TREASURER'S REPORT

The Consolidated Financial Statements are intended to provide Council, the public and the City's debenture holders an overview of the state of the City's finances at the end of the fiscal year and how the revenues raised by the City during the previous year were spent.

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

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

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

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

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies, boards, commissions and government business enterprises that City effectively controls. There are 96 entities that are included in the financial statements and these are listed in Note 1 to the Consolidated Financial Statements. The remaining notes to the statements provide further detail about the City's financial results and are an integral part of the statements.

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

The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's balance sheet with the exception that tangible capital (physical) or "fixed" assets are not recorded. As indicated in Note 17 to the Consolidated Financial Statements, beginning in 2009, Tangible Capital Assets will be reported on this statement. This statement focuses on the City's assets and liabilities. The difference between the two is the City's net liability position and represents the net amount that must be financed from future budgets. The City's net liabilities are broken down in the "Municipal Position" portion of the statement and is divided between the funds (assets) the City has set aside for future purposes and the gross amount of the City's debt that is intended to be funded in the future. The City has three funds:

> The *Operating Fund* is primarily made up of the City's financial interest in its government business enterprises which consist of Toronto Hydro Corporation, Toronto Parking Authority, TEDCO and Enwave. It also includes the net financial interest in the City's agencies, boards and commissions (ABCs) of which the TTC, Toronto Community Housing Corporation (TCHC) and the Toronto Atmospheric Fund are the most prominent. The Operating Funds also contains the 2007 surplus/ (deficit) which will be distributed in 2008 in accordance with the 2008 Budget.
>
> The *Capital Fund* represents the net position of the City's capital projects. If the capital fund is in a deficit position, it indicates that the financing (such as a debt issuance) for these projects has yet to occur.
>
> The *Reserves and Reserve Funds* represent past revenues and contributions that have been set aside for future use. The majority of these funds are earmarked for future capital financing and for stabilizing the peaks and valleys of operating expenditures and revenue levels from year to year. A break down of the City's reserves and reserve funds can be found in Note 13 to the Consolidated Financial Statements.

In addition to the reserves and reserve funds, the City also has received funds for specific purposes under legislation, regulation or agreements. The recognition of these funds as revenues has been deferred until related expenditures occur in the future. For example, development charges, parkland dedication fees and Federal and Provincial Government transfers (such as public transit funding), received are not recognized as revenues until such time as the projects for which the funds were raised are constructed. These restricted funds are included the Financial Liabilities and not in the Municipal Position. A breakdown of the City's deferred revenues restricted (obligatory) reserve funds can be found in Note 5(a) to the Consolidated Financial Statements.

The Consolidated Statement of Financial Activities is considered to be the municipal equivalent to the private sector's income statement. However, like the Consolidated Statement of Financial Position, there is an important distinction. Although the statements are on an accrual basis of accounting for most assets and liabilities, it is not "full" accrual accounting since 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 were purchased or built. As indicated in Note 17 to the Consolidated Financial Statements, this will change effective the 2009 reporting period and amortization and depreciation of tangible capital assets will be reflected in statement. This statement provides a summary of the source, allocation and use of the City's financial resources throughout the reporting period and reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.

The focus of the Consolidated Statement of Financial Activities is the net expenditure/revenue figure found in the middle of the statement. A net expenditure 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.

Financial Condition

The most important measure of any government's financial condition is its net financial asset (liability) position, which are its financial and non-financial assets (cash, receivables, investments, inventory and prepaid expenses) less its financial liabilities (trade and employment payables, mortgages and debentures). The City's net liability position at December 31, 2007 (as compared to 2006) increased by $551 million to $2.84 billion. Growth in City's debenture debt including additional debt issued directly by TCHC of $250 million and employee benefit liabilities are the main reasons for the increase. From time to time, this measure is questioned, in that debenture debt is reported and included in the calculation, but the capital assets for which the debt was raised are not. Beginning in 2009, the change in financial reporting standards requires the City's capital assets, namely its capital infrastructure to be reported on the City's financial statements. More information regarding this accounting standard is provided in Note 17 to the Consolidated Financial Statements.

