

AU7.1 Appendix B

Appendix B

2019 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	<p>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.</p> <p>Net debt is a key financial measure that is unique to the public sector, and is useful in determining whether an entity has sufficient liquid assets on hand to discharge its liabilities or provide services. Net debt is calculated as the difference between the City's financial assets and liabilities and provides information on the City's requirement to raise future revenues to fund past services and transactions.</p>
Consolidated Statement of Operations and Accumulated Surplus	<p>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.</p> <p>Accumulated surplus does not represent the amount of cash available. This measure provides a combined view into all past operating surpluses or deficits, as well as the entity's investment in tangible capital assets.</p>
Consolidated Statement of Change in Net Debt	<p>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. Net debt is an important measure for the</p>

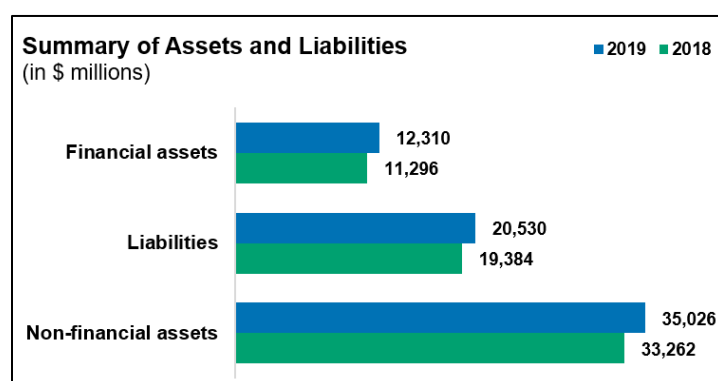
Name	Purpose
	City as it represents the future revenue required to pay for past transactions and services provided.
Consolidated Statement of Cash Flows	Summarizes the City's cash position and changes during the year by outlining the City's sources and uses of cash.

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 2019 fiscal year, which includes 120 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 2019 and 2018, which form the financial results and position of the City for 2019.

Consolidated Statement of Financial Position



In 2019, the City experienced a moderate growth in its net debt position whereby the balance increased from \$8.1 billion to \$8.2 billion, which represents an increase of \$0.1 billion or 1.6%. This indicator suggests that the City currently has more liabilities than financial assets, which will require the City to generate future revenues to pay for its existing obligations.

The City recognized an accumulated surplus of \$26.8 billion, which indicates that the City had previously raised sufficient funds for its operating and capital activities. The City's accumulated surplus balance is comprised mainly of its investment in tangible capital assets and reserves; accumulated surplus does not represent cash available to the City.

Financial Assets:

2019 financial assets totalled \$12.3 billion (2018 - \$11.3 billion), an increase of \$1.0 billion or 9.0%.

(in millions of dollars)

Item	2019	2018	\$ Change	% Change
Cash and Cash Equivalents	\$ 4,397	\$ 3,626	\$ 771	21.3%
Accounts and Taxes receivable	\$ 2,109	\$ 1,913	\$ 196	10.2%

Item	2019	2018	\$ Change	% Change
Loans Receivable	\$ 176	\$ 181	\$ (5)	(2.8%)
Other Assets	\$ 179	\$ 182	\$ (3)	(1.6%)
Investments	\$ 3,247	\$ 3,263	\$ (16)	(0.5%)
Investments in Government Business Enterprises	\$ 2,202	\$ 2,131	\$ 71	3.3%

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 investments. Typically, the City uses cash and cash equivalents to pay for operating expenditures, and to acquire and develop its tangible capital assets. The 21.3% increase over the 2018 balance is the result of the City holding more cash at the end of the year that was reinvested, as per Investment Board decisions, in early 2020.

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%). This is true for 2019.

Accounts and taxes receivable increased by 10.2% mainly due to:

- Expected reimbursement from the Province (\$239 million): for costs associated with subway projects, which were transferred to Metrolinx; and
- Expected surplus distribution for pension plans (\$106 million): for the surplus associated with the City's pension plans that were merged with OMERS.

