2020 Financial Year in Review

Introduction

The City of Mississauga's consolidated financial statements have been prepared in accordance with the Municipal Act and based on the reporting standards set by the Public Sector Accounting Board (PSAB) of CPA Canada.

There are four required consolidated financial statements: the consolidated statement of financial position, the consolidated statement of operations, the consolidated statement of change in net financial assets, and the consolidated statement of cash flows. These consolidated financial statements provide information on the cost of all the City activities, how they were financed, investing activities and the assets and liabilities of the City. The information also reflects the full nature and extent of the City's financial affairs similar to a private sector financial statement presentation.

The following is a high-level overview of the 2020 financial results of the City of Mississauga.

Consolidated Statement of Financial Position

The consolidated statement of financial position highlights four key figures that together describe the financial position of a public entity:

- The cash resources of the entity
- The net financial asset position, calculated as the difference between financial assets and financial liabilities;
- The non-financial assets that are normally held for service provision such as tangible capital assets, and;
- The accumulated surplus/(deficit)
  Note: In private sector terms, accumulated surplus represents retained earnings, however it is not named as such by public sector entities as there are no contributions or distributions.

Although the City manages its financial operations through various funds such as the operating fund, capital fund, reserves and reserve funds, in accordance with Public Sector Accounting Board (PSAB) standards, these funds are no longer individually reported in the consolidated financial statements and have been replaced by accumulated surplus. The accumulated surplus summarizes the City's consolidated equity, which identifies its net financial positions, including all tangible capital assets and financial resources of the City.

Accumulated Surplus

The City's accumulated surplus for the fiscal year 2020 is $9.21 billion (2019 $9.05 billion). The City's 2020 accumulated surplus (Note 10) is comprised of the following balances:

Item (in $000's)	2020 Actual	2019 Actual
Tangible Capital Assets	8,363,128	8,245,855
Unexpended Capital	164,357	204,257
Long Term Debt	(176,434)	(205,193)
Enersource Corporation	498,520	498,783
Living Arts Centre	119	120
Unfunded Employee Benefits	(220,439)	(207,034)
Reserves	115,321	90,750
Reserve Funds	466,013	418,527
Total Accumulated Surplus	**9,210,585**	**9,046,065**

Financial Assets

Financial assets in 2020 were $2.0 billion (2019 $1.97 billion), an increase of $43 million from the prior year

Item	Ref. #	2020 Actual	2019 Actual	$ Change vs. Prior Year	% Change
Cash	1	219,313	139,017	80,296	58%
Taxes Receivable	2	83,979	47,597	36,382	76%
Accounts Receivable	3	116,841	108,819	8,022	7%
Loans and Other Receivables	4	400	450	(50)	(11%)
Inventories for Resale	5	97	107	(10)	(9%)
Investments	6	1,098,945	1,179,887	(80,942)	(7%)
Investment in Enersource Corporation	7	498,520	498,783	(263)	(0%)
Total Financial Assets		**2,018,095**	**1,974,660**	**43,435**	**2.2%**

References

1. Cash
    - ***What is it:*** Cash is the money available on demand to pay for operating and capital expenses
    - *Why it's important:* Cash is used to fund the disbursements needed for daily operations such as payments for operating and capital purchases. The City manages to keep just enough cash on hand for daily needs. The rest goes into investments to earn a higher return.
    - *Difference between 2020 and 2019 ($58 million increase):* The City maintained excess cash balances in 2020 versus 2019 to proactively manage any major cash flow restraints from property tax and stormwater charge deferrals, reduced Municipal Accommodation Tax revenues and a reduction in other revenue receipts.

2. Taxes Receivable
    - ***What is it:*** Taxes receivable are any uncollected property taxes as at December 31. The tax levy is applied in June with due dates in July, August and September.
    - *Why it's important:* Property tax is the single largest source of revenue for the municipality. When collected, City property tax becomes the cash to fund daily disbursements. The City has diligent collection practices and has historically achieved a high rate of collection success (97-98 per cent).
    - *Difference between 2020 and 2019 ($58 million increase):* The City implemented property tax deferrals in 2020 in response to the impacts of COVID-19, changing the last due date from September to December. The increase in taxes receivable is a result of additional collections usually seen before the end of the year being collected after December 31, 2020.