Another key indicator of a government's financial condition is the liability amount that must be paid from future revenues (see Note 10 of Consolidated Financial Statements). These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions and landfill liabilities. In 2007, the total amount that will be recovered from future property taxes and other revenues sources grew by $555 million to $5.89 billion. The majority of the increase ($497 million) was due to debentures issued to finance capital expenditures. This included additional debentures of $250 million issued by Toronto Community Housing Corporation (TCHC) in 2007 (see Note 8 of Consolidated Financial Statements), which will be used for long-term financing of social housing projects and related programs of TCHC and its affiliates. The remainder of the increase was due to growth in the employee benefit liability.

Table 1 below, outlines the trend in financial asset and liability growth over the last 5 years.

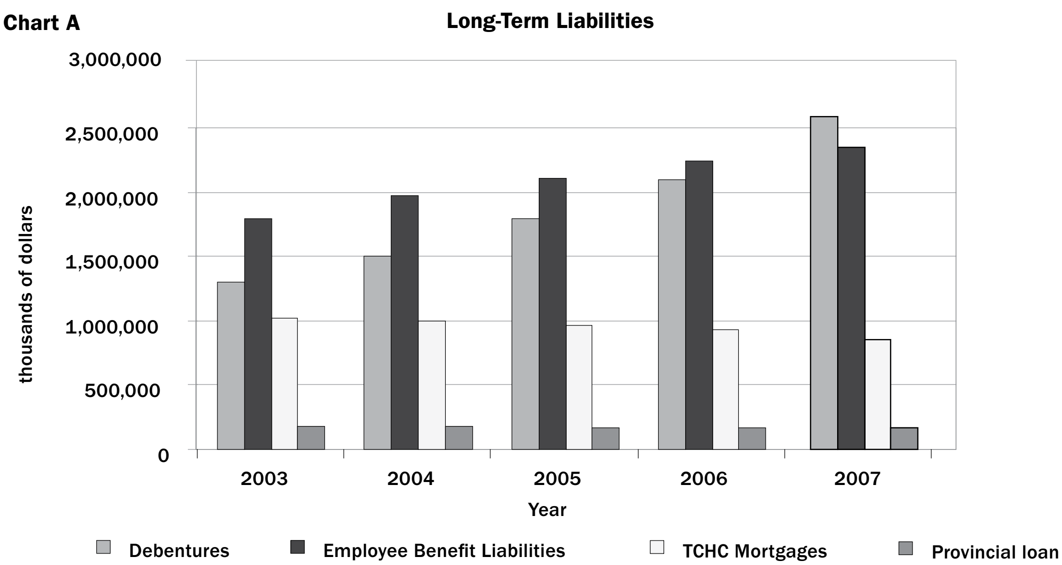
Table 1
Net Liabilities – Five-year Summary

(in thousands of dollars)

Net Financial Liabilities	Average Annual Increase	2007	2006	2005	2004	2003
Financial Liabilities	9.70%	9,555,553	8,451,699	8,067,913	7,526,205	6,615,416
Financial and Non-financial assets	6.82%	6,719,723	6,166,534	5,825,636	5,514,894	5,163,189
Net Liabilities	19.00%	2,835,830	2,285,165	2,242,277	2,011,311	1,452,227
Percentage Increase		24.10%	1.91%	11.48%	38.50%	

The City's net liabilities have increased by an average annual rate of 19.0% over the last five years and are attributable to increases in long-term debt to third parties and in long-term employee benefit liabilities. The significant growth in debt has been driven mainly by the need to finance transit capital expenditures and additional debt issues by TCHC in 2007 to finance social housing projects. Chart A provides the breakdown of long-term liability growth by debt type.

