2020 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, external 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 annual 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.

1.0 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 entity's Balance Sheet. 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.
Consolidated Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, and surplus for the year and accumulated surplus as at December 31st. This statement reflects the combined financial results based on activities in 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. 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.

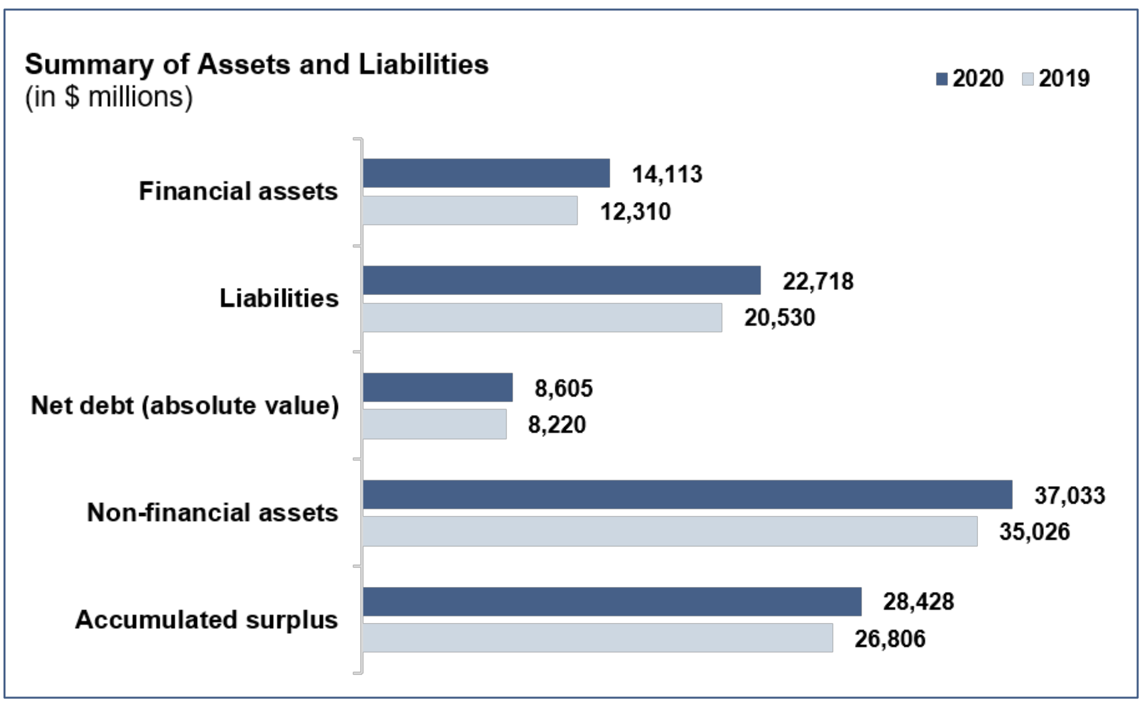
Name	Purpose
Consolidated Statement of Change in Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets. Net debt is an important measure for the City as it represents the future revenue required 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 2020 fiscal year, which includes 117 entities directly controlled by the City.

2.0 Overview of the balances in each statement

The following section 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 2020, which form the financial results and position of the City for 2020.

2.1 Consolidated Statement of Financial Position



In 2020, the City experienced a moderate growth in its net debt position whereby the balance increased from $8.2 billion to $8.6 billion, which represents an increase of $0.4 billion or 4.7%. This indicator suggests that the City currently has more liabilities than financial assets, which will require the City to generate future cash revenues to pay for its existing obligations.

The City recognized an accumulated surplus of $28.4 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 discretionary reserves; accumulated surplus does not represent cash available to the City.

2.1.1 Financial Assets:

In 2020 the City's financial assets totalled $14.1 billion (2019 - $12.3 billion), which represented an increase of $1.8 billion or 14.6%.

(in millions of dollars)

Item	2020	2019	$ Change	% Change
Cash and Cash Equivalents	5,355	4,397	958	21.8
Accounts and Taxes receivable	2,598	2,109	489	23.2
Loans Receivable	187	176	11	6.3
Other Assets	50	179	(129)	(72.1)
Investments	3,685	3,247	438	13.5
Investments in Government Business Enterprises	2,238	2,202	36	1.6

2.1.1.1 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) 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 21.8% increase over the 2019 balance is the result of the City receiving $550 million towards Phase 1 of the Safe Restart Agreement for both municipal operations and municipal transit pressures in the latter part of 2020.

2.1.1.2 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 31st; the City issues interim bills in January and final bills in May.