Loans Receivable

Loans receivable consist of loans provided by:

- Two of the City's Agencies and Corporations, Toronto Community Housing Corporation (TCHC) and Build Toronto Inc. (BTI), to third parties through promissory notes or loan facilities; and
- The City to other organizations to support community housing projects, implementation of green initiative projects, and expansion of the BMO stadium.

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 arrangements.

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 2018 and 2019.

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. In addition, TCHC has externally restricted assets under loan agreements for capital expenditures.

The value of Other Assets decreased by 1.6% as a result of a decrease in the development of condominium properties with Build Toronto, offset by an increase in externally restricted assets.

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.

In 2019, the City transitioned to a more diversified asset mix to comply with updated investment standards, as well as the Council-approved investment policy. Although the City's investment in government bonds remains significant, the new investment approach has also resulted in the acquisition of other short-term and long-term financial instruments, such as foreign corporate bonds and equity investments.

Investment balances fluctuate depending on cash flow requirements, but 2019's investment balance remained largely consistent with 2018, experiencing a minor decrease of 0.5%. The 2019 average balance in the long term bond fund is \$3.0 billion, which is comprised of provincial guarantees and municipal bonds (35.6%), corporate bonds (25.8%), cash and short-term instruments that will be allocated to the long-term fund (24.5%), Government of Canada bonds and guarantees (7.4%), and equity instruments (6.7%).

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.

Financial Liabilities:

2019 financial liabilities totalled \$20.5 billion (2018 - \$19.4 billion), an increase of \$1.1 billion, or 5.9%.

(in millions of dollars)

Item	2019	2018	\$ Change	% Change
Bank Indebtedness	\$ 107	\$ 104	\$ 3	2.9%
Accounts Payable and Accrued Liabilities	\$ 3,706	\$ 3,838	\$ (132)	(3.4%)
Deferred Revenue	\$ 4,217	\$ 3,867	\$ 350	9.1%
Provision for Property and Liability Claims	\$ 522	\$ 529	\$ (7)	(1.3%)
Environmental and Contaminated Site Liabilities	\$ 452	\$ 241	\$ 211	87.6%
Mortgages Payable	\$ 289	\$ 292	\$ (3)	(1.0%)
Long-Term Debt	\$ 7,104	\$ 6,502	\$ 602	9.3%
Employee Benefit Liabilities	\$ 4,133	\$ 4,011	\$ 122	3.0%

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 amount recorded as a liability represents the amount drawn, not the full value of the available facility.

The City's 2019 bank indebtedness balance includes a short-term loan for TCHC, along with net outstanding cheques, which were issued before the end of 2019, but not cashed until 2020. All bank covenants associated with credit facilities have been complied with.

Bank indebtedness increased by 2.9% due to the 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.

Accounts payable and accrued liabilities decreased by 3.4%; although the number of invoices increased, more payments were processed within 2019.

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 recognized as revenue through the Statement of Operations. 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 10.3% over 2018 as a result of:

- Contributions received for development charges (\$459 million), park levies (\$105 million), and section 37 funds (\$51 million), which were partially offset by \$459 million taken into income to fund various capital projects;
- Contributions for the water and wastewater capital obligatory reserve funds (\$115 million); and
- Interest income (\$61 million).

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 decreased by 1% over 2018. Normal, ongoing fluctuations are the reason for this change.

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 in the current period that may need to be paid out in future periods. 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 1.3% reduction in the balance from 2018 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 incurs expenses for current operations, 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 2018 and 2019 is \$211 Million, or an increase of 87.6%, primarily due to the completion of the Toronto Port Lands Company (TPLC)'s evaluation of future remediation costs for its contaminated sites (\$123 million), as well as a lower discount rate (2019 – 2.5%; 2018 – 3.3%), which is based on the City's average long-term borrowing rate. The discount rate can change the value of the liability, with an increased rate reducing the present value and a decreased rate, as occurred in 2019, increasing the value.