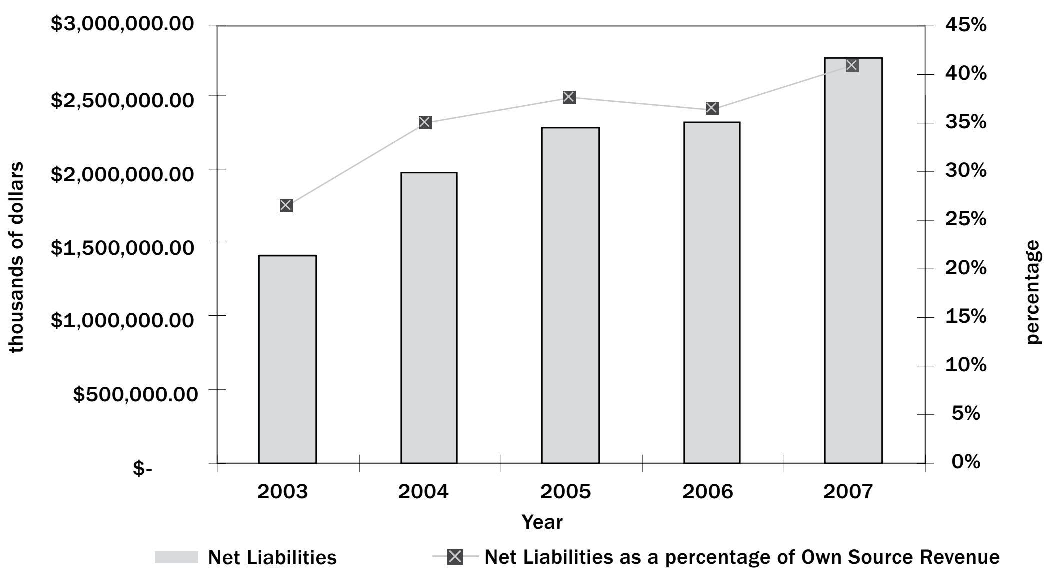
Chart A



Additional information on the mortgage liabilities of TCHC can be found in Note 7 of the Consolidated Financial Statements. Note 8 provides additional information about the provincial loan and the City's debenture debt. Further detail about the City's employee benefit liabilities can be found in Note 9 of the Consolidated Financial Statements.

To put the City's net liability into a different context, Chart B expresses the net liability as a percentage of the City's own source revenues (excluding government transfers and earning from investment in government business enterprise (GBE's)). The net liability as a percentage of own source revenues has grown from 27% to 42% in the last five years.

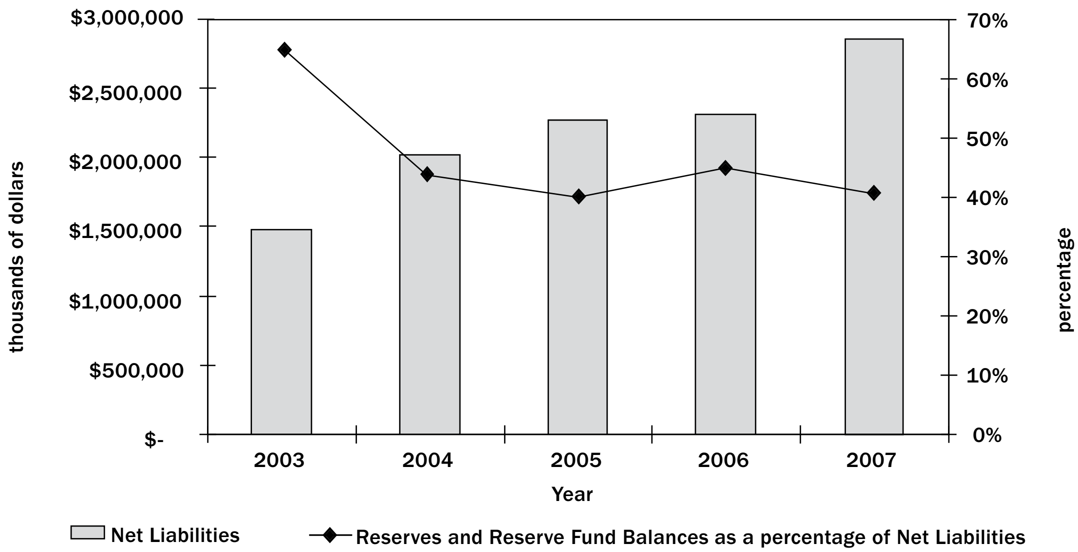
Chart B **Net Liabilities as a Percentage of Own Source Revenues**