3. Accounts Receivable
    - What it is: This category represents various types of receivables from across all City operations, excluding the City portion of property taxes
    - Why it's important: In addition to property taxes, the City recovers funds from operations fees and charges such as recreation and facility bookings, and from third parties to recover items like damage expenses and HST rebates.

- Difference between 2020 and 2019 ($8.0 million increase): This number varies year to year based on the timing of collections from departmental receivables. Penalty and interest charges are applied on all overdue accounts

4. **Loans and Other Receivables:**
    - *What it is:* From time to time, the City enters into special contractual arrangements approved by Council that may include loans. The City currently has one special purpose loan (20 year), made for the Vic Johnston Community Centre development project. This loan is scheduled to be paid off in 2028.
    - *Why it's important:* These receivables are categorized separately from other receivables because they have been created by special arrangement.
    - *Difference between 2020 and 2019 ($50 thousand decrease):* Each December, a payment of $50,000 is applied against the Vic Johnston Community Centre loan.

5. **Inventories for Resale**
    - *What it is:* The value of owned items on hand intended for resale by various City service areas (e.g., snack bar items, beer and liquor, pro shop items) as at December 31.
    - *Why it's important:* These items have value: their eventual sale yields cash for City operations
    - *Difference between 2020 and 2019 ($10 thousand decrease):* This net decrease is due to general increases and decreases in inventory across all categories.

6. **Investments**
    - *What it is:* Cash that is not being used immediately for disbursements is invested to earn a higher rate of return. Investments can be short-term or long-term.
    - *Why it's important:* Investment yields a higher rate of interest than bank deposits. Investment income is the City's fourth-highest source of revenue, and a critical component of the City's revenue base.
    - *Difference between 2020 and 2019 ($80.9 million decrease):* Investment balances fluctuate with cash flow requirements, and the timing of receipts and disbursements. The City maintained excess cash reserves at the end of 2020 to manage the impacts of COVID-19, which resulted in a reduction in investments.

7. **Investment in Enersource**
    - *What it is:* The City is a 90 per cent shareholder in Enersource Corporation. Accordingly, this number represents 90 per cent of Enersource's bottom line at December 31 (this calculation is called a modified equity consolidation). Enersource in turn is a 29.6% per cent owner of Alectra and Enersource Corporation carries on no other business.
    - *Why it's important:* This investment elevates the City's financial position. It also generates dividend income, which helps support City operations and in that way helps moderate the property tax rate.
    - *Difference between 2020 and 2019 ($263 thousand decrease*): A higher dividend paid to the City ($17.7 million) than the City's share of net income ($17.5 million) contributed to the decrease in the City's investment position in Enersource Corporation.

Financial Liabilities

Financial liabilities in 2020 were $1.183 billion (2019 $1.86 billion), a decrease of $43 million from the prior year

Item	Ref. #	2020 Actual	2019 Actual	$ Change vs. Prior Year	% Change
Accounts Payable and Accrued Liabilities	1	228,222	204,908	23,314	11%
Deferred Revenue-General	2	6,391	12,277	(5,886)	(48%)
Deferred Revenue-Obligatory Reserve Funds	3	552,274	557,057	(4,783)	(1%)
Employee Benefits and Other Liabilities	4	220,439	207,034	13,405	6%
Long Term Debt	5	176,434	205,193	(28,759)	(14%)
Total Financial Liabilities		**1,183,760**	**1,186,469**	**(2,709)**	**(0.2%)**

References

1. **Accounts Payable and Accrued Liabilities**
    - *What it is:* These are monies the City owes for goods, services, payroll, and/or third party transfers as at December 31.
    - *Why it's important:* These payables represent outstanding obligations as at December 31. As payables are drawn down, the City's cash position is also drawn down.
    - *Difference between 2020 and 2019 ($21 million increase*): The timing of payments and year-end accruals affect these liabilities and the City's cash position.

