2018 Financial Statement Review

The City of Toronto's consolidated financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS) established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants (CPA) of Canada.

Management is responsible for the preparation of the consolidated financial statements, while independent auditors are responsible for providing their opinion on the fair presentation of the financial statements in accordance with PSAS.

This document provides an overview of the individual statements that form the Consolidated Financial Statements, along with information about each of the components that make up the cost of all City activities, how they are financed, investing activities and the assets and liabilities of the City, reflecting the full nature of the City's financial affairs and position for the fiscal year noted.

Consolidated Financial Statements

The Consolidated Financial Statements (Statements) include the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Summarizes the assets (financial and non-financial), liabilities, net debt (financial assets less financial liabilities), and accumulated surplus (all assets less all liabilities) as at December 31st. This statement is the municipal equivalent of a private sector Balance Sheet.
Consolidated Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, and surplus for the year and accumulated surplus as at December 31. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities, and provides the calculation of the City's accounting surplus for the fiscal year and accumulated surplus at year end.
Consolidated Statement of Change in Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.
Consolidated Statement of Cash Flows	Summarizes the City's cash position and changes during the year by outlining the City's sources and uses of cash.

The Statements provide information on the cost of all City activities, how they are financed, investing activities and the assets and liabilities of the City; the information reflects the City's consolidated financial position at the end of the 2018 fiscal year, which includes 123 entities directly controlled by the City.

Overview of the balances in each statement

The following provides an overview of each statement, the composition of the balances included, an explanation of what each balance represents and the reason for the change between 2018 and 2017, which form the financial results and position of the City for 2018.

Consolidated Statement of Financial Position

Financial Assets:

2018 Financial Assets totalled $11.3 Billion (2017 - $10.0 Billion), an increase of $1.3 Billion, or 13.0%.

(in millions of dollars)

Item	2018 actuals	2017 actuals	$ change	% change
Cash and Cash Equivalents	$3,626	$1,869	$1,757	94.0%
Accounts and Taxes receivable	$1,942	$1,360	$582	42.8%
Loans Receivable	$152	$158	$(6)	(3.8%)
Other Assets	$65	$42	$23	54.8%
Investments	$3,380	$4,118	$(738)	(17.9%)
Investments in Government Business Enterprises	$2,131	$2,423	$(292)	(12.1%)

Cash and Cash Equivalents

Cash and cash equivalents are the most liquid asset available to the City to pay for operating and capital expenses. Cash includes petty cash, bank account balances, and customer cheques not yet deposited. Cash equivalents includes short-term (less than three (3) months), highly liquid investments that are readily convertible to cash.

It is important for the City to maintain adequate amounts of cash on hand to pay for daily disbursements. Amounts not required are invested in order to make higher rates of return.

Cash on hand fluctuates depending on the timing of bill payments and investment needs. The 94.0% increase over the 2017 balance is the result of the City holding more cash at the end of the year that was reinvested in early 2019.

Accounts and Taxes Receivable
Accounts receivable are amounts owed by third parties to the City, such as transfers coming from other levels of government, utilities and user charges, parking fines and interest receivable from investments. Accounts receivable arise when customers are provided with services which they can pay at a later date, which is usually 30 days from the date of receipt of service. Taxes receivable are uncollected property taxes as of December 31; the City issues interim bills in January and final bills in May.

When accounts and taxes receivable are collected, they become cash for the City to use to fund its' operations. The City has diligent collection practices and has historically achieved a high rate of collection (98%).

Accounts and Taxes receivable increased by 42.8% mainly due to increased transfers from the federal government which were received in early 2019.

Loans Receivable
Loans receivable are amounts loaned by the Toronto Community Housing Corporation (TCHC) and Build Toronto Inc. (BTI), two City agencies and corporations, to third parties through promissory notes or loan facilities. The repayment terms vary, with 2074 being the farthest loan maturity date. Loans receivable are categorized separately from other receivables as they are created by special arrangement.

The loans receivable balance increases as new loans are provided and decreases as principal on loans is repaid. The value did not change significantly between 2017 and 2018.

Other Assets
City consolidated entities, like BTI and TCHC, hold partial ownership in financial assets with external parties. These assets are typically held to support the housing operations of these organizations.

The value of Other Assets increased by 54.8% as a result of an ownership stake increase.