The City's net liabilities substantially exceed the City's reserve and reserve fund balances as shown in Chart C. While the reserve and reserve fund balances have remained relatively constant, as indicated in the Deputy City Manager and Chief Financial Officer's report of April 13, 2007 entitled '2007 Operating Budget – Required Reserve Contribution to Balance the 2007 Budget," the vast majority of these funds are committed to fund capital projects identified in the five year capital plan, and future known liabilities, leaving only a small portion available for discretionary spending. Most notably, the full balance of the Vehicle and Equipment Replacement Reserve is required to meet future vehicle and equipment replacements, the balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements and all capital reserves/reserve funds are required to replace and maintain capital assets. Also, the current balances of some reserve funds (e.g. Employee Benefits) are not adequate to cover the future obligations for which they have been set aside.

For financial statement purposes, PSAB requires that obligatory reserve fund balances (such as development charges and unspent provincial public transit funding) be classified as deferred revenue (see Note 5 (a) of Consolidated Financial Statements). Therefore, the reserve and reserve fund balances included in staff reports to the Budget Committee and Council are higher since they include obligatory reserve fund balances.

Chart C **Reserves and Reserve Fund Balances as a Percentage of Net Liabilities**



Note 13 of the Consolidated Financial Statements provides breakdown of the City's reserves and reserve funds.

Analysis of Key Asset and Liability Accounts

Accounts Receivable

Accounts receivable balances declined slightly as compared to 2006. The decrease is due primarily to receiving funds in 2007 from Government of Canada and provincial government for Transit initiatives which were receivable at end of 2006, offset with increases in outstanding water billings receivable ($11 million) and increases in other fees and charges ($91 million). The increase in the other fees and charges receivable was driven by additional work done for third parties by Transportation Services, Technical Services, Police Services and ABC's ($49.9 million), accrual for interest receivable from Move Ontario Trust for 2007 ($20 million) and increase in operating advances paid to Childcare Operators for 2007 ($7.3 million) due to increased enrolment.

	(in thousands of dollars)	
Accounts Receivable	**2007**	**2006**
Government of Canada	146,088	176,276
Government of Ontario	45,813	122,377
Other municipal governments	1,415	767
School board	600	900
Water fees	107,513	96,715
Other Fees and Charges	408,004	317,031
Total	**709,433**	**714,066**

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 uncollectible taxes. A breakdown of this receivable is noted below:

	(in thousands of dollars)	
Taxes Receivable	**2007**	**2006**
Current year	158,156	161,217
Prior year	22,780	25,100
Previous years	30,955	28,300
Interest/penalty	30,782	29,000
Less: allowance for doubtful accounts	(22,301)	(22,000)
Net receivables	**220,372**	**221,617**

The decrease in current year taxes receivable is due to improved collection of outstanding tax balances.

Investments

Investments increased by $758 million from $2.82 million in 2006 to $3.58 million in 2007 due primarily to receiving funds in 2007 from the Province to fund public transit initiatives of which $353 million remained unspent at the end of the year, $245 million from first instalment payment of note receivable from Toronto Hydro Corporation and debt issues by TCHC of which $113 million remained unspent as of December 31, 2007. Details about the City’s investment portfolios and their yields are provided in Note 2 to the Consolidated Financial Statements.