2. **Deferred Revenue - General**
    - *What it is:* Deferred revenues are payments received today that are to be recognized as revenue when the related activity takes place in the future. Examples include recreation registrations, facility bookings and transit advertising
    - *Why it's important:* Deferred revenues allow for payments to be received today for future operations.
    - *Difference between 2020 and 2019 ($5.9 million decrease*): A number of programs where payments are received as deferred revenues before they are recognized (e.g. recreation programs and facility bookings) have been cancelled due to the impacts of COVID-19, resulting in a significant decline in deferred revenues versus 2019.

3. **Deferred Revenue – Obligatory Reserve Funds**
    - *What it is:* This liability is for deferred revenues initially collected through special restrictive agreements to be used for purposes specified through agreement or legislation. Examples of these types of funds include Development Charge funds, Cash in Lieu of Parkland and Parking, Bonus Zoning, provincial and federal public transit funds, and provincial and federal gas tax funds.
    - *Why it's important:* Generally these types of revenues are initially collected in dedicated Reserve Funds and reclassified to deferred revenue – obligatory reserve funds at yearend

for financial statement reporting requirements. These deferred revenues are converted into revenues when related capital and operating expenses have been incurred.
- ***Difference between 2020 and 2019 ($4.8 million decrease***): Deferred revenue balances decreased in 2020 due to additional capital project spending. As the deferred revenue account reduces, corresponding revenue will show on the Statement of Operations under development contributions applied.

4. **Employee Benefits and Other Liabilities**
   - ***What it is:*** These are actuarial liability assessments for workers compensation, sick leave benefits, disability benefits, vacation pay, and legal and insurance related items. They represent future obligations but are reported in present value terms.
   - ***Why it's important:*** This category represents future liabilities. Expenses for these liabilities will be incurred in the future; however they must be reported in the statement of financial position to provide an accurate financial position for the City at a point in time. The City engages an external actuarial valuation every three years to review these liabilities. The amount may be refreshed annually if there are any significant changes to the membership program or legislation.
   - ***Difference between 2020 and 2019 ($13.4 million increase***): Increases in actuarial assessments for WSIB, vacation, sick leave and other liabilities resulted in an increase in this category.

5. **Long Term Debt**
   - ***What it is:*** This is the amount of long-term debt being issued to help fund the City's investments in capital infrastructure.
   - ***Why it's important:*** Debt is one key way the City funds capital infrastructure requirements. The City uses debt conservatively. The property tax base alone is not enough to support future capital infrastructure demands.
   - ***Difference between 2020 and 2019 ($28.8 million decrease***): The City paid down $28.8 million in debt in 2020, and did not issue any new debt for the year.

Non-Financial Assets

Non-financial assets in 2020 were $8.38 billion (2019 $8.26 billion), an increase of $118.4 million. Non-financial assets are comprised primarily of tangible capital assets, as well as inventories of supplies and prepaid expenses.

Item	Ref. #	2020 Actual	2019 Actual	$ Change vs. Prior Year	% Change
Tangible Capital Assets	1	8,363,128	8,245,855	117,273	1%
Inventory of Supplies	2	8,338	8,859	(521)	(6%)
Prepaid Expenses	3	4,784	3,160	1,624	51%
Total Non-Financial Assets		**8,376,250**	**8,257,874**	**118,376**	**1.4%**

References

1. **Tangible Capital Assets**
    - *What it is:* This is the City's investment in capital infrastructure such as buildings, roads, stormwater infrastructure, vehicles, and equipment. Every year, the City prepares a capital budget to address new capital projects and renovations to existing capital assets. These capital projects become assets when the project goes into service or is completed. The City also has an operating budget to address ongoing maintenance requirements for capital assets.
    - *Why it's important:* The City's tangible capital assets are the result of its investment in capital infrastructure, and support all the services and programs the City provides.
    - *Difference between 2020 and 2019 ($117.3 million increase*): The increase in tangible capital assets is attributable to new capital projects being completed and going into service. Once the asset is in service, amortization begins.