Investments
Cash that is not immediately required for disbursements is invested to earn a higher rate of return. The City relies on investment income as a significant and critical source of revenue. The City invests in both short and long term financial instruments, with significant investments in Government bonds. With the creation of the City's Investment Board and a new investment policy approved by City Council, future investments will include equities and non-bank corporate bonds, which will increase the portfolio risk, however, offer opportunity for greater returns.

Investment balances fluctuate depending on cash flow requirements. The 2018 Investment balance decreased by 17.9%; by the end of 2018, multiple bond instruments in the City's long term bond fund matured and the proceeds were not reinvested before the end of the year. Currently, the City is continuing to build cash for the anticipated transition to other asset classes now available as a result in the change in investment policy. The 2018 average balance in the long term bond fund is $2.8 Billion, which is comprised of 20% cash and 80% bonds.

Investments in Government Business Enterprises
The City is a 100% shareholder in two organizations, the Toronto Parking Authority (TPA) and Toronto Hydro (Hydro). These entities are categorized as Government Business Enterprises (GBE) because they meet certain criteria that recognizes their ability to sustain their operations without City support. The investment value is the equity of each organization, which is adjusted annually based on the annual operating surplus. These entities are not fully consolidated into the City's statements.

In 2018, the Toronto Port Lands Corporation (TPLC) was determined to no longer meet GBE criteria, but it remained within City Council's control. As a result, the investment was reclassified and replaced with the fully consolidated assets, liabilities, revenues and expenses of TPLC. The resulting impact was a 12.1% reduction in the City's Investment in GBE's.

Financial Liabilities:

2018 Financial Liabilities totalled $19.4 Billion (2017 - $17.1 Billion), an increase of $2.3 Billion, or 13.5%.

(in millions of dollars)

Item	2018 actuals	2017 actuals	$ change	% change
Bank Indebtedness	$104	$49	$55	112.2%
Accounts payable and Accrued Liabilities	3,838	3,420	418	12.2%
Deferred Revenue	3,867	2,812	1,055	37.5%
Provision for Property and Liability Claims	529	539	(10)	(1.9%)
Environmental and Contaminated Site Liabilities	241	157	84	53.5%
Mortgages Payable	292	316	(24)	(7.6%)

Item	2018 actuals	2017 actuals	$ change	% change
Long-term Debt	6,502	5,950	552	9.3%
Employee Benefit Liabilities	4,011	3,882	129	3.3%

Bank Indebtedness
The City and several of its' agencies and corporations have short term loan facilities available to them when cash is required on demand. Amounts from these lines of credit are borrowed as required and repaid within a short time.

The City's 2018 bank indebtedness balance includes a short term loan for TCHC, along with net outstanding cheques, which were issued before the end of 2018, but not cashed until 2019. All bank covenants have been complied with.

Bank indebtedness increased by 112.2% due to new short term loan obtained by TCHC.

Accounts Payable and Accrued Liabilities
Accounts payable and accrued liabilities are monies the City owes for goods, services, payroll, and potential property tax repayments. These amounts represent outstanding obligations at the end of the fiscal year and are settled by the payment of cash when the obligations become due. Accounts payable can fluctuate depending on the timing of purchases made and when they are actually paid, which is typically within 60 days for amounts owing to third parties.

Accounts payable and accrued liabilities increased by 12.2% mainly due to the timing of payments and year end accruals.

Deferred Revenue
Deferred revenue has two components – obligatory balances, and advance payments and contributions.

Obligatory balances are amounts collected which are to be used for a specific purpose outlined through special agreement or legislation. The City's obligatory deferred revenues include development charges, parkland funds, state of good repair funds, provincial and federal public transit funds and provincial and federal gas tax funds. Once the City spends these funds for the specific purpose for which they were set aside, they are taken into income. Until that time, they are segregated into obligatory balances on the Statement of Financial Position. The obligatory deferred revenue balance fluctuates depending on contributions and use of the funds during the year.

The obligatory balance increased by 39% over 2017 as a result of a $771 Million contribution from development charges and $205 Million from park levies, offset by $993 Million taken into income to fund various capital projects.

Advance payments and contributions represent monies received today that are recognized as revenue when the related activity occurs in the future. The City receives advance payments and contributions for recreation registrations, facility bookings and other services that it provides.