Note Receivable – Toronto Hydro Corporation

Notes receivable decreased by $245 million from $980 million in 2006 to $735 million in 2007 due to the first instalment of principal payment of $245 million by Toronto Hydro Corporation in 2007. The proceeds will be used to fund the City’s major tax-supported strategic infrastructure projects funded in partnership with other orders of governments and major strategic tax-supported environmental projects undertaken with external funding partners. Additional information on the City’s note receivable from Toronto Hydro Corporation is provided in Note 3.

Investment in government business enterprises

Additional information regarding the City’s government business enterprises including 2007 transactions with the City and condensed financial results is provided in Note 4 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable

The breakdown of accounts payable and accrued liabilities at December 31, 2007 with 2006 comparatives is as follows:

	(in thousands of dollars)	
Accounts Payable	**2007**	**2006**
Local Board trade payables	432,181	402,559
City trade payables and accruals	821,201	725,056
Payable to school boards	204,403	210,273
Provision for assessment appeals	373,943	361,099
Credit balances on property tax accounts	107,681	64,204
Payroll liabilities	91,942	79,787
Total	**2,031,351**	**1,842,975**

The lower payable to the school boards is due to supplementary tax being billed earlier in the year in 2007. The provision for tax assessment appeals increased due to the slow pace of appeals being cleared by the Assessment Review Board. Increase in credit balances on property tax accounts is due to taxpayers paying their taxes in full before their tax appeals are heard after the last due date for the year, resulting in credit balance on the tax account. Payroll liabilities were higher due to pay cut-off dates in 2007 requiring accrual of one extra day as compared to 2006. City trade payables and accruals were higher due to capital project costs ($8 million) and operating expenses ($4 million) processed at year-end by Toronto Water. Further increases are attributable to higher capital spending.

Deferred Revenue

Deferred Revenue increased by $368 million to $1.24 billion in 2007 from $867 million in 2006 primarily due to money received in 2007 from the provincial government to fund multi-year public transit initiatives that was not spent as of December 31, 2007.

Net long-term Debt

Net long-term debt increased by $497 million due to the City's net debenture increase (after debt retirements) of $247 million and $250 million debt issued directly by TCHC to finance specific housing projects.

Employee benefits Liabilities

A full actuarial valuation report as at December 31, 2006 was prepared in 2007 with results extrapolated to December 31, 2007, 2008 and 2009. This valuation resulted in an increase in the liability from $2.25 billion in 2006 to $2.33 billion at December 31, 2007. Additional information is provided in Note 9 of the Consolidated Financial Statements.

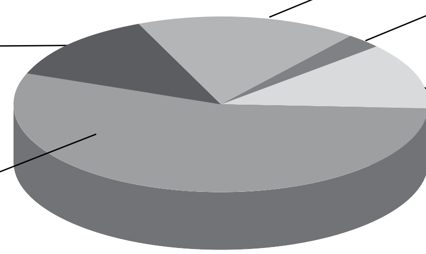
Operating Expenditures

Gross operating expenditures for 2007 totalled $7.5 billion ($7.1 billion – 2006). The increase was generated largely by inflationary increases (wages, materials and contracted services) and increased interest charges on long-term debt.

Chart E breaks down the gross expenditures by cost object. Salaries, wages and benefits accounted for the largest portion at 55% of the total amount (which is the same percentage as 2006). It should be noted that principal re-payments on debt are not included as they are considered financing transactions for accounting purposes and are not considered expenses.

Chart E

Expenditures by Object - Current Operations
(in thousands of dollars)



Note 12 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenditures by object.

Table 3 provides a comparison of 2007 actual expenditures by program as compared to budget and Table 4 provides a comparison with the previous year.