2. **Inventory of Supplies**
    - *What it is:* These are the various Citywide inventories to supply on-demand operating needs. Examples of these inventories include salt and sand inventories, fire equipment inventories, traffic signal inventories, and central store inventories
    - *Why it's important:* These inventories are required for various types of City operations
    - *Difference between 2020 and 2019 ($521 thousand decrease*): Decreases in salt inventories as of December 31st accounted for the majority of this decrease.

3. **Prepaid Expenses**
    - *What it is:* Prepaid expenses are payments made in the current year that pertain to future year expenses. Some examples of prepaid expenses include memberships, investment interest, debt fees, and prepaid postage.
    - *Why it's important:* Prepaid expenses allow for the matching of expenses with when the expense takes place.
    - *Difference between 2020 and 2019 ($1.6 million increase*): The increase in prepaid expenses in 2020 primarily relates to 1 day of salaries paid in 2020 for January 2021.

Revenues

Total revenues in 2020 were $1.073 billion (2019 1.091 billion), a decrease of $17.3 million.

Item	Ref. #	2020 Budget	2020 Actual	2019 Actual	$ Change vs. Budget	% Change	$ Change vs. Prior Year	% Change
Taxation	1	578,894	572,824	545,728	(6,070)	(1%)	27,096	5%
Municipal Accommodation Tax	2	9,800	3,799	12,152	(6,001)	(61%)	(8,353)	(69%)
User Charges	3	252,678	168,587	263,215	(84,091)	(33%)	(94,628)	(36%)
Recoveries From Third Parties	4	6,199	19,415	29,117	13,216	213%	(9,702)	(33%)
Funding Transfers From Other Governments	5	1,957	65,597	14,086	63,640	3,252%	51,511	366%
Development and Other Contributions Applied	6	-	138,854	90,407	138,854	0%	48,447	54%
Investment Income	7	35,254	44,125	43,607	8,871	25%	518	1%
Penalties and Interest of Taxes	8	8,610	5,334	10,806	(3,276)	(38%)	(5,472)	(51%)
Contributed and Assumed Assets	9	-	27,197	62,392	27,197	0%	(35,195)	(56%)
Other	10	6,864	10,128	5,604	3,264	48%	4,524	81%
City's Share of Net Income in Enersource Corporation	11	-	17,467	10,758	17,467	0%	6,709	62%
Gain on Acquisition of Living Arts Centre		-	-	1,455	-	0%	(1,455)	(100%)
City's Share of Dilution Gain on Alectra's Amalgamation with GHESI		-	-	1,324	-	0%	(1,324)	(100%)
Total Revenues		**900,256**	**1,073,327**	**1,090,651**	**173,071**	**21%**	**(17,324)**	**(2%)**

References

1. **Taxation**
    - *What it is:* Taxation refers to the City's property taxation revenues. It includes property taxes and payments in lieu of taxes.
    - *Why it's important:* Property tax is the City's single largest source of revenue.
    - *Difference between 2020 and 2019 ($27.1 million increase*): There are two components to taxation revenue, assessment growth and the annual business plan and budget. In 2020, assessment growth was 0.53 per cent (0.811 per cent in 2019). For the 2020 Business Plan and Budget, Council approved a 1.6 per cent increase on the total residential tax bill. The remaining changes are due to payments in lieu of taxes.
    - *Difference between Actual and Budget ($6.1 million deficit):* The City implemented property tax deferrals in 2020 in response to the impacts of COVID-19, changing the last

due date from September to December. The increase in taxes receivable is a result of additional collections usually seen before the end of the year being collected after December 31, 2020, which reduced taxation revenue in the year.