Mortgages Payable

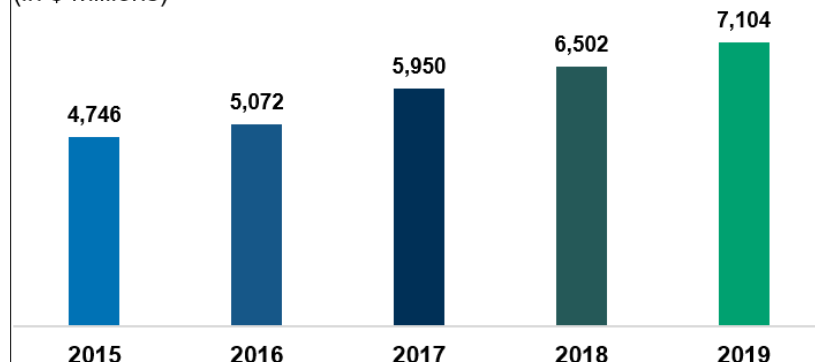
TCHC and BTI obtain mortgages from third parties to finance their building operations. TCHC focuses on community housing and BTI develops underutilized City real estate to unlock its value, attract targeted industries, stimulate employment and generate neighbourhoods. These secured, external financing 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 1.0% decrease from 2018 is related to net mortgage principal repayments of \$2 million by TCHC and \$1 million by BTI.

Long Term Debt

The City can only 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. Sinking fund balances are included in the City's overall cash balance.

Summary of Long-Term Debt
(in \$ millions)



The 9.3% increase over 2018 is the result of City debt issuance of \$950 million, which includes: a \$300 million 10-year debenture, a \$200 million 20-year green bond, a \$350 million 30-year debenture, a \$100 million 10-year debenture, as well as TCHC's debt issuance of \$90 million, offset by consolidated debt retirement of \$438 million.

As a measure of the financial health, the City considers the ratio of tangible capital assets funded through use of long-term debt. A lower ratio is considered to be more favourable, especially as this means that the City purchased tangible capital assets using non-debt sources, such as cash on hand and tax-generated revenue. In 2019, the ratio increased from 26.5% to 33.4% - this trend indicates that the City is starting to leverage more of its debt funding,

including use of green bonds to respond to capital investment requirements related to sustainable projects. Examples of City projects that are funded through green bonds include: revitalizing the Port Lands with flood protection assets, renewing various City buildings, such as Toronto Community Housing buildings with energy efficiency retrofits, expanding cycling infrastructure, and installing solar panels at City facilities.

Debt service charges as a proportion of total revenue can also be used as an additional measure of the City's financial health. This ratio represents the percentage of revenues that must be used to pay for interest and principal on the City's debt. The City's current ratio is 4.8% (2018 – 5.0%), which is considered to be an optimal ratio and indicates that the City has sufficient revenues to effectively pay down existing principal and interest on debt.

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 3.0% increase from 2018 is the result of updated actuarial assumptions, such as lower discount rates, which led to the increase in the present value of the employee benefit liabilities.

Non-Financial Assets:

2019 non-financial assets totalled \$35.0 billion (2018 - \$33.3 billion), an increase of \$1.7 billion, or 5.3%.

(in millions of dollars)

Item	2019	2018	\$ Change	% Change
Prepaid Expenses	\$ 162	\$ 217	\$ (55)	(25.3%)
Inventories	\$ 300	\$ 328	\$ (28)	(8.5%)
Tangible capital assets	\$ 34,564	\$ 32,717	\$ 1,847	5.6%

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.

Annual increases and decreases are part of normal operations. The 25.3% decrease from 2018 is the result of using, and therefore, expensing the cost, of previously purchased services 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 8.5% decrease from 2018 arose as a result of the sale of Toronto Port Land Company's land inventories, as well as general movements 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, extend the useful life of the asset or bring existing assets into a state of good repair. Capital projects meeting PSAS capitalization criteria 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 2019 was \$34.6 billion, an increase of \$1.8 billion or 5.6% over 2018.