When accounts and taxes receivable are collected, they become cash that the City can use to fund its operations. The City has diligent collection practices and has historically achieved a high rate of collection (98%). In 2020, COVID-19 has negatively impacted the taxpayers' ability to pay property taxes. For purposes of alleviating financial pressures experienced by businesses and residents, City Council approved the City to provide a property tax payment deferral program to allow impacted property owners additional time to pay their taxes without incurring late payment penalties or interest charges during the six month period between June 1, 2020 to November 30, 2020. In addition, overall tax write-offs remained minimal during the year – only $21,913 (unrounded) was written off for 2020, which represented less than 1% of the City's annual taxation revenues.

Accounts and taxes receivable increased by 23.2% mainly due to:

- Expected collection of amounts due from the Province as part of the Safe Restart Agreement ($355 million); and
- Expected collection of property taxes ($211 million) from taxpayers.

2.1.1.3 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 2020 and 2019.

2.1.1.4 Other Assets

The City's consolidated entities, such as TCHC and BTI, hold partial ownership interests 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 72.1% as a result of TCHC's decision to reclassify its capital asset replacement reserve to an internally restricted sinking fund of public debentures in order to support future debt repayment requirements.

2.1.1.5 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 2020, 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.

The value of investments increased by 13.5% as a result of increases in the City's overall holdings in equity-based investments during 2020. The 2020 average balance in the long term bond fund is $3.9 billion, which is comprised of provincial guarantees and municipal bonds (34.1%), corporate bonds (27.1%), equity pooled funds (20.6%), cash and short-term instruments that will be allocated to the long-term fund (9.6%), and Government of Canada bonds and guarantees (8.6%).

2.1.1.6 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.

2.1.2 Financial Liabilities:
In 2020, the City's financial liabilities totalled $22.7 billion (2019 - $20.5 billion), which represented an increase of $2.2 billion, or 10.7%.

(in millions of dollars)

Item	2020	2019	$ Change	% Change
Bank Indebtedness	69	107	(38)	(35.5)
Accounts Payable and Accrued Liabilities	4,280	3,706	574	15.5
Deferred Revenue	5,216	4,217	999	23.7
Provision for Property and Liability Claims	456	522	(66)	(12.6)
Environmental and Contaminated Site Liabilities	393	452	(59)	(13.1)
Mortgages Payable	349	289	60	20.8
Long-Term Debt	7,654	7,104	550	7.7
Employee Benefit Liabilities	4,301	4,133	168	4.1

2.1.2.1 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 2020 bank indebtedness balance includes net outstanding cheques, which were issued before the end of 2020, but not cashed until 2021. The City is not aware of any instances where it or any of its consolidated entities are non-compliant with bank covenants related to their credit facilities.

Bank indebtedness decreased by 35.5% due to TCHC paying back the short-term loan in its entirety, which was offset by an increase in the City's net outstanding cheques.

2.1.2.2 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 increased by 15.5% mainly due to
- Timing of transfers to the Toronto District School Board ($431 million); and
- A delay in subsidy payments ($92 million) for community and social services programs.

2.1.2.3 Deferred Revenue
Deferred revenue has two components – obligatory (reserve fund) balances, and advance payments and contributions.

Obligatory (reserve fund) 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 and Accumulated Surplus. 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 13.3% between 2019 and 2020 as a result of:
- Contributions received for development charges ($701 million) and section 37 funds ($81 million), which were partially offset by $270 million taken into income to fund various capital and operating projects;
- Net draws of $73 million from the TTC reserve fund group and $53 million from the Water & Wastewater Capital reserve fund taken into income for capital projects; and
- Interest income ($65 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 increased by 120.3% between 2019 and 2020 mainly due to:
- Contributions received for the Rapid Housing Initiative ($203 million);
- Contributions received for Federal Gas Tax ($167 million); and
- Contributions received for Parks & Recreation permits ($123 million).

2.1.2.4 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 12.6% reduction in the balance from 2019 is the result of a decrease in the number of general and automobile claims due to COVID-19.

2.1.2.5 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 2019 and 2020 is $59 million, or a decrease of 13.1%. The decrease in liability is primarily driven by the increase in the discount rate used to calculate the present value of the City's obligations (2020 – 2.8%; 2019 – 2.5%). The discount rate applied is based on the City's average long-term borrowing rate.