2. Municipal Accommodation Tax

- *What it is:* A mandatory 4% Municipal Accommodation Tax (MAT) that applies to the purchase of accommodations provided for a continuous period of 30 days or less in a motel, hotel, lodge, inn, bed and breakfast, dwelling unit or any place that provides accommodation. Online private short term rentals through Airbnb are also subject to the MAT.
- *Why it's important:* It is a revenue tool that provides the City with an opportunity to generate funds that will be used for future tourism related initiatives
- *Difference between 2020 and 2019 ($8.4 million decrease*): The impacts of COVID-19 have dramatically reduced occupancy rates and subsequently the MAT collected in 2020 versus 2019.
- *Difference between Actual and Budget ($6.0 million deficit):* The impacts of COVID-19 resulted in lower actual occupancy rates in the year than what was planned through the annual budget.

3. User Charges

- *What it is:* User fees are associated with many City programs and services. Transit fares, recreation program fees, and the Stormwater program charge are three examples. Council establishes fees via by-law annually. Revenue from enforcement activities (fines) are also accounted for here.
- *Why it's important:* User fees contribute significantly to covering service costs. User fees are the second largest source of City revenue in 2019.
- *Difference between 2020 and 2019 ($94.6 million decrease*): User fees across all service areas were dramatically impacted by COVID-19, including transit fares ($46 million), recreation programs ($31.8 million, facility rentals and Provincial Offences Act fines ($4.9 million) .
- *Difference between Actual and Budget ($84.1 million deficit):* Similar to the difference between 2020 and 2019 actuals, user fees across all service areas were dramatically impacted by the COVID-19 pandemic.

4. Recoveries from Third Parties

- *What it is:* Occasionally, there is City work a third party will ultimately pay for. For example, if the City and Region were involved together in a capital project (e.g. road construction) and the City were handling payments on the project, the Region would repay the City for the Region's share of the project's capital costs.
- *Why it's important:* From time to time, the City performs additional work on behalf of third parties such as the Region of Peel, Metrolinx, or an insurance company. Any work performed on behalf of third parties is recoverable by the City.
- *Difference between 2020 and 2019 ($9.7 million decrease*): Capital project recoveries for projects such as the Torbram Road grade separation project were lower in 2020 versus 2019, accounting for the annual decrease.
- *Difference between Actual and Budget ($13.2 million surplus):* Higher than expected capital project donations and recoveries account for the surplus against budget.

5. Funding Transfers From Other Governments

- *What it is:* The City receives grants and funding from other levels of government for many types of services and initiatives.
- *Why it's important:* While these transfers represent a small portion of the overall City revenue, it is valuable revenue that helps pay for City programs and services.
- *Difference between 2020 and 2019 ($51.5 million increase*): Provincial funding from the Safe Restart agreement to support municipalities in addressing the financial impacts of COVID-19 contributes to the increase, offset by other revenue reductions recognized during the year.
- *Difference between Actual and Budget ($63.6 million surplus):* Safe Restart funding received from the provincial government to offset revenue losses from COVID and non-budgeted capital government funding such as the Public Transit Investment Fund (PTIF).

6. Development and Other Contributions Applied

- *What it is:* In the year, if capital-related expenses are incurred that correspond to deferred revenue – obligatory reserve funds that the City holds, dollars are brought into the revenue stream from those funds to offset those capital expenses.
- *Why it's important:* Development and other contributions help fund capital projects.
- *Difference between 2020 and 2019 ($48.4 million increase*): An increase in capital spending during the year versus 2019 in Development Charges and Cash in Lieu of Parkland funding have contributed to this increase.
- *Difference between Actual and Budget ($138.9 million surplus):* The entire amount in this category shows as surplus because this category is not included in the budget.