Table 3
Current Operating Expenditures by Programs

(in thousands of dollars)

Expenditures	2007 Budget	2007 Actual	Difference	Change %
General government	507,052	484,459	22,593	4.7%
Protection to persons and property	1,310,854	1,392,430	(81,576)	(5.9%)
Transportation	1,608,537	1,654,055	(45,518)	(2.8%)
Environmental services	601,928	590,175	11,753	2.0%
Health services	339,279	344,459	(5,180)	(1.5%)
Social and family services	1,816,102	1,753,697	62,405	3.6%
Social housing	601,793	609,646	(7,853)	(1.3%)
Recreational and cultural services	639,202	643,215	(4,013)	0.6%
Planning and development	46,118	45,351	767	1.7%
Total	**7,470,865**	**7,517,487**	**(46,622)**	**0.6%**

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements (see Note 15 in the Consolidated Financial Statements).

Table 3 indicates that actual expenditures in 2007 were higher than budget by $47 million. In July 2007 cost containment measures were implemented for all City Programs and ABC's with the goal of reducing operating costs for remainder of 2007, including freezing recruitment for vacant positions and discretionary spending. Savings from cost containment ($40.3 million) were offset by PSAB accrual adjustments for retirement and post employment benefits ($87 million) which are non-cash items that are not budgeted for.

The General Government category spending is under budget due to cost containment measures, better than expected pricing for computer hardware, servers and maintenance and lower than planned utility costs due to energy efficiency measures implemented in various corporate facilities.

In addition to the PSAB adjustment noted above, other contributing factors that caused actual spending to be higher than budget include:

Actual costs for protection to persons and property (Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act Courts) were higher than budget primarily because of the payout of the $75.3 million balance in the Police OMERS Type 3 reserve fund by the Toronto Police Association (offset by a corresponding draw from the Reserve).

Actual spending in Transportation was higher than budgeted due to higher than expected winter maintenance costs resulting from a major storm in December and increased salary costs arising from final job evaluation pay adjustments.

Environmental services actual spending was $11.1 million lower than budget due to lower solid waste tonnage received at Transfer Stations, lower contracted disposal costs, lower costs for processing recyclable materials and savings from cost containment measures including the delay or deferral of new 70% diversion initiatives.

Social and Family Services spending was lower than budget and was attributable to savings from cost containment measures and lower Ontario Works (OW) costs of approximately $20 million due to the case mix changes (higher proportion of single compared to families in case load), slower uptake of employment related benefits, lower than budgeted spending in Community Safety Secretariat and Crisis response, and lower spending in the 100% of City funded Children's Services Program.

Table 4
Current Operating Expenditures by Program
with Previous Year Comparison and Percentage Change

(in thousands of dollars)

Expenditures	2007 Actual	2006 Actual	Difference	Change %
General government	484,459	499,225	(14,766)	(3.0%)
Protection to persons and property	1,392,430	1,248,960	143,470	11.5%
Transportation	1,654,055	1,499,067	154,988	10.3%
Environmental services	590,175	580,467	9,708	1.7%
Health services	344,459	331,021	13,438	4.1%
Social and family services	1,753,697	1,700,236	53,461	3.1%
Social housing	609,646	578,953	30,693	5.3%
Recreational and cultural services	643,215	608,001	35,214	5.8%
Planning and development	45,351	44,584	767	1.7%
Total	**7,517,487**	**7,090,514**	**426,973**	**6.0%**

Overall 2007 spending on current operations was 6.0% higher in 2007 than in 2006. This is largely attributable to inflationary increases (wages, material and contracted services), increased interest charged on long-term debt and for the reasons noted in the previous section of this report.

City Revenues

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of many of the City's revenue sources. In 2007, property taxes made up 42.0% (2006 – 41.8%) of the City's operating revenue.