The City recognized net additions of \$2.7 billion, which include:

- Land and land improvements (\$0.4 billion), which was primarily generated by TCHC;
- Buildings and building improvements (\$0.3 billion), which mainly consisted of acquisitions made by TTC (\$0.2 billion) and the City (\$0.1 billion);
- Machinery and equipment (\$0.4 billion), which mainly consisted of purchases made by the City and Toronto Police Services (\$0.2 billion), TTC (\$0.1 billion), and other City agencies and corporations (\$0.1 billion);
- Vehicles (\$0.2 billion), which was mainly generated by TTC;
- Linear assets (\$1.0 billion), which consists of the City's investment in water and wastewater assets (\$0.3 billion) and roads (\$0.1 billion), as well as TTC's investment in its transit infrastructure (\$0.6 billion); and
- Assets under construction (\$0.4 billion), which are comprised of the City's projects (\$0.6 billion), which were offset by TTC's write-down (\$0.2 billion) to account for the subway projects that were transferred to the Province in 2019.

The annual amortization expense for 2019 was \$1.4 billion (2018 - \$1.3 billion). Note 16 and Schedule 1 in the Consolidated Financial Statements provide a detailed breakdown of activity for the year.

Consolidated Statement of Operations and Accumulated Surplus

In 2019, the City recognized an annual surplus of \$1.6 billion, which represents an increase of \$0.2 billion or 13.8% over 2018. All values contained in this statement are recognized based on PSAS; the budget column reflects the City's modified cash budget adjusted for PSAS requirements such as amortization.

Revenues:

2019 revenues totalled \$14.4 billion (2018 - \$13.7 billion), an increase of \$0.7 billion, or 5.1%. When compared to budgeted revenues, the City generated \$315 million or 2.2% more in revenues than what was expected. The largest driver of the increase is attributable to the City's share of the surplus resulting from the entity's pension plans merger with OMERS (\$106 million).

(in millions of dollars)

Item	2019 Actuals	2019 Budget	Change from Budgeted Amounts		2018 Actuals	Change from Prior Year	
			\$	%		\$	%
Property and other Government Taxes	\$ 4,410	\$ 4,404	\$ 6	0.1%	\$ 4,350	\$ 60	1.4%
Government Transfers	\$ 3,493	\$ 3,570	\$ (77)	(2.2)%	\$ 3,505	\$ (12)	(0.3)%
User Charges	\$ 3,526	\$ 3,472	\$ 54	1.6%	\$ 3,255	\$ 271	8.3%
Municipal Land Transfer Tax	\$ 799	\$ 730	\$ 69	9.5%	\$ 730	\$ 69	9.5%
Other Revenue Sources	\$ 654	\$ 625	\$ 29	4.6%	\$ 589	\$ 65	11.0%
Rent and Concessions	\$ 534	\$ 476	\$ 58	12.2%	\$ 506	\$ 28	5.5%
Development charges	\$ 398	\$ 512	\$ (114)	(22.3)%	\$ 339	\$ 59	17.4%
Government Business Enterprise Earnings	\$ 234	\$ -	\$ 234	-	\$ 247	\$ (13)	(5.3)%
Investment Income	\$ 335	\$ 279	\$ 56	20.1%	\$ 219	\$ 116	53.0%

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 2018, general property tax revenues increased by approximately \$60 million or 1.4%, which resulted mainly from the City's overall increase in property tax rates.

Taxation, other than the Municipal Land Transfer Tax, accounts for 30.7% 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 24.3% of the City's total revenues and include transfers for transit, social and family services and public health. Approximately 76.6% of the transfers are received from the Province of Ontario.

In 2019, government transfers decreased by \$12 million or 0.3% and remained consistent to prior year's activities.

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 24.5% of the City's revenues for 2019; the 8.3% increase over 2018 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 5.6% of the City's overall revenues.

The City benefited from increased revenues coming from MLTT since it was originally implemented in 2008. MLTT revenues are dependent on real estate activity, which started to rebound in late 2019. Specifically, the number of home sales in the Greater Toronto rebounded by 12.6% in 2019 to 87,825 from 2018's 10-year low of 78,015. As a result, 2019 actuals were \$69 million or 9.5% higher than prior year's revenues, as well as current year's budgeted revenues.