7. Investment Income

- *What it is:* This is the investment income earned during the year from the City's investments
- *Why it's important:* Investment income helps grow City funds.
- *Difference between 2020 and 2019 ($518 thousand increase*): The increase in investment income reflects an increase in interest rates on available investment products.
- *Difference between Actual and Budget ($8.9 million surplus):* The $8.9 million surplus relates to higher capital gains received and higher Reserve Fund balances than projected.

8. Penalties and Interest on Taxes

- *What it is:* This revenue results from penalties and interest charged on overdue property tax accounts
- *Why it's important:* Penalties and interest on taxes help to offset any costs associated with untimely property tax payment
- *Difference between 2020 and 2019 ($5.5 million decrease*): Property tax deferrals implemented in 2020 to support residents through the impacts of COVID-19 resulted in a significant drop in penalties and interest on taxes.
- *Difference between Actual and Budget ($3.3 million deficit):* The decision to defer property tax collection due dates resulted in a deficit to budget on penalties and interest revenues.

9. Contributed Assets

- *What it is:* This revenue category includes assets assumed by the City (such as land under roads, land under infrastructure and general infrastructure) through development agreements.
- *Why it's important:* Contributed assets are important because they form part of the City's capital infrastructure but the City does not pay for them. Developers have paid for these assets through their development agreements
- *Difference between 2020 and 2019 ($35.2 million decrease*): Contributed assets vary from year to year depending on the agreements reached and when the developer transfers the asset to the City through development agreements.
- *Difference between Actual and Budget ($21.2 million surplus):* The entire amount in this category shows as surplus because this category is not included in the budget.

10. Other Revenues

- *What it is:* These are miscellaneous and one-time revenues received by the City.
- *Why it's important:* Other revenues help support and fund City programs and services.
- *Difference between 2020 and 2019 ($4.5 million increase*): This number routinely fluctuates due to its miscellaneous nature. Generally these revenues are one-time revenues and not sustainable.
- *Difference between Actual and Budget ($3.3 million surplus):* This number routinely fluctuates due to its miscellaneous nature. Generally these revenues are one-time revenues and not sustainable.

11. City Share of Net Income in Enersource Corporation

- *What it is:* The City is a 90 per cent shareholder in Enersource Corporation. This number represents 90 per cent of Enersource's bottom line at December 31 (this calculation is called a modified equity consolidation). Enersource in turn is a 29.57 per cent owner of Alectra and Enersource Corporation carries on no other business.
- *Why it's important:* Enersource income elevates the City's financial position and thereby moderates the property tax rate.
- *Difference between 2020 and 2019 ($6.7 million increase*): The City has 90% ownership in Enersource Corporation and therefore applies 90% to Enersource's Shareholders Equity. The change in year over year shareholders equity is in the Investment in Enersource balance
- *Difference between Actual and Budget ($17.5 million surplus):* The entire amount shows as a variance because City share of net income in Enersource Corporation is not a budgeted item.

Expenses

Expenses are broken down into major expense categories: labour and benefits, materials and supplies, contracted services, rents and financial expenses, transfer payments and amortization. Total expenses in 2020 were $908.8 million (2019 $959.4 million), a decrease of $50.6 million.

Item	Ref. #	2020 Budget	2020 Actual	2019 Actual	$ Change vs. Budget	% Change	$ Change vs. Prior Year	% Change
Salaries, Wages and Employee Benefits	1	559,519	529,475	533,044	(30,044)	-5%	(3,569)	-1%
Long-term Debt Interest and Fees	2	5,680	4,821	4,507	(859)	-15%	314	7%
Materials and Supplies	3	60,913	61,737	65,049	824	1%	(3,312)	-5%
Contracted Services	4	58,611	86,812	138,702	28,201	48%	(51,890)	-37%
Rents and Financial Expenses	5	84,318	71,844	68,770	(12,474)	-15%	3,074	4%
External Transfers to Others	6	16,392	7,091	6,741	(9,301)	0%	350	5%
Loss on Disposal of Tangible Capital Assets		-	2,372	2,504	2,372		(132)	-5%
Amortization	7	144,568	144,655	140,098	87	0%	4,557	3%
Total Expenses		**930,001**	**908,807**	**959,415**	**(21,194)**	**3%**	**(50,608)**	**-5%**

