



SUBJECT: Financial highlights for period ending December 31, 2018

TO: Audit Committee

FROM: Finance Department

Report Number: F-20-19

Wards Affected: not applicable

File Numbers: 440-01

Date to Committee: April 3, 2019

Date to Council: April 23, 2019

Recommendation:

Receive and file report F-20-19 providing financial highlights for the period ending December 31, 2018.

Purpose:

- An Engaging City
- Good Governance

Background and Discussion:

The Audit Committee terms of reference indicate that the audit committee will review and recommend for approval the annual audited consolidated financial statements and will review quarterly financial performance. In order to assist the Audit Committee with its responsibility report F-20-19 presents some key financial highlights for the quarter ended December 31, 2018.

On an annual basis the Consolidated Financial Statements of the City of Burlington are presented to the Audit Committee for their recommendation to Council to approve the statements. The City's financial statements are prepared in accordance with Canadian public sector accounting standards for local government. These standards do not always correspond with the way the City records and reports on its daily operations which can make the approval of the financial statements more difficult. This report will present financial results from an operational perspective and represents preliminary results for the fiscal year ended December 31, 2018.

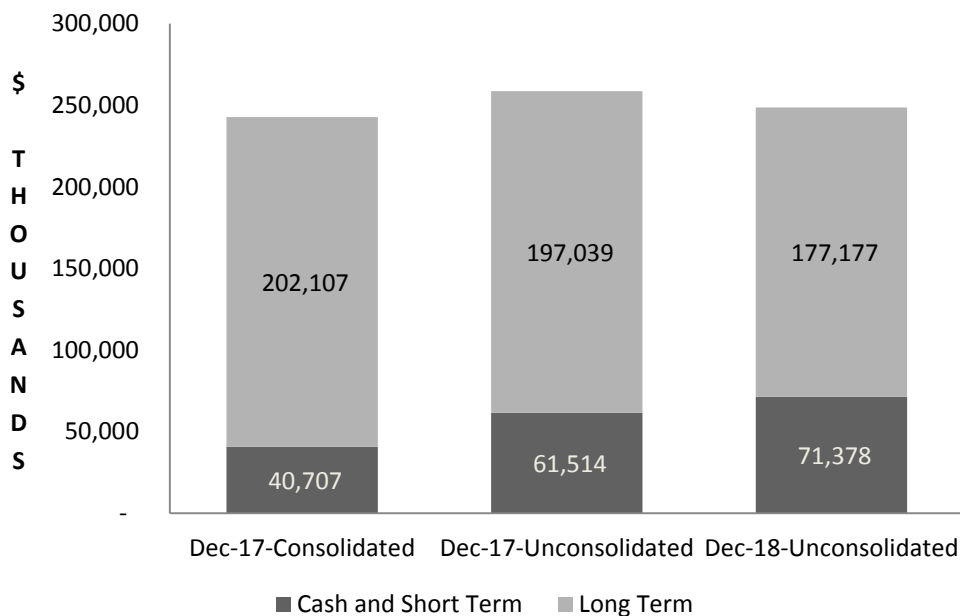
Statement of Financial Position

The statement of financial position is the City's balance sheet. It presents information on the assets, liabilities and accumulated surplus of the City.

Assets

Key components of the asset section are cash, short term investments and long-term investments. These categories together reflect the City's investment strategy given current market conditions. Funds are allocated amongst them to maximize investment income, retain an appropriate level of liquidity and respond to economic forces that influence the investment environment while maintaining a portfolio compliant with the City's investment policy. The following chart compares the balances of these categories as reflected in the City's financial statements at December 31, 2017, the unconsolidated figures for December 31, 2017 and unconsolidated current year at December 31, 2018

Cash and Long Term Investment Comparison



Another key component of the statement of financial position is taxes receivable. Taxes represent the key revenue source the City uses to fund its service delivery. Taxes receivable are recorded when billed. The City issues bills for taxes twice a year, in January and May. These bills represent four installments which are due in February, April, June and September. Taxes receivable as at December 31, 2018 are \$9.5 million as compared to \$10.5 million reported at December 31, 2017.