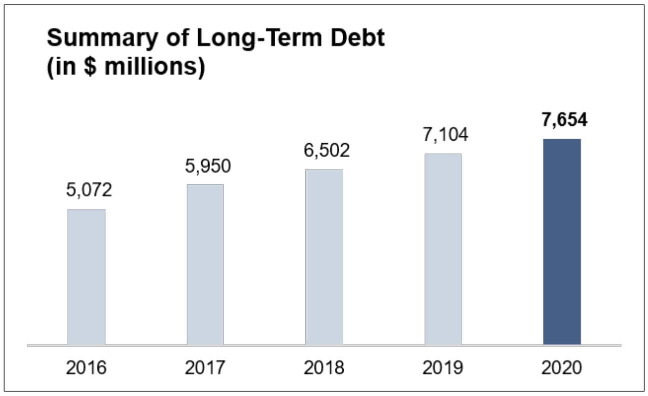
2.1.2.6 Mortgages Payable

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 20.8% increase from 2019 is mainly due to TCHC taking on new mortgages for its properties.

2.1.2.7 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, which are 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.



The 7.7% increase over 2019 is the result of City debt issuance of $986 million, which includes: a $300 million 10-year debenture, a $436 million 20-year green bond, a $250 million 30-year debenture, as well as TCHC's debt issuance of $4 million, offset by consolidated debt retirement of $440 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 2020, the ratio increased from 29.8% to 31.6% - this trend indicates that the City is starting to leverage more of its debt funding, including use of social bonds and green bonds in response 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, 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 5.5% (2019 – 4.8%), which is considered to be comparable against other Canadian municipalities who are reporting ratios between 5% and 10%, and ultimately indicates that the City is generating sufficient revenues to effectively pay down existing principal and interest on debt.

2.1.2.8 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 4.1% increase from 2019 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.

2.1.3 Non-Financial Assets:
In 2020, the City's non-financial assets totalled $37.0 billion (2019 - $35.0 billion), which represented an increase of $2.0 billion, or 5.7% from prior year's balance.

(in millions of dollars)

Item	2020	2019	$ Change	% Change
Prepaid Expenses	171	162	9	5.6
Inventories	334	300	34	11.3
Tangible capital assets	36,528	34,564	1,964	5.7

2.1.3.1 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 5.6% increase from 2019 is the result of normal operating fluctuations.

2.1.3.2 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 11.3% increase from 2019 is the result of purchasing and holding inventories of personal protective equipment due to COVID-19.

2.1.3.3 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 2020 was $36.5 billion, an increase of $2.0 billion or 5.7 % over 2019.

The City recognized net additions of $1.96 billion, which include:
- Land and land improvements ($0.3 billion), which was primarily generated by TCHC;
- Buildings and building improvements ($0.4 billion), which mainly consisted of acquisitions made by TTC ($0.3 billion) and the City ($0.1 billion);

- Machinery and equipment (<$0.1 billion), which mainly consisted of purchases made by the City and Toronto Police Services (<$0.1 billion), TTC ($0.1 billion), and other City agencies and corporations (<$0.1 billion);
- Vehicles (<$0.1 billion), which was mainly generated by TTC;
- Linear assets ($0.6 billion), which consists of the City's investment in water and wastewater assets ($0.1 billion) and roads ($0.1 billion), as well as TTC's investment in its transit infrastructure ($0.4 billion); and
- Assets under construction ($ 0.7 billion), which are comprised of the City's projects ($1.0 billion), which were offset by net additions and transfer to final asset from TTC's and other Agencies ($0.3 billion).

The annual amortization expense for 2020 was $1.4 billion (2019 - $1.4 billion). Note 16 and Schedule 1 in the Consolidated Financial Statements provide a detailed breakdown of activity for the year.

2.2 Consolidated Statement of Operations and Accumulated Surplus

In 2020, the City recognized an annual surplus of $1.6 billion, which represents a decrease of $10 million or 0.6% over 2019. 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.

2.2.1 Revenues:

2020 revenues totalled $14.0 billion (2019 - $14.4 billion), a decrease of $0.4 billion, or 2.6%. When compared to budgeted revenues, the City generated $195 million or 1.4% less in revenues than what was expected. The largest driver of the decrease is attributable to a significant decrease in fare revenue arising from lower TTC ridership arising from the COVID-19 pandemic.