1. Salaries, Wages & Employee benefits

- *What it is:* This figure represents salary, wage and benefit costs for all full-time, part time and contract employees, plus the current year impacts for actuarial benefit assessment of WSIB, sick leave, disability benefits and post-retirement benefits.
- *Why it's important:* People are the number one resource required to deliver City services, so this category has a corresponding size.
- *Difference between 2020 and 2019 ($3.6 million decrease*): The City implemented a hiring freeze in 2020 to manage the financial impacts of COVID-19. These savings were offset due to labour contract settlements, pay adjustments, increased benefit, and WSIB costs.
- *Difference between Actual and Budget ($30 million surplus):*The City implemented a hiring freeze in 2020 to manage the financial impacts of COVID-19, resulting in a surplus due to vacant positions and delays in re-hiring, along with temporary layoffs implemented through the year.

2. Long-Term Debt Interest and Fees

- *What it is:* This figure represents all debt management and interest fees associated with the City's debt.
- *Why it's important:* Debt is a source of funding for capital projects. Provincial legislation allows municipalities to carry debt equivalent to 25 per cent of own-source revenue. The City's debt policy limits debt repayment to 15 per cent of own source revenues. The City is currently well within that range at 4% of own source revenues.
- *Difference between 2020 and 2019 ($314 thousand increase*): Additional interest and fees on debt issued in 2019 paid in 2020 contributed to this increase.
- *Difference between Actual and Budget ($859 thousand surplus):* A surplus was generated due to the City deferring its 2020 debt issuance into 2021.

3. Materials and Supplies

- *What it is:* Materials and supplies include vehicle fuel and all other general operation materials and supplies needed for service and program delivery.
- *Why it's important:* These materials are necessary to keep day-to-day operations running without interruption.
- *Difference between 2020 and 2019 ($3.3 million decrease*): The minor year-over-year increase in costs related to general operating materials across all departments.
- *Difference between Actual and Budget ($859 thousand deficit):* The deficit is a result of capital expenses that are not eligible to be capitalized as part of the City's tangible capital asset inventory.

4. Contracted Services

- *What it is*: The City contracts with third parties for some professional and capital project management services.
- *Why it's important:* Contracted services can bring a level of expertise to the City that the City may not have, or augment resources to support a specific initiative. The City can also sometimes achieve economies of scale (i.e., lower prices) through contracts and professional agreements.
- *Difference between 2020 and 2019 ($51.9 million decrease*): This decrease is mainly due to non-budgeted, ineligible contracted services for tangible capital assets that were expensed in 2019. The 2020 actuals are more aligned with historical spending.
- *Difference between Actual and Budget ($28.2 million deficit):* The deficit against budget is mainly due to the non-budgeted ineligible contracted services for tangible capital assets.

5. Rents and Financial Expenses

- *What it is*: This category includes many different types of financially related expenses, including staff development, communication costs, occupancy-related costs, property tax adjustments, insurance costs, banking costs, and equipment and maintenance costs.
- *Why it's important:* These expenses represent the overhead-type costs that help support City services and programs.
- *Difference between 2020 and 2019 ($3.1 million increase*): The main contributor to this increase were higher equipment and maintenance costs, offset by a reduction in utility costs due to facility closures as a result of the COVID-19 pandemic.
- *Difference between Actual and Budget ($12.5 million surplus):* The main surplus variances related to this category are for transportation and equipment maintenance costs ($7 million), staff development costs ($1 million), and reduced transit fare payment commissions ($2.5 million).