Accounts receivable of \$26.1 million as at December 31, 2018 includes approximately \$8.6 million in receivables from the Region of Halton for work on regional roads. The payments owing for these projects was received by the end of February 2019. The equivalent accounts receivable total balance for December 31, 2017 was \$18.1 million.

Liabilities

The balance of accounts payable and accrued liabilities at December 31, 2018 is \$22.1 million and is compared to the unconsolidated balance of \$20.8 million at December 31, 2017. The balance of \$26.2 million recorded in the Financial Statements at December 31, 2017 includes accruals including certain payroll accruals only recorded at year end.

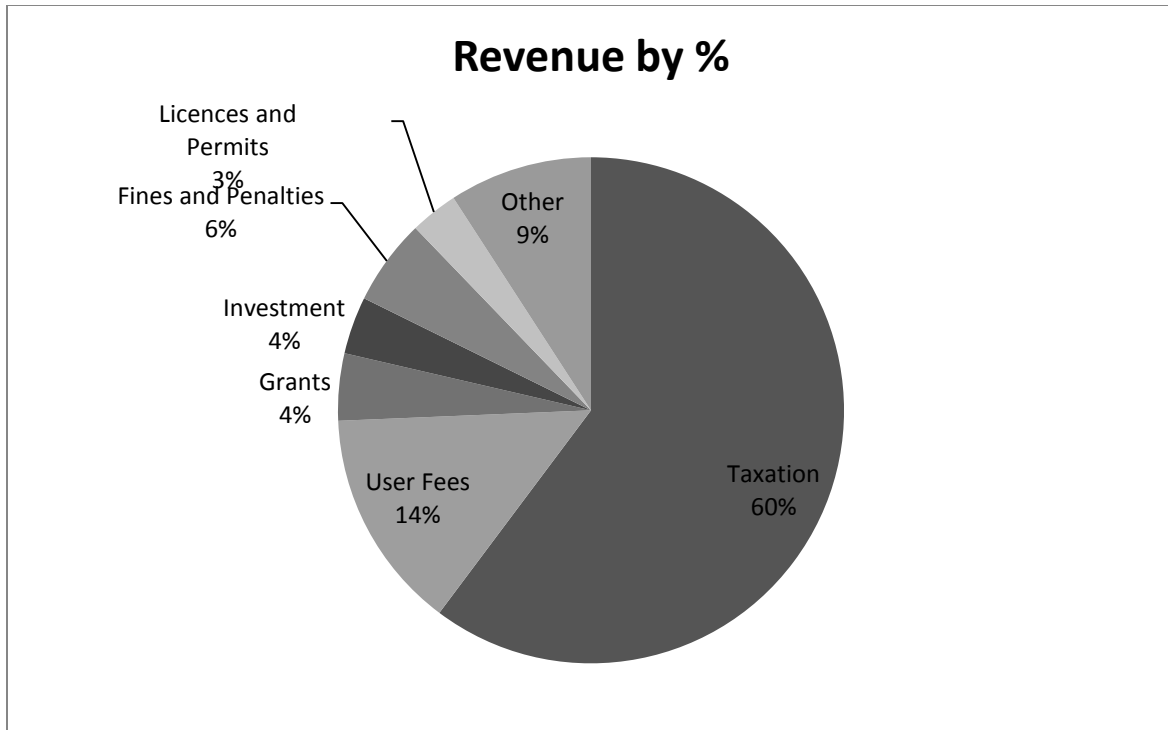
The balances noted above do include the year end accruals.

One of the City's greatest liabilities is derived from the issuance of long-term debt. The balance as at December 31, 2018 was \$95.7 million. Debt principal repayments in 2018 totaled \$13.4 million while new debt approved and issued as of the end of December 2018 was \$20.2 million. Debt is used to fund capital expenditures and the City's contribution to the hospital expansion.