Other Revenue Sources

Occasionally, the City receives miscellaneous or one-time revenues from various sources. Examples include the City's pension surplus, sale of recycled materials and properties, utility cut repair recoveries, and hotel, lodging, and sales tax. These revenues are typically cost recoveries from third parties and account for 4.5% of the City's total revenues for 2019.

Other revenues increased by \$65 million, or 11.0%, from 2018, the main increase resulting from the one-time pension surplus, offset by multiple immaterial reductions. The budget amount is set based on typical expected recoveries; 2019 actuals were \$29 million or 4.6% above 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 2018 from both activity and contractual increases.

Development Charges

Development charges are fees paid by developers when new building permits are issued for new developments. Although development charges amount to only 2.8% of the City's total 2019 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 2019 under-budget amount of \$114 million, or 22.3%, in development charges recognized as revenue, is mainly the result of lower than expected capital expenses. However, an increase of \$59 million, or 17.4%, over 2018 did occur due to increased capital spending for growth-related projects.

Government Business Enterprise Earnings (GBEs)

Earnings from GBEs represent the City's 100% portion of increases in the net income of the Toronto Parking Authority (TPA) and Toronto Hydro (Hydro). The method used to account for this calculation is called modified equity consolidation. Income from the City's GBEs elevate the City's actual financial position, however the amounts are not included in the City's modified cash budget.

The 2019 earnings include \$79 million from the TPA and \$155 million from Hydro, and account for 1.6% of the City's total revenues.

Investment Income

Investment income consists of the interest income from all of the City's short and long term invested funds, as well as the gains or losses realized on the City's investment portfolio. 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 greater than both budget and 2018 actuals mainly due to non-recurring capital gains realized during the fund transition period when assets in the fund were transferred to investment managers.

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. Services are delivered individually or collaboratively, between City divisions, agencies and corporations.

As required by PSAS, 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.

2019 expenses totalled \$12.8 billion (2018 - \$12.3 billion), an increase of \$0.5 billion or 4.1%. 2019 actual expenses were under-budget by \$0.6 billion, or 4.5%.

(in millions of dollars)

Item	2019 Actuals	2019 Budget	Change from Budgeted Amounts		2018 Actuals	Change from Prior Year	
			\$	%		\$	%
Transportation	\$ 3,581	\$ 3,802	\$ (221)	(5.8)%	\$ 3,578	\$ 3	0.1%
Social and family services	\$ 2,553	\$ 2,892	\$ (339)	(11.7)%	\$ 2,474	\$ 79	3.2%
Protection to persons and property	\$ 1,930	\$ 1,903	\$ 27	1.4%	\$ 1,858	\$ 72	3.9%
Recreation and cultural services	\$ 1,073	\$ 1,112	\$ (39)	(3.5)%	\$ 1,006	\$ 67	6.7%
Environmental services	\$ 1,043	\$ 1,068	\$ (25)	(2.3)%	\$ 976	\$ 67	6.9%
General government	\$ 886	\$ 929	\$ (43)	(4.6)%	\$ 876	\$ 10	1.1%
Social housing	\$ 830	\$ 931	\$ (101)	(10.8)%	\$ 844	\$ (14)	(1.7)%
Health services	\$ 497	\$ 487	\$ 10	2.1%	\$ 490	\$ 7	1.4%
Planning and development	\$ 358	\$ 222	\$ 136	61.3%	\$ 204	\$ 154	75.5%

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 54.7% (2018 – 51.5%) of the revenue allocated to this service group. Transportation expenses account for 28.1% (2018 – 29.1%) of the City's total expenses. This service group's largest expense is salaries and benefits, which accounts for 46.8% (2018 – 44.6%) 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% (2018 – 95.8%) by provincial and federal government transfers. Social and Family Services expenses account for 20.0% (2018 – 20.1%) of the City's total expenses. Aside from staffing costs, which account for 24.8% (2018 – 24.7%) of total expenses, the actual largest expense for this service group is transfer payments to clients, which represent 48.6% (2018 – 39.2%) 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.

