101	21,477	308,357	217,539
	2,672,525	2,591,706	199,141	175,827	93,893	80,795	319,054	305,464	3,284,613	3,153,792
Liabilities										
Current	296,791	555,105	30,039	26,280	20,938	8,456	22,028	28,594	369,796	618,435
Long-term	1,447,039	1,144,537	8,008	–	60,657	59,203	93,720	92,204	1,601,242	1,295,944
	1,743,830	1,699,642	38,047	26,280	81,595	67,659	115,748	120,798	1,979,220	1,914,379
Net equity	928,695	892,064	161,094	149,547	12,298	13,136	203,306	184,666	1,305,393	1,239,413
City's share (Note 4)	881,404	838,418	161,094	149,547	12,298	13,136	87,457	79,443	1,142,253	1,080,544
Results of Operations										
Revenues	2,427,444	2,266,912	106,180	100,456	12,816	15,378	75,020	80,655	2,621,460	2,463,401
Expenses	2,344,613	2,174,515	94,633	89,515	13,655	13,004	71,380	75,753	2,524,281	2,352,787
Net income (loss)	82,831	92,397	11,547	10,941	(839)	2,374	3,640	4,902	97,179	110,614
City's share (Note 4)	82,831	92,397	11,547	10,941	(839)	2,374	1,566	2,110	95,105	107,822
Dividends paid to City (Note 4)	46,200	46,200	–	–	–	–	–	–	46,200	46,200
Net book value of assets sold from the City to Toronto Hydro Corporation (Note 4)	47,292	53,646	–	–	–	–	–	–	47,292	53,646