Statement of Operations

Revenues

The Statement of Operations provides information on the City's revenues and expenses. Although taxation revenue is the largest component of the City's revenues, user fees and charges, investment income and funds from senior levels of government all contribute to enabling the City to deliver services to the community. The following chart is a representation of the various components of the City's revenues based on revenues reported in the City's 2017 financial statements.



As of December 31, 2018, revenues for the fiscal year are anticipated to be in line with the distribution noted above. There are no major variances expected at this time.

The balances reported in the 2017 financial statements are as follows:

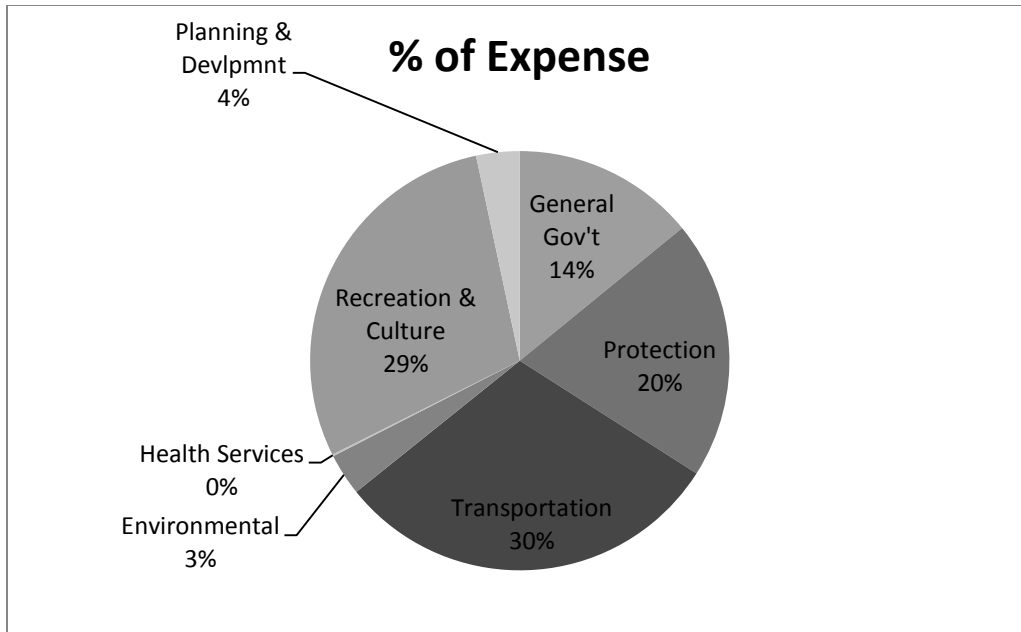
	Revenues from the Consolidated Financial Statements As at December 31 2017 Actual \$000
Taxation	155,409
User fees and charges	36,406
Grants	11,059
Contributions from developers	7,492
Investment income	9,472
Sale of land and other capital assets	754
Penalties and interest on taxes	2,148
Donations	1,134
Fines and penalties	12,051
Rents and concessions	5,648
Licenses and permits	7,879
Other	1,389
Hydro dividends and interest	4,954
Contributed tangible capital assets	-
Burlington Hydro Electric Inc, net increase in equity	2,235
Total Revenues	<u>258,030</u>

Although a meaningful comparison cannot be made between current operations and the financial statements due to the adjustments that are made for financial statement purposes, some revenue items as compared between current year and prior year are presented for information:

	31-Dec-18	31-Dec-17
General Tax Levy	163,814	154,584
User fees and charges	28,621	27,550
Grants	8,709	8,628
Investment income	10,330	10,349
Penalties and interest on taxes	2,175	2,148
Hydro dividends and interest	5,686	4,936

Expenses

The City's operations are reported during the year on a cash basis categorized by service while the financial statements report expenses on a category basis. Certain components that are not part of operational reporting such as post employment benefit expense are added to the expenses reported in the financial statements. The following chart shows the breakdown of expense attributed to the categories as reported on the 2017 financial statements:



The expense balances reported in the financial statements are as follows:

	Expenses from the Consolidated Financial Statements As at December 31 2017 Actual \$000
General Government	32,225
Protection to persons and property	45,590
Transportation services	69,040
Environmental services	7,403
Health services	313
Recreation and cultural services	66,387
Planning and development	7,659
Total Expenses	228,617

The adjustments needed to report expenses in the financial statements are extensive including allocating post-employment benefit expense, interest expense on debt, depreciation expense and non-capital information captured in capital projects.