The five-year summary of revenues outlined in Table 5 demonstrates that property taxes continue to be the slowest growing revenue source for the City. During this period, assessment growth has been minimal. In addition, the City has been limited by provincial legislation from extending tax rate increases on the commercial, industrial and multi-residential assessment base. As of 2005, Council has adopted a tax policy whereby only one third of residential tax increases are passed on to the non-residential classes. The commercial, industrial and multi-residential assessment base represents approximately 60% of the City's tax revenue base.

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

Table 5
Consolidated Revenues – Five-year Summary

(in thousands of dollars)

Revenues	Avg. Annual Increase	2007	2006	2005	2004	2003
Property taxes	3.50%	3,285,947	3,187,263	3,082,009	2,974,975	2,864,064
User charges	4.72%	1,966,890	1,856,407	1,766,557	1,681,994	1,635,996
Government transfers	5.36%	1,940,866	2,254,726	1,831,399	1,600,688	1,636,202
Other	14.36%	1,631,577	1,236,089	1,045,713	975,388	974,944
Total	**5.60%**	**8,825,280**	**8,534,485**	**7,725,678**	**7,233,045**	**7,111,206**
Percentage Increase		**3.41%**	**10.47%**	**6.81%**	**1.71%**	**—**

Increases in property tax revenues averaged 3.50% over the past 5 years. Over the same period, public sector wages increased annually by 3% and non residential construction costs increased by an average of 6.3% annually.

Government transfers increased significantly in 2006 in part due to $200 million in additional provincial transit subsidies received for the 2006 and 2007 budget years.

The increase in other revenue in 2007 as compared to 2006 is attributed to a $37 million increase in development contributions applied, $30 million interest earned on sinking funds and increased equity in GBE's and ABC revenues.

Table 6 provides a comparison of 2007 actual revenues by type as compared to budget and Table 7 provides a comparison with the previous year.

Table 6
Current Operating Revenue
Budget to Actual Comparison (2007 Performance)

(in thousands of dollars)

Revenue	2007 Budget	2007 Actual	Difference	Change %
Property Tax revenues	3,235,288	3,285,947	50,659	1.5%
User charges	1,993,612	1,966,890	(26,722)	(1.4%)
Government transfers	1,869,670	1,751,144	(118,526)	(6.8%)
Other Revenue	554,953	815,100	260,147	31.9%
	7,653,523	**7,819,081**	**165,558**	**2.1%**

The favourable variance in the Property Tax revenues is attributable to MPAC (Municipal Property Assessment Corporation) including additional assessment on the third supplementary and omitted assessment roll resulting in additional revenues including additional assessment for payment in lieu taxes.

The unfavourable variance in user charges revenue is attributed to revenue shortfall in Court Services due to delayed expansion of the Red Light Camera initiative, lower revenues from reduced water usage during spring and summer months, lower than anticipated revenue in City Planning due to a change in the mix of types of development applications received, lower revenues in Fire Services due to lower volume of false alarm calls and lower revenue in Municipal Licensing & Standards due to decreases in permit and business licenses issued.

Government transfers are lower than budget primarily due to budgeting $100 million of provincial funding received in 2006 as 2007 revenue. However, in the 2007 financial statements, this transaction was recorded as a 2007 transfer from reserves not as revenue.

The favourable variance in other revenue is attributable to receiving higher than budgeted market prices for the City's recyclable commodities, higher than expected revenues from Exhibition Place with respect to Canadian National Exhibition, National Soccer Stadium and new business at Direct Energy Centre, increased revenue at the Toronto Zoo due to exceptional weather conditions and the Dinosaurs Alive exhibit, an unbudgeted November 2007 fare increase at the TTC, increased equity in GBE's and higher than budgeted development contributions applied.