Advance payments and contributions increased by 24% over 2017. Normal, ongoing fluctuations are the reason for this increase.

Provision for Property and Liability Claims
Although the City maintains insurance for certain types of claims, it also sets funds aside to settle property or liability claims brought forward by third parties. The Toronto Transit Commission (TTC) manages its own self-insured program for automobile and general liability claims. Once settled, these liabilities will impact the cash balance when they are paid out.

The 1.9% reduction in the balance from 2017 is the result of normal case management changes such as annual re-assessments made for existing claims.

Environmental and Contaminated Sites Liabilities
PSAS requires that municipalities record liabilities for the present value of future remediation costs for environmental issues and contaminated sites where environmental standards exist, the level of contamination exceeds the standard, the City accepts responsibility for the clean-up costs and is expected to spend money on that clean up and the actual cost of the clean-up can be reasonably estimated.

The City has also established liabilities that recognize the obligation related to active and inactive landfill sites. The City's active landfill site, Green Lane Landfill, is expected to reach capacity by 2034. As a result, the City not only budgets for its current operation, but has recognized its obligation to care for the site after it closes. Landfill site costs are expected to continue into perpetuity so this liability is monitored closely and adjusted as required. In order to have enough funds to meet its obligations, the City has established reserves and reserve funds for landfill costs.

Each year, this liability is re-assessed for changes in conditions and expected clean-up costs and discounted to present value dollars. The change for this liability between 2017 and 2018 is $84 Million, or an increase of 53.5%, primarily due to the accrual of $56.6 Million for TPLC contaminated sites. The remaining increase is the result of several factors - a lower discount rate (3.33%; 2017 – 3.9%) which is based on current long term rates, a lower inflation rate (2.0%; 2017 – 2.1% and increased forecasted costs. The discount rate used is based on the City's long term borrowing rate and the inflation rate is from the long term economic outlook provided by the Conference Board of Canada.

Mortgages Payable
TCHC and BTI obtain mortgages from third parties to finance their building operations. TCHC focuses on community housing and BTI develops underutilized City real estate to unlock its value, attract targeted industries, stimulate employment and generate

neighbourhoods. These secured, external financing sources are important to the overall mandate of these entities. Mortgages are obtained as new developments are planned, at varied interest rates and repayment terms.

The 7.6% decrease from 2017 is related to mortgage principal repayments of $23 Million by TCHC and $1 Million by Build Toronto.

Long Term Debt
The City can borrow funds to pay for investments made in capital infrastructure. Debt is issued conservatively; the City looks for other funding sources before debentures are issued. Although some funds from the property tax base are used for capital expenditures, it is not enough to support future capital demands. To ensure that funds are available when debt matures, sinking funds, used to hold contributions and interest that accumulates to the repayable debt amount, have been established.

The 9.3% increase over 2017 is the result of City debt issuance of $950 Million and TCHC debt issuance of $0.17 Million, offset by consolidated debt retirement of $331.4 Million.

Employee Benefit Liabilities
The employee benefits liability is made up of the actuarial assessment for employment and post-employment benefits such as workers compensation, sick leave benefits, disability benefits, and vacation pay. These amounts represent future liabilities that are expected to be paid out, but are recorded in the financial statements at their present day dollar value. Like all other liabilities, the City is responsible for paying these expenses in the future, therefore, they are reported in the financial statements in order to provide an accurate picture of the City's financial position. Every three years, an external actuarial assessment is conducted to evaluate the liabilities, however, the amounts are updated annually if there are significant changes.

The 3.3% increase from 2017 is the result of plan amendments, changes in trends and claims made.

Non-Financial Assets:

2018 Non-Financial Assets totalled $33.2 Billion (2017 - $30.9 Billion), an increase of $2.4 Billion, or 7.7%.

(in millions of dollars)

Item	2018 actuals	2017 actuals	$ change	% change
Prepaid Expenses	$217	$119	$98	82.4%
Inventories	$328	$312	$16	5.1%
Tangible Capital Assets	$32,717	$30,464	$2,253	7.4%

Prepaid Expenses
Prepaid expenses are payments made in the current or prior years for services to be received in future years. These prepayments are assets to the City until the services are provided, at which time they are expensed. The cash was disbursed at the time the payment was made. Examples of the City's prepaid expenses include memberships, facility bookings and postage.