(in millions of dollars)

Item	2020 Actuals	2020 Budget	Change from Budgeted Amounts		2019 Actuals	Change from Prior Year	
			$	%		$	%
Property and other Government Taxes	4,582	4,579	3	0.1	4,410	172	3.9
Government Transfers	4,070	3,108	962	31.0	3,493	577	16.5
User Charges	2,864	3,820	(956)	(25.0)	3,526	(662)	(18.8)
Municipal Land Transfer Tax	804	794	10	1.3	799	5	0.6
Other Revenue Sources	597	731	(134)	(18.3)	654	(57)	(8.7)
Rent and Concessions	511	504	7	1.4	534	(23)	(4.3)
Development charges	263	385	(122)	(31.7)	398	(135)	(33.9)

Item	2020 Actuals	2020 Budget	Change from Budgeted Amounts $	Change from Budgeted Amounts %	2019 Actuals	Change from Prior Year $	Change from Prior Year %
Government Business Enterprise Earnings	129	-	129	100.0	234	(105)	(44.9)
Investment Income	187	281	(94)	(33.5)	335	(148)	(44.2)

2.2.1.1 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. The increase of 2020 property tax revenues over 2019 was the net result of changes in assessment growth, Current Value Assessment (CVA), legislative adjustments and annual budgetary increases.

Taxation, other than the Municipal Land Transfer Tax, accounts for 32.7% of the City's total revenues for 2020.

2.2.1.2 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 29.1% of the City's total revenues for 2020 and include transfers for transit, social and family services and public health. Approximately 88.7% of the transfers are received from the Province of Ontario, and the remainder of the transfer payments are provided by the Government of Canada (10.8%) and other sources (0.5%).

In 2020, government transfers increased by $577 million or 16.5%. The majority of this increase was due to the receipt of Safe Restart Funding from the Province of Ontario, which was used to respond to pressures arising from the COVID-19 pandemic on municipal operations ($258 million) and transit services ($640 million). The City also received additional funding, such as Social Services Relief Funds for shelters ($165 million) and amounts allocated for Toronto Public Health's Safe Restart efforts ($14 million). These funds allowed the City to offset reductions in other revenue streams, such as the lower than usual fare revenues that were collected by the Toronto Transit Commission.

2.2.1.3 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 20.4% of the City's revenues for 2020; the 18.8% decrease from 2019 is primarily due to a significant decrease in transit ridership on the TTC and Parks & Recreation program closures due to COVID-19.

2.2.1.4 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 5.7% of the City's overall revenues for 2020.

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. Despite having the COVID-19 pandemic during the year, 2020 MLTT revenues minimally exceeded both budget and 2019 actuals.

2.2.1.5 Other Revenue Sources
Occasionally, the City receives miscellaneous or one-time revenues from various sources. Examples include the 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 4.3% of the City's total revenues for 2020.

Other revenues decreased by $57 million, or 8.7%, from 2019. In 2020, the City's other revenues decreased as a result of not recognizing any one-time revenues, such as the pension surplus reflected in prior year's balances, as well as experiencing a significant decrease in municipal accommodation tax. These decreases were offset by TCHC's release of restrictions from the capital asset replacement reserve.

2.2.1.6 Rent and Concessions
Several City divisions, agencies and corporations earn revenue from rent and concessions. Examples include TCHC residential rent revenue and Toronto Port Lands Company's property rent revenue. These amounts are based on pre-established agreements for defined periods of time which would factor in reasonable increases.

Revenue from rent and concessions decreased by $23 million or 4.3% mainly because of the reduction in business, which were reported by the City's Agencies, such as Board of Governors of Exhibition Place, due to COVID-19.

2.2.1.7 Development Charges
Development charges are fees paid by developers when new building permits are issued for new developments. Although development charges amount to only 1.9% of the City's total 2020 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 City's development charges were also under-budget by $122 million or 31.7% mainly due to lower than expected capital activities, which reduced the amount of proceeds that could be formally recognized into earnings.

2.2.1.8 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 2020 earnings include $11 million from the TPA and $118 million from Hydro, and account for 0.9% of the City's total revenues for 2020.

2.2.1.9 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 less than both budget and 2019 actuals mainly due to a significant decrease in the market due to COVID-19 resulting in a decrease in interest rates.

2.2.2 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.

2020 expenses totalled $12.4 billion (2019 - $12.8 billion), a decrease of $0.4 billion or 2.9%. 2020 actual expenses were under-budget by $1.6 billion, or 11.3%. The City's managed its expenses in 2020 by implementing $559 million in cost mitigation strategies, such as workforce restraints, spending constraints and cost avoidance to address financial challenges caused by COVID-19.