Table 7
2007 Current Operating Revenue Comparison to Prior Year

(in thousands of dollars)

Net revenues	2007 Actual	2006 Actual	Difference	Change %
Property tax revenues	3,285,947	3,187,263	98,684	3.1%
User charges	1,966,890	1,856,407	116,783	6.0%
Government transfers	1,751,144	1,795,710	(44,566)	(2.5%)
Other revenues	815,100	781,458	33,642	4.3%
	7,819,081	7,620,838	198,243	2.6%
Expenditures	7,517,487	7,090,514	426,973	6.0%
Net revenues	**301,594**	**530,324**	**(228,730)**	**(43.1%)**

Property tax revenues increased in 2007 due to 3.80% tax rate increase on residential property (1.27% increase on commercial & other non-residential property) and a $16.2 million increase due to assessment growth. Other revenues increased primarily due to increase equity in GBE's and ABC revenues, increase in development contributions applied and higher interest on sinking funds.

Capital Operations

Table 8 provides a comparison of 2007 capital expenditures and financing to budget and Table 9 provides a comparison with the previous year.

Table 8
Capital Operations Budget to Actual Comparisons

(in thousands of dollars)

	2007 Budget	2007 Actual	Difference	Change %
Expenditures	2,272,393	1,851,132	421,261	22.8%
Revenues	1,162,420	862,128	300,292	34.8%
Debentures	723,459	787,047	(63,588)	(8.1%)
Operating fund transfers	143,465	54,801	88,664	161.8%
Net reserve/reserve fund transfers	214,542	163,627	50,915	31.1%
Landfill obligations	—	(361)	361	(100.0%)
Environment Liabilities	—	6,565	(6,565)	(100.0%)
Total revenue & financing	2,243,886	1,873,807	370,079	19.8%
Net expenditures (financing)	**28,507**	**(22,675)**	**51,182**	**(225.7%)**

Capital expenditure levels continue to be under budget. The under-expenditure was primarily attributed to the inability to find or secure suitable sites in accordance with planned timeframes; unanticipated delays in securing funds from cost-sharing partners; later than planned delivery of 161 buses to the Toronto Transit Commission due to an employee strike at the bus manufacturer; and late delivery of garbage packers, side loaders and street sweepers as a result of challenges faced by suppliers in acquiring major components for these vehicles. In addition, several projects were completed under-budget.

Table 9
Capital Expenditures by Program with Previous Year Comparison and Percentage Change

(in thousands of dollars)

Expenditures by Programs	2007	2006	Difference	Change%
General Government	88,957	70,000	18,957	27.1%
Protection to persons and property	74,000	73,859	141	0.2%
Transportation	741,910	742,670	(760)	(0.1%)
Environmental services	466,105	261,327	204,778	78.4%
Health services	6,950	5,642	1,308	23.2%
Social and family services	19,924	22,675	(2,751)	(12.1%)
Social Housing	194,138	168,541	25,597	15.2%
Recreational and cultural services	198,105	132,743	65,362	49.2%
Planning and development	61,043	30,773	30,270	98.4%
Total	**1,851,132**	**1,508,230**	**342,902**	**22.7%**

Although capital spending has remained under budget, actual spending increased significantly over the previous year for a majority of the programs in line with Council's direction to increase the level of capital completion rates. This included increased spending in 2007 in the Environmental services due to purchase of Green Lane landfill site, recreational and cultural services due to the completion of construction of the National Soccer Stadium and planning and development due to higher spending on the waterfront revitalization.

Risks and Mitigates

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

In 2007, the City made significant progress to address these risks by continuing to implement its Long Term Financial Plan. Appendix A lists eight (8) specific financial issues/risks and the actions taken in 2007 or planned for 2008 and beyond to address them.

Highlights include: approving tax policies which enhance economic competitiveness, diversifying its revenue sources and generate additional revenue by Council's October 2007 approval of the Land Transfer Tax (LTT) and Personal Vehicle Ownership Tax (PVT), which both take effect in 2008, utilization of user rate adjustments for environmental and cost control, strict budget guidelines and other cost containment measures and continuing to work with the Province to realize the upload of the social service programs.

Cam Weldon
Treasurer, City of Toronto

Toronto, Canada
May 2, 2008