The 82.4% increase from 2017 is the result of payment timing across various divisions, agencies and corporations.

Inventories
This balance represents the value of various City-wide inventories used to supply on demand operational requirements. Typically, inventories are consumable items such as central stores inventories and inventories for road maintenance. However, the City's balance also includes inventory of properties currently not being used to provide service to the City.

The 5.1% increase from 2017 arose as a result of general increases and decreases across all inventory categories.

Tangible Capital Assets
Tangible Capital Assets are a significant economic resource managed by the City and a key component in the delivery of many programs and services. Tangible capital assets are the City's investment in infrastructure such as roads and bridges, water and waste infrastructure, buildings, vehicles, equipment, land and computer systems. Annually, the City prepares a capital budget to address new capital projects that increase services and repairs or renovations that bring existing assets into a state of good repair. Capital projects are considered Assets under Construction until they have been put into full service, at which time, the cost is amortized annually over the asset's useful life. The accumulated amortization value, which is comprised of the continuous write down of an asset due to use, offsets the capitalized cost of the assets.

The City's net book value of tangible capital assets at the end of 2018 was $32.7 Billion, an increase of $2.3 Billion, or 7.4% over 2017. The changes are summarized as follows:

- Building and Building improvements of $1,062 Million, consisting of $397 Million at the TTC, $488 Million at TCHC, $173 Million within the City and $4 Million at other City agencies
- Vehicle additions of $126M, consisting of $31M within the City and $95M within the TTC
- Machinery and Equipment purchases of $659 Million primarily within the TTC ($192 Million), City agencies ($45 Million), Water and Wastewater infrastructure ($370 Million) and general equipment purchases of $52 Million (computers, mobile radios)

- Linear assets of $834 Million, $240 Million for Water and Wastewater, $143 Million for Roads and $451 Million for TTC
- Land and Land Improvements of $468 Million, $125 Million for the City and $350 Million for TPLC

The annual amortization expense for 2018 was $1.3 Billion (2017 - $1.1 Billion). Note 15 in the Consolidated Financial Statements provides a detailed breakdown of activity for the year.

Consolidated Statement of Operations and Accumulated Surplus

Revenues:

2018 revenues totalled $13.7 Billion (2017 - $12.6 Billion), an increase of $1.1 Billion, or 9.4%. 2018 actuals were $267 Million, or 1.98%, over budget.

(in millions of dollars)

Item	2018 Actuals	2018 Original Council Approved	2017 Actuals	$ change against Original Council Approved	% change	$ change against 2017	% change
Property and other Government Taxes	$4,350	$4,285	$4,198	$65	1.5%	$152	3.6%
Government Transfers	$3,505	$3,327	$2,800	$178	5.4%	$705	25.2%
User Charges	$3,255	$3,414	$3,028	($159)	(4.7%)	$227	7.5%
Municipal Land Transfer Tax	$730	$810	$805	($80)	(9.9%)	($75)	(9.3%)
Other Revenue Sources	$589	$543	$479	$46	8.5%	$110	23%
Rent and Concessions	$506	$453	$469	$53	11.7%	$37	7.9%
Development charges	$339	$391	$314	($52)	(13.3%)	$25	8.0%
Government Business Enterprise Earnings	$247	-	$236	$247	-	$11	4.7%
Investment Income	$219	$250	$235	($31)	(12.4%)	($16)	(6.8%)

Property and Other Government Taxes
Property taxes are the City's largest source of revenue to fund the services it provides. Property taxes include the annual tax levy on residences and businesses and payments in lieu of taxes. Other government taxes include such items as the Provincial Gas Tax.

Property tax revenues are dependent on assessment growth, Current Value Assessment (CVA), legislative adjustments and annual budgetary increases. As compared to 2017, general property tax revenues increased by approximately $152 Million or 3.62%. Assessment growth along with CVA and legislative adjustments occurring during 2017 increased tax revenues for 2018 by $67.3 Million. Annual budgetary increases contributed an additional $76.1 Million and payments in lieu of taxes increased by $5.4 Million.

Taxation, other than the Municipal Land Transfer Tax, accounts for 31.7% of the City's total revenues.