6. External Transfers to Others

- *What it is*: Mississauga provides defined grants and funding to third parties who contribute to the accomplishment of the City's vision and objectives.
- *Why it's important:* These dollars support many organizations that contribute to the wellbeing and success of our thriving city.
- *Difference between 2020 and 2019 ($350 thousand increase*): This minor increase is attributed to various small increases in grant program funding allocated by the City in 2020.
- *Difference between Actual and Budget ($9.3 million surplus):* The surplus showing in this category is attributable to budgeted expenses for the Living Arts Centre spent in other categories, along with less spending in Culture, Tourism and other community grants versus what was planned in 2020.

6. Amortization

- *What it is*: Capital assets lose value over time. The expense of this loss is amortized over the life of the asset. Different amortization percentages apply to different asset categories, as their useful lives differ in length.
- *Why it's important:* Amortization allows the net value of assets (vs their cost value) to be represented on the financial statements.
- *Difference between 2020 and 2019 ($4.5 million increase*): The total amortization amount increases as the City's capital assets grow.
- *Difference between Actual and Budget ($87 thousand deficit):* Amortization is not included in the annual operating budget: however, for the purpose of the financial statements an estimate is included to match up against the expense. In this instance, the expenditure was higher than the estimate due to the timing of capitalization of expenses and unplanned disposals.

Consolidated Statement of Change in Net Financial Assets

The consolidated statement of change in net financial assets/(net debt) starts with the annual surplus/(deficit) and identifies changes in non-financial assets (i.e., tangible capital asset acquisition, amortization) that will utilize or add to the surplus amount to derive a net change in financial assets.

Consolidated Statement of Cash Flows

The consolidated statement of cash flows reports changes in cash and short-term investments resulting from operations and shows how the City financed its activities during the year and met its cash requirements.

Tangible Capital Assets Overview

All City assets as at the end of 2020 have been inventoried, valued and recorded in an Asset Registry for accounting and reporting purposes. The City's net book value of tangible capital assets at the end of 2020 was $8.363 billion (2019 $8.246 billion). Refer to Note #9 in the financial statements for a detailed breakdown of tangible capital asset activity. The annual amortization expense in 2020 was $144.7 million (2019 $140.1 million).

Reserves and Reserve Funds Overview

Although Reserves and Reserve Funds are not formally reported directly in the financial statements, they are key in the financial management and operations of the City. Reserves and Reserve Fund balances are consolidated within the Accumulated Surplus position on the Consolidated Statement of Operations. Refer to Note #10 in the financial statements for more Reserve and Reserve Fund information.

Reserves and Reserve Funds are established by Council. These funds are set aside to help offset future capital needs, obligations, pressures and costs. They are drawn upon to finance specific-purpose capital and operating expenditures as designated by Council to minimize tax rate fluctuations due to unanticipated expenditure and revenue shortfalls and to fund ongoing programs (i.e., insurance and employee benefits). Reserves and Reserve Fund balances at the end of 2020 totalled $581.3 million (2019 $509.3 million), an increase of $72 million from the prior year. The Reserves and Reserve Fund totals do not include development charges, senior government grants, and other reserve funds that are reported as deferred revenue-obligatory reserve funds on the Statement of Financial Position.

Reserves

Reserves, which are discretionary in nature, are generally used to offset major fluctuations in operating costs/revenues or to fund future contingent liabilities. Total Reserves in 2020 were $115.3 million (2019 $90.8 million), an increase of $24.6 million.

Reserve Funds

Reserve Funds are non-discretionary, segregated and restricted to meet specific identified purposes for the municipality. Total Reserve Funds in 2020 were $466 million (2019 $418.5 million), an increase of $47.5 million from the prior year. The Reserve and Reserve Funds will help the City meet projected expenditure needs in the upcoming years. However, draws on Reserve and Reserve Funds in future years to support our growing capital infrastructure and maintenance needs will reduce these balances and therefore reduce the total accumulated surplus.

This future surplus reduction has been anticipated for many years, recognizing that as the City matured, infrastructure renewal would require increased funding. Additional funding support is needed from senior levels of government, as well as ongoing increased annual contributions from the operating funds, in order to help sustain and invest in new and replacement infrastructure.