



SUBJECT: Report recommending approval of the 2016 consolidated financial statements as audited by Deloitte LLP.

TO: Audit Committee

FROM: Finance Department

Report Number: F-23-17

Wards Affected: All

File Numbers: 440-02

Date to Committee: May 31, 2017

Date to Council: June 12, 2017

Recommendation:

Approve the 2016 Consolidated Financial Statements for the City of Burlington and the Local Boards, as audited by Deloitte LLP; and

Approve the 2016 Financial Statements for the Trust Funds of the City of Burlington as audited by Deloitte LLP; and

Authorize the Director of Finance to publish the statements on the City's website.

Purpose:

An Engaging City

- Good Governance

Background and Discussion:

We are pleased to submit the audited 2016 Consolidated Financial Statements for the City of Burlington for approval. Copies of the individual financial statements for the Burlington Public Library, Burlington Economic Development Corporation (BEDC), the Burlington Museums Board, Burlington Theatre Board, Burlington Downtown, the Aldershot BIA and the Trust Funds are attached. A complete bound copy of the final Consolidated Financial Statements will be distributed at a later date.

The City's financial statements are prepared in accordance with Canadian public sector accounting standards for local government as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB guidelines serve to assist the public in understanding and having confidence in public sector accounting.

The statements have been audited by our auditors, Deloitte LLP, Chartered Accountants. Representatives from Deloitte LLP are in attendance to express their opinion on whether these statements present fairly the financial position of the City.

It is a requirement that the Audit Committee and Council approve the consolidated financial statements for the City before they are published. This report presents an overview of the financial statements.

The Statements presented include:

Consolidated statement of operations

Consolidated statement of changes in net financial assets

Consolidated statement of financial position

Consolidated statement of cash flow

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position presents the financial position of the City as at December 31, 2016. The focus of this statement is to present the assets, liabilities and accumulated surplus of the City.

Highlights of this statement include;

Tangible Capital Assets

Tangible capital assets represent the City's largest asset. The 2016 net book value (NBV) of the City's tangible capital assets is \$802.1 million (2015 – \$799.2 million). This value represents the historical cost of the tangible capital assets and is presented net of accumulated depreciation.

The following chart details the asset categories and their respective NBVs for 2016 and 2015:

Category	2016 NBV (in millions)	2015 NBV (in millions)	\$ Change (in millions)
Land	157.4	156.1	1.3
Buildings	137.5	134.7	2.8
Vehicles	21.9	24.1	(2.2)
Machinery & Equipment	16.3	16.1	0.2
Land Improvements	56.0	56.2	(0.2)
Linear	397.0	389.5	7.5
Work in Progress	16.0	22.5	(6.5)
Total	802.1	799.2	2.9

The TCAs net book value represents the resources that the City can use in the future to deliver services or that will be consumed in the course of operations.

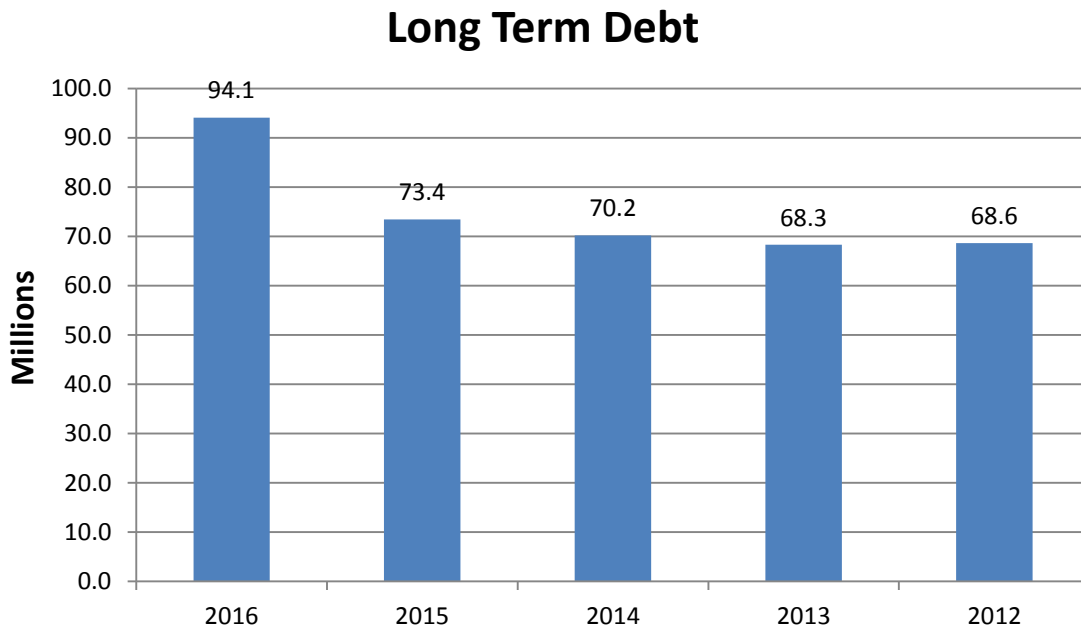
Obligatory reserve funds

Obligatory reserve fund balances are recorded as deferred revenue (liability) on the City's statement of financial position. This differs from the City's policy where allocation of the obligatory reserve funds to their capital projects is completed upon approval of the capital budget. PSAB requires unspent funds be reported under this method as provincial legislation restricts how the funds may be used. As the funds are spent for their intended purposes they are recognized into revenue.

Long-term debt

Long term debt for 2016 increased to \$94.1 million from \$73.4 million in the prior year. The increase was primarily driven by the City's issuance of \$27.7 million in debt to support its contribution to the Joseph Brant Hospital expansion project. Principal debt repayments totaled \$11.4 million for 2016.