Government Transfers

The City receives grants and funding from other levels of government intended to cover or supplement the cost of services and initiatives. These transfers account for 25.5% of the City's total revenues and include transfers for transit, social and family services and public health. Approximately 71% of the transfers are received from the Province of Ontario.

User Charges

Although the City's main source of revenue is the property tax base, there are services provided by City divisions, agencies and corporations that recover all or a portion of their costs through user fees. Examples of these services include transit fees, recreation program fees, fines from enforcement activities such as parking fees, Water and Wastewater charges, and garbage charges. Fees are approved by Council and established through the enactment of by-laws.

User charges represent 23.7% of the City's revenues for 2018; the 7.5% increase over 2017 is related to activity.

Municipal Land Transfer Tax

As of February 1, 2008, City Council approved the implementation of the Municipal Land Transfer Tax (MLTT), which applies a charge to property purchased in the City. Payment of the MLTT, based on the purchase price, is due when the property sale closes. MLTT revenues represent approximately 5.3% of the City's overall revenues.

The City benefited from increased revenues coming from MLTT since it was originally implemented in 2008. However, the revenues received are entirely dependent on the Toronto real estate market, which began showing variable activity in 2018. As a result, 2018 actuals were lower against budget and 2017 actuals, with decreases of $80 Million, or 9.9%, and $75 Million, or 9.3%, respectively.

Other Revenue Sources

Occasionally, the City receives miscellaneous or one-time revenues from various sources. Examples include hospital recoveries for postpartum nurse visits, utility charge recoveries from tenants, utility cut repair recoveries and sales of publications. These revenues are typically cost recoveries from third parties and account for 4.3% of the City's total revenues.

Actual recoveries decreased by $110 Million, or 23.0%, from 2017. The budget amount is set based on typical expected recoveries; 2018 actuals were the $46 Million, or 8.5%, below budget.

Rent and Concessions

Several City divisions, agencies and corporations earn revenue from rent and concessions. Examples include TCHC residential rent revenue and TPLC property rent revenue. These amounts are based on pre-established agreements for defined periods of time which would factor in reasonable increases.

Residential rent revenue increases resulted in both a budget surplus and actual increase over 2017.

Development Charges

Development charges are fees paid by developers when new building permits are issued for new developments. Although development charges amount to 2.5% of the City's total 2018 revenue, they are an important source of funding for the City's capital infrastructure expansion and growing requirements for services, as a result of new developments. When development charges are collected, they are recorded as obligatory deferred revenue and taken into revenue as capital expenditures are made.

The 2018 under-budget amount of $52 Million, or 13.3%, in development charges recognized as revenue, is mainly the result of lower than budgeted capital expenses. However, an increase of $25 Million, or 8.0%, over 2017 did occur.

Government Business Enterprise Earnings

Earnings from GBE's represent the City's 100% portion of increases in the bottom line of the TPA and Hydro. The method used to account for this calculation is called modified equity consolidation. Income from the City's GBE's elevate the City's actual financial position, however the amounts are not included in the City's budget.

The 2018 actuals no longer include earnings from the TPLC since a change in shareholder direction made by City Council on January 1, 2018 changed the status of this organization from a GBE to a City agency. TPLC's individual revenue and expense line items are consolidated with other City revenues and expenses.

The 2018 earnings include $67 Million from the TPA and $180 Million from Hydro, and account for 1.8% of the City's total revenues.

Investment Income

Investment income is the interest income from all of the City's short and long term invested funds from operating revenues and reserve funds. Funds not required immediately are invested in order to provide income that grows funds available for operations or longer term expenses, such as capital. Two factors impact investment income – the market interest rate and the City's investment portfolio.

Investment income was lower than both budget and 2017 actuals due to a lower average rate of return (3.3%; 2017 – 3.4%) and lower average investment principal.

Expenses:

The City provides a wide range of services to its citizens, some of which are delivered on behalf of other levels of government, such as the Ontario Works program, some services are cost shared such as transit, and others are fully funded by City, such as recreation programs or police services. Services are delivered individually or collaboratively, between City divisions, agencies and corporations.

The City presents expenses by service to reflect the total cost of providing that service to citizens. Costs included are directly attributable, for example, salaries for firefighters are included in Protection to Persons and Property, while others are allocated on a reasonable basis, such as administrative support to front line shelter and housing staff.

The City also provides a breakdown by cost type in Note 22 to the Consolidated Financial Statements.