(in millions of dollars)

Item	2020 Actuals	2020 Budget	Change from Budgeted Amounts		2019 Actuals	Change from Prior Year	
			$	%		$	%
Transportation	3,472	3,749	(277)	(7.4)	3,581	(109)	(3.0)
Social and family services	2,627	2,686	(59)	(2.2)	2,553	74	2.9

Item	2020 Actuals	2020 Budget	Change from Budgeted Amounts $	Change from Budgeted Amounts %	2019 Actuals	Change from Prior Year $	Change from Prior Year %
Protection to persons and property	1,946	1,987	(41)	(2.1)	1,930	16	0.8
Recreation and cultural services	938	1,180	(242)	(20.5)	1,073	(135)	(12.6)
Environmental services	1,008	1,276	(268)	(21.0)	1,043	(35)	(3.4)
General government	851	1,057	(206)	(19.5)	886	(35)	(4.0)
Social housing	877	1,219	(342)	(28.1)	830	47	5.7
Health services	536	519	17	3.3	497	39	7.8
Planning and development	130	292	(162)	(55.5)	358	(228)	(63.7)

2.2.2.1 Transportation

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

Transportation is significantly funded by user fees, representing 60.6% (2019 – 54.7%) of the revenue allocated to this service group. Transportation expenses account for 28.0% (2019 – 28.1%) of the City's total expenses. This service group's largest expense is salaries and benefits, which accounts for 48.0% (2019 – 46.8%) of its total expenses for 2020.

2.2.2.2 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% (2019 – 95.8%) by provincial and federal government transfers. Social and Family Services expenses account for 21.2% (2019 – 20.0%) of the City's total expenses for 2020. Aside from staffing costs, which account for 25.6% (2019 – 24.8%) of total expenses, the actual largest expense for this service group is transfer payments to clients, which represent 47.4% (2019 – 48.6%) of its total expenses.

2.2.2.3 Protection to Persons and Property

This service 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.

61.5% (2019 – 62.1%) of the funding for Protection to Persons and Property are obtained from user charges. Total service group expenses account for 15.7% (2019 – 15.1%) of the City's total expenses for 2020, with the largest component being salaries and benefits, which account for 89.9% (2019 – 90.0%) of total expenses.

2.2.2.4 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 7.6% (2019 – 8.4%) of the City's total expenditures for 2020, with the largest single component being salaries and wages, which represent 58.2% (2019 – 55.6%) of the service group's total expenditures.

2.2.2.5 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% (2019 – 86.2%) of the Environmental Services category expenditures. Environmental Services account for 8.1% (2019 – 8.2%) of the City's total expenses for 2020. This service category's actual costs were spent primarily on contracted services, such as waste and recycling (2020 – 20.2%; 2019 – 33.3%) and salaries and benefits (2020 – 28.6%; 2019 – 27.2%).

2.2.2.6 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 61.3% (2019 – 54.4%) of the total.

2.2.2.7 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.

The majority of Social Housing's services are funded from other sources of income, such as rental income. Major expenses attributable to social housing relate to amortization of City-owned housing infrastructure (2020 – 24.3%; 2019 – 23.9%), salaries and benefits (2020 – 23.1%; 2019 – 21.3%), and materials (2020 – 14.6%; 2019 – 16.7%).

2.2.2.8 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 and federal funding, with 98.4% (2019 – 98.2%) of funding coming from government transfers. The main resource required to provide public health services is people; 79.5% (2019 – 79.9%) of these expenses are for salaries and benefits.

2.2.2.9 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.

In 2020, 47.0% (2019 – 22.3%) of the funding for Planning and Development comes from government transfers. In addition, for 2020, 62.3% of the expenses for Planning and Development resulted from contracted services (2019 – 9.0%) – the majority of which were provided to Toronto Waterfront Revitalization Corporation, which were incurred to support flood protection related initiatives.

2.2.3 Accumulated Surplus

The City's accumulated surplus as at December 31, 2020 totals $28.4 billion (2019 - $26.8 billion), an increase of $1.6 billion, or 6.1%. 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:

- Historical surpluses based on the City's financial results in previous years;
- The City's net investment in Tangible Capital Assets; and
- Liabilities that will need to be funded from future revenues.

Note 17 to the Statements details these components. The majority of the City's accumulated surplus is invested in its tangible capital assets, which is significant to the City's overall financial position, as they are required to provide City services.

2.3 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, 2020 increased by $385 million, or 4.7%, from $8.2 billion to $8.6 billion. This increase is primarily due to the City's financing of tangible capital assets, which was then offset by the annual surplus.

2.4 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.

2.5 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 reserve and reserve funds do not represent sources of cash in the Statements. Instead, the balances represent the combined impacts arising from historical surpluses and deficits.

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, 2020, the City had the following reserve and reserve fund balances:

(in millions of dollars)

Item	2020	2019	$ Change	% Change
Obligatory Deferred Revenues	4,315	3,808	507	13.3
Reserves and Discretionary Funds	3,263	2,241	1,022	45.6
Total	7,578	6,049	1,529	25.3

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.