62.1% (2018 – 62.1%) of the funding for Protection to Persons and Property are obtained from user fees. Total service group expenses account for 15.1% (2018 – 15.1%) of the City's total expenses, with the largest component being salaries and benefits, which account for 90.0% (2018 – 90.3%) 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 8.4% (2018 – 8.2%) of the City's total expenditures for the year, with the largest single component being salaries and wages, which represent 55.6% (2018 – 57.1%) 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 86.2% (2018 – 92.2%) of the Environmental Services category expenditures. Environmental Services account for 8.2% (2018 – 7.9%) of the City's total expenses. In 2019, this service category's actual costs were spent primarily on contracted services, such as waste and recycling (33.3%; 2018 – 27.6%) and salaries and benefits (27.2%; 2018 – 28.1%).

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. The costs of these services are not allocated to any specific front-line service, but are required to ensure high quality service standards are met and efficient administrative processes exist. These services are necessary in every organization.

For presentation purposes, in Appendix 2 and 3 of the consolidated financial statements, taxation revenues are allocated to this category. Salaries and benefits account for the largest portion of expenses for this category, representing 54.4% (2018 – 54.1%) of the total.

Social Housing

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

Social Housing is funded 68.3% (2018 – 79.1%) by residential rental income. Major expenses attributable to social housing relate to amortization of City-owned housing infrastructure (23.9%;

2018 – 21.0%), salaries and benefits (21.3%; 2018 – 19.5%), and materials (16.7%; 2018 – 15.5%).

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 and federal funding, with 98.2% (2018 – 98.2%) of funding coming from government transfers. The main resource required to provide public health services is people; 79.9% (2018 – 79.4%) 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 (58.2%; 2018 – 54.5%) of the 2019 funding for Planning and Development comes from proceeds of real estate sales in Build Toronto. Almost half of the expenses for the Planning category resulted from transfer payments (52.1%; 2018 – 3.9%) – the majority of which were provided to Toronto Waterfront Revitalization Corporation.

Accumulated Surplus:

The City's accumulated surplus as at December 31, 2019 totals \$26.8 billion (2018 - \$25.2 billion), an increase of \$1.6 billion, or 6.5%. Accumulated surplus increases or decreases annually by the value of the City's accounting surplus or deficit.

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 2019 year-end value of the Operating and Capital Funds
- The City's net investment in Tangible Capital Assets, and
- Liabilities that will need to be funded from future revenues.

Note 17 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.

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 current City obligations that must be funded from future revenues.

The City's Net Debt as at December 31, 2019 increased by \$132 million, or 1.6%, from \$8.1 billion to \$8.2 billion. This increase is due primarily to the City's financing of tangible capital assets, offset by the annual surplus.

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 allocate 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 reserves 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.

The City's obligatory reserves are recognized as deferred revenues, which will be taken into income as the related obligations are executed. Council discretionary reserve funds and reserves incorporated into the City's accumulated surplus and are maintained in the City's overall cash balances in the Statement of Financial Position.

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

At December 31, 2019, the City had the following reserve and reserve fund balances:

(in millions of dollars)

Item	2019	2018	\$ Change	% Change
Obligatory Deferred Revenues	\$ 3,808	\$ 3,452	\$ 356	10.3%
Reserves and Discretionary Funds	\$ 2,241	\$ 2,276	\$ (35)	(1.5%)
Total	\$ 6,049	\$ 5,728	\$ 321	5.6%

The vast majority of the City's reserve and reserve fund balances have been committed to fund future capital project expenditures and known future liabilities, leaving minimal amounts for discretionary spending and are therefore, not considered to be equivalent to cash and cash equivalents.

As a measure of the City's financial health, it is also important to consider the proportion of the City's expenses that existing reserves and reserve funds could actually fund. On average, municipalities range between 10 to 20%, with a ratio greater than 20% indicating a stronger than average ability to meet unforeseen increases in expenses. The City's current reserves and reserve funds as a proportion of expenses is 17.6% (2018 – 18.5%). Although the ratio is subject to fluctuations depending on the City's usage of reserves and reserve funds in a given year, it is important to note that less of the City's reserve and reserve funds are available for discretionary purposes. In order to reduce strains on tax-based spending, as well as use of

long-term debt, the City will need to continue to monitor how it uses its reserves and reserve funds.