2018 expenses totalled $12.3 Billion (2017 - $11.3 Billion), an increase of $1 Billion or 9.0%. 2018 actual expenses were under-budget by $597 Million, or 4.6%.

(in millions of dollars)

Item	2018 Actuals	2018 Original Council Approved	2017 Actuals	$ change against Original Council Approved	% change	$ change against 2017	% change
Transportation	$3,578	$3,649	$3,140	($71)	(1.9%)	$438	13.9%
Social and family services	$2,474	$2,548	$2,193	($74)	(2.9%)	$281	12.8%
Protection to persons and property	$1,858	$1,827	$1,811	$31	1.7%	$47	2.6%
Recreation and cultural services	$1,006	$1,053	$1,008	($47)	(4.5%)	($2)	(0.2%)
Environmental services	$976	$1,107	$955	($131)	(11.8%)	$21	2.2%
General government	$876	$1,063	$776	($187)	(17.6%)	$100	12.9%
Social housing	$844	$892	$824	($48)	(5.4%)	$20	2.4%

Item	2018 Actuals	2018 Original Council Approved	2017 Actuals	$ change against Original Council Approved	% change	$ change against 2017	% change
Health services	$490	$471	$461	$19	4.0%	$29	6.3%
Planning and development	$204	$293	$147	($89)	(30.4%)	$57	38.8%

Transportation
Transportation includes transit, roads, traffic and parking services, which includes local public transit, the maintenance of roads and street lighting. Mobility was, and continues to be, a priority for City Council.

Transportation is significantly funded by user fees, representing 51.5% (2017 – 63.5%) of the revenue allocated to this service group. Transportation expenses account for 29.1% (2017 – 27.8%) of the City's total expenses. This service group's largest expense is salaries and benefits, which accounts for 44.6% (2017 – 49.3%) of its total expenses.

Social and Family Services
Social and Family Services includes social assistance to citizens eligible for financial and employment assistance, long term care for our aging population who can no longer live on their own and child care services that subsidizes child care spaces for individuals experiencing pay inequities or children with special needs.

Social and Family Services are funded 95.8% (2017 – 95.0%) by provincial and federal government transfers. Social and Family Services expenses account for 20.1% (2017 – 19.4%) of the City's total expenses. Aside from staffing costs, which account for 24.7% (2017 – 26.6%) of total expenses, the actual largest expense for this service group is transfer payments to clients, which represent 39.2% (2017 – 50.0%) of its total expenses.

Protection to Persons and Property
This services includes all direct and allocated costs for police, fire and other protective services maintaining the safety and security of all citizens through the preservation of peace and good order or the prevention of loss to property.

Total service group expenses account for 15.1% (2017 – 16.0%) of the City's total expenses, with the largest component being salaries and benefits, which account for 90.3% (2017 – 91.1%) of total expenses.

Recreation and Cultural Services
Recreation services includes the development and maintenance of park space and high quality recreation programs intended to promote and enjoy a healthy lifestyle within the

City. Cultural Services invest in local non-profit organizations; this category includes the City's public library services.

Recreation and Cultural Services are partially funded from user fees, and rents and concessions. Expenses account for 8.2% (2017 – 8.9%) of the City's total expenditures for the year, with the largest single component being salaries and wages, which represent 57.1% (2017 – 55.3%) of the service group's total expenditures.

Environmental Services

City residents benefit from Environmental Services which ensure and distribute a clean water supply, treat wastewater and provide waste and recycling services.

User charges fund 92.2% (2017 – 88.5%) of the Environmental Services category expenditures. Environmental Services account for 8.0% (2017 – 8.4%) of the City's total expenses; 28.1% (2017 – 30.1%) of this service category's actual costs are spent on salaries and benefits.

General Government

General Government includes the cost of Council, City administration and amounts paid to the Municipal Property Assessment Corporation. These groups include corporate divisions responsible for bylaws and policy, financial management, monitoring and reporting, levying taxes, investment activities and the management of procurement and assets. These services are not allocated to any specific service but are required to ensure high quality service standards are met and efficient administrative processes exist. These services are necessary in every organization.

Salaries and benefits account for the largest portion of expenses for this category, representing 54.1% (2017 – 57.5%) of the total.