Information extracted from the City’s financial system provides a comparison between 2018 and 2017 with the noted adjustments excluded:

	31-Dec-18	31-Dec-17
General Government	33,188	30,873
Protection to persons and property	40,792	38,351
Transportation services	50,682	45,603
Environmental services	835	634
Health services	318	301
Recreation and cultural services	49,641	49,081
Planning and development	<u>6,340</u>	<u>6,649</u>
Total Expenses	<u>181,796</u>	<u>171,492</u>

Operational expenses are comparable year over year. The increase in transportation services is reflective of the investment in transit that Council approved with the 2018 budget. A significant difference will be noted in the operational expenses related to environmental services and that reported in the audited financial statements. The audited financial statements reflect depreciation on the City’s storm water system which is allocated to this category in the financial statements but not in the operational statements.

Other Financial Information

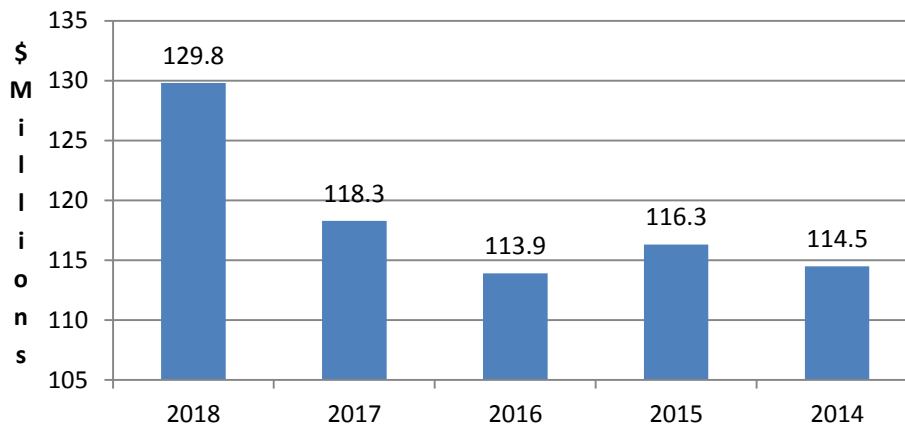
Reserve Funds

Reserve funds are a critical component of a municipality’s long-term financing plan. They provide:

- Stability to the tax rate in the face of variable circumstances
- Funding for one-time expenses
- The ability to make provisions for the replacement and/or acquisition of infrastructure and
- Flexibility to manage debt levels to protect the municipality’s financial position

The uncommitted balance of the City’s reserve and reserve funds are presented for the last five years:

Reserve and Reserve Fund Uncommitted Balances as at Dec 31



In the City's financial statements obligatory reserve fund balances are presented as deferred revenue and discretionary reserve and reserve fund balances are included in the accumulated surplus. Obligatory reserve funds are typically funded through external sources. The revenues from these reserve funds are recognized only once expenses are incurred. Alternatively, discretionary reserve and reserve funds are funded through current operations and are used to fund future services and projects. Deferred revenue –obligatory reserve funds was reported in the 2017 financial statements as \$72.7 million. Year end balances are reported on the chart above as they reflect all transfers to/from reserve and reserve funds.

Conclusion:

A report of financial highlights is presented for Audit Committee's information. The consolidated financial statements for 2018 will be presented at the June meeting of Audit Committee.

Respectfully submitted,

Sandy O'Reilly
Controller and Manager of Financial Services
Ext 7648

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.