The following chart presents net long term debt over the past five years:



Accumulated Surplus

The consolidated statement of financial position results in the accumulated surplus for the City. The City's accumulated surplus for 2016 was \$970.6 million a decrease of \$5.7 million from 2015 (\$976.3 million). The accumulated surplus represents the excess of assets the City has that can be used to provide future services (please refer to Note 10 in the financial statements for a breakdown of this balance).

Consolidated Statement of Operations

The Consolidated Statement of Operations provides a summary of revenues and expenses incurred through the period that are a combination of the current and capital fund revenues and expenses that are not related to the acquisition or disposition of tangible capital assets and the revenues of the discretionary reserve funds.

Annual surplus/(deficit) reported on this statement is the difference between revenues and expenses for the year. Non cash items such as amortization and contributed assets are also included in this statement.

Of note in the revenue section of the report is the contribution of investment income to the City's total revenue. This includes capital gains of \$2.8 million and investment income attributed to reserve funds.

The breakdown of the City's revenue sources for 2016 and 2015 are detailed in the following table:

Revenue Source	% of 2016 Revenue	% of 2015 Revenue
Taxation	60.8	59.7
User fees	14.7	13.8
Penalties & interest	5.6	5.3
Grants (Federal & Provincial)	4.1	4.5
Investments	4.1	4.0
Other	2.9	4.3
Licenses & permits	2.7	2.5
Developers	2.6	4.1
Hydro dividends	2.5	1.8

Expenditures are presented by functional area in the statement. The functional areas are compared to departments as follows:

Functional Area	Department
General Government	Non-Divisional Departments, Corporate Services
Protection to Persons and property	Fire, By-law enforcement, Animal Control
Transportation Services	RPM (excluding storm sewer management), Traffic and Transit
Environmental Services	Storm sewer management
Health Services	Cemetery Operations
Recreation and Cultural Services	Parks and Recreation, Library, Museums, Burlington Theatre Board
Planning and Development	Planning, Downtown BIA, Aldershot BIA

Also added to expenses by functional category are amortization expense and post employment benefit expense. Details by segments are presented in Note 12 of the financial statements.

The breakdown of the City's expenditures by function for 2016 and 2015 are detailed in the following table:

Function	% of 2016 Expenses	% of 2015 Expenses
Transportation services	28.7	31.3
General government	24.8	20.1
Recreation and cultural services	24.7	26.4
Protection to persons and property	16.8	16.4
Environmental services	2.1	2.8
Planning and development	2.8	2.9
Health services	0.1	0.1

2016 Annual (deficit)

Overall the 2016 consolidated statement of operations resulted in a deficit of \$5.7 million. This deficit was driven by the City's contribution to the Joseph Brant Hospital expansion project in the community. The City's contributed \$29.45 million in 2016. While this expense was incurred in 2016 the funding was strategically planned. The City leveraged the use of low interest debt and amounts set aside in the reserve funds to support its contribution to this project.

2016 Budget

Budget figures presented in the consolidated statements are based on the 2016 operating and capital budgets approved by Council. Amounts also include estimated amortization that is reported to Council prior to budget approval. Note 15 in the financial statements reconciles the approved budget figures reported in these consolidated financial statements.

Consolidated Statement of Changes in Net Financial Assets

The statement of change in net financial assets tracks the value the municipality has acquired for total tangible capital assets, \$36 million in 2016 and reports on loss on disposal of tangible capital assets, \$0.9 million in 2016.

Consolidated Statement of Cash Flow

The consolidated statement of cash flow explains how the City financed its activities and met its cash requirements, resulting in a change in cash and temporary investments over the reporting period. The cash and temporary investments of the City increased by \$12.2 million in 2016 to bring the total balance to \$36.5 million, details of the increase are outlined below:

Increase to cash:

Cash received by operations	\$25.0
Cash from financing	24.2

Decrease to cash:

Decrease in cash from investing	(1.2)
Acquisition and disposal of tangible Capital Assets	(35.8)
	<u>\$12.2</u>

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information to explain or supplement the financial statements including disclosure of accounting policies and basis of consolidation. The following summarizes some of the key information contained in the Notes.

i) Employee Future Benefits (Note 6)

A liability disclosed on the Consolidated Statement of Financial Position is the liability for employee future benefits. Note 6 provides detailed explanations for liabilities associated with the following; banked overtime, WSIB, vacation pay, retiree benefits and life, medical and dental benefits.

Municipalities are not currently required to fund these liabilities. However, the City does hold a reserve fund in the amount of \$1.738 million (2015- \$1.713 million) for post employment benefits, and in the amount of \$4.856 million (2015 - \$4.297 million) for WSIB liability.

ii) Burlington Hydro Electric (Note 11)

A significant component of the City's accumulated surplus is the investment in Burlington Hydro Electric Inc. Note 11 provides supplementary information on the consolidated statements of Burlington Hydro Electric Inc for the year ended December 31, 2016.

Financial Matters:

Not applicable.

Conclusion:

This report presents an overview of the 2016 Consolidated Financial Statements.

Respectfully submitted,

Michelle Moore

Coordinator of Accounting

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Appendices:

- a. Consolidated Financial Statements of the City of Burlington (Draft)
- b. Financial Statements of the Burlington Public Library Board (Final)
- c. Financial Statements of the Museums Board (Final)
- d. Financial Statements of the Burlington Theatre Board (Final)
- e. Financial Statements of the Burlington Economic Development Corporation (Final)
- f. Financial Statements of Burlington Downtown (Final)
- g. Financial Statements of Aldershot Village BIA (Final)
- h. The Trust Funds of the Corporation of the City of Burlington (Draft)

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.