Social Housing

Social Housing includes costs for a range of activities supporting housing within the City, including emergency shelters, outreach, housing search and stabilization to people within the community. Housing was, and continues to be, a priority for City Council.

Social Housing is funded 79.1% (2017 – 78.1%) by residential rental income. Major expenses attributable to social housing relate to transfer payments to housing providers (20.4%; 2017 – 24.0%), salaries and benefits (19.5%; 2017 – 18.9%) and amortization of City-owned housing infrastructure (21.0%; 2017 – 19.8%).

Health Services

This category includes paramedics and mandated health services such as public health, services that delivery timely and effective care for pre-hospital emergencies and medically required hospital transport, and promote and maintain health programs that optimize the health of residents.

These vital services are heavily funded by, and rely on, provincial, with some federal, funding, with 98.2% (2017 – 97.8%) of funding coming from government transfers. The main resource required to provide public health services is people; 79.4% (2017 – 80.4%) of these expenses are for salaries and benefits.

Planning and Development

This category includes the costs of activities that manage urban development for residential and business interests, including planning and zoning, commercial and industrial developments and forestry.

The majority (54.5%; 2017 – 69.2%) of the 2018 funding for Planning and Development comes from proceeds of real estate sales in Build Toronto. Almost half of the expenses for the Planning category result from salaries and benefits (25.5%; 2017 – 31.3%) and materials (22.1%; 2017 – 37.4%). Spending was under-budget in 2018 as a result of lower spending on waterfront revitalization.

Accumulated Surplus:

The City's accumulated surplus as at December 31, 2018 totals $25.2 Billion (2017 - $23.7 Billion), an increase of $1.5 Billion, or 6%.

The City's accumulated surplus is the value of what remains after assets have been used to meet liabilities and includes the following components:

- The 2018 year end value of the Operating and Capital Funds
- The City's net investment in Tangible Capital Assets, and
- Liabilities to be funded from future revenues

Note 19 to the Consolidated Financial Statements details these components. The majority of the City's accumulated surplus is invested in its tangible capital assets, significant to the City's overall financial position, as they are required to provide City services. The $686 Million increase in this amount over 2017 is mainly due to the net increase in the City's long term debt.

Consolidated Statement of Change in Net Debt

The Consolidated Statement of Net Debt is unique to governments and is an important measure of a government's financial condition. Net Debt is a term defined by PSAB as all liabilities (both short and long term liabilities) less financial assets; the amount represents City obligations that must be funded from future revenues.

The City’s Net Debt as at December 31, 2018 increased by $933 Million, or 13.0%, from $7.2 Billion to $8.1 Billion. This increase is due primarily to the City's financing of tangible capital assets (16.0% over 2017), offset by its 2018 surplus (14.8% over 2017).

Consolidated Statement of Cash Flow

The consolidated statement of cash flow reports changes in the City's cash position during the year, outlining the sources and uses of cash for the City's operating, capital and investing activities. The City's change in its cash position is described in more detail in the Consolidated Statement of Financial Position, Financial Assets section of this review.

Reserves and Reserve Funds

Reserves and Reserve Funds are established by Council to set aside funds to help offset future capital requirements, obligations, pressures and costs. Contributions to reserves and reserve funds are generated from a number of sources, such as development charges, user fees, tax levy allocations and government transfers, helping build up reserve and reserve funds balances used for specific obligations or discretionary requirements. Draws against reserve and reserve fund balances reduce the amounts held, but are instrumental to fund capital expenditures for new infrastructure or state of good repair expenses, revenue shortfalls for ongoing programs or minimize tax rate fluctuations.

It is important to note that the vast majority of the City's reserve and reserve fund balances have been committed to fund capital projects and known future liabilities, leaving minimal amounts for discretionary spending. The City has engaged an external consultant to perform an adequacy review of the major reserves and reserve funds which is expected to be delivered in 2019.

At December 31, 2018, the City had the following reserve and reserve fund balances:

(in millions of dollars)

Type	2018 balance	2017 balance	$ Change	% Change
Obligatory Deferred Revenues	$3,452.1	$2,477.8	$974.3	39.32%
Reserves and Discretionary Funds	$2,275.5	$2,038.0	$237.50	11.65%
Total	$5,727.6	$4,515.8	$1,211.80	26.83%

Reserve and reserve fund balances are reported to Council on a quarterly basis.