SUBJECT: Financial highlights for the period ended June 30 2019

TO: Audit Committee

FROM: Finance Department

Report Number: F-35-19

Wards Affected: not applicable

File Numbers: 440-01

Date to Committee: September 11, 2019

Date to Council: September 23, 2019

Recommendation:

Receive and file finance department report F-35-19 providing financial highlights for the period ended June 30 2019

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. To assist the Audit Committee with its responsibility report F-35-19 presents some key financial highlights for the quarter ended June 30, 2019.

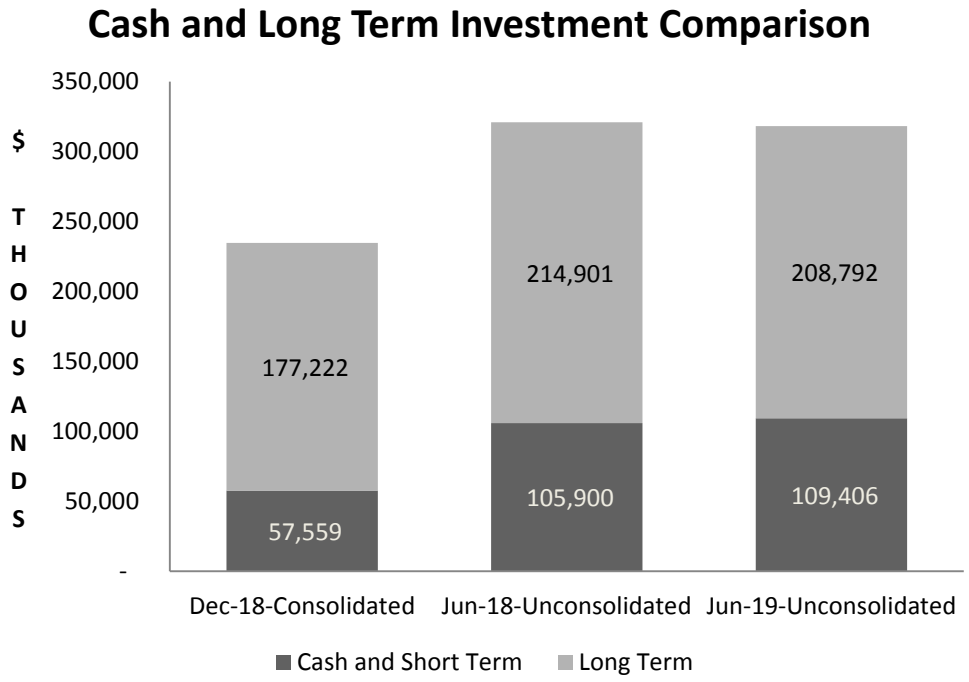
On an annual basis the Consolidated Financial Statements of the City of Burlington are presented to the Audit Committee for their recommendation to Council to approve the statements. The City's financial statements are prepared in accordance with Canadian public sector accounting standards for local government. These standards do not always correspond with the manner in which 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 for the period ended June 30, 2019.

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, 2018, the unconsolidated figures for June 30, 2018 and unconsolidated current year at June 30, 2019.



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 June 30, 2019 are $133.8 million as compared to $129.8 million reported at June 30, 2018.

Accounts receivable of $13.7 million as at June 30, 2019 includes approximately $5.6 million in accrued gas tax funding. The equivalent balance for June 30, 2018 was $13.2 million.

Liabilities

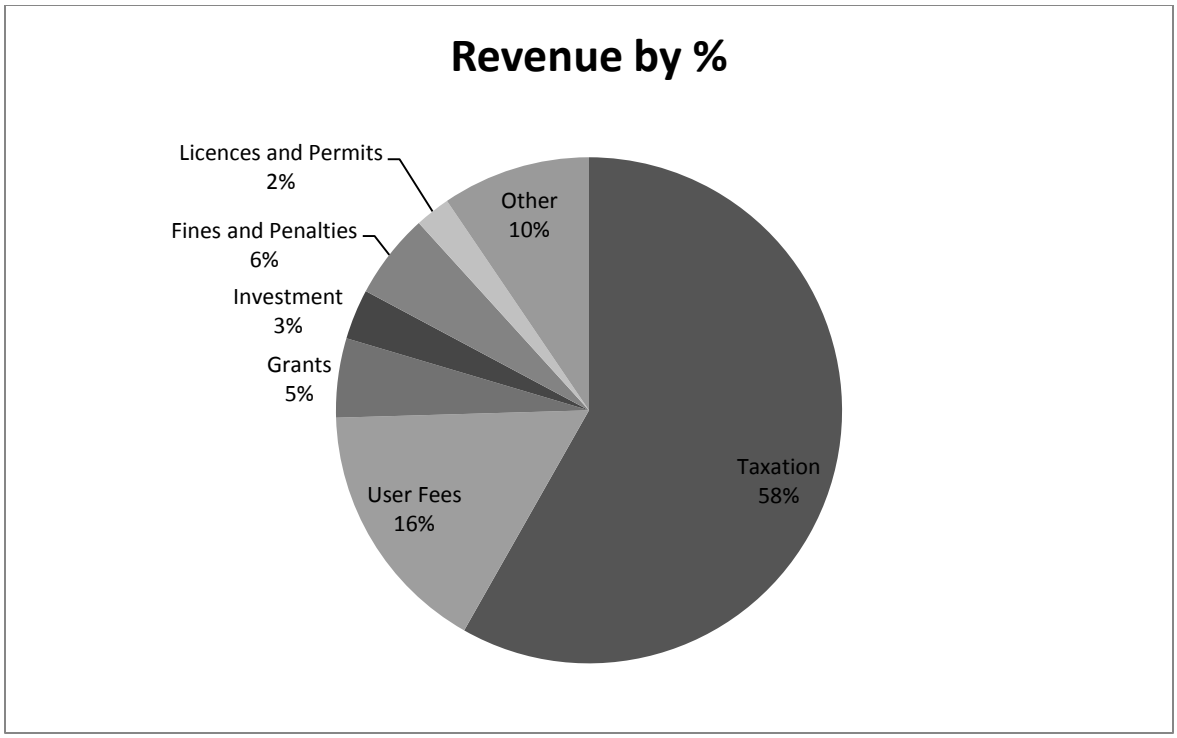
The balance of accounts payable and accrued liabilities at June 30, 2019 is $11.4 million and is compared to the unconsolidated balance of $8.8 million at June 30, 2018. The balance of $31.2 million recorded in the Financial Statements at December 31, 2018 includes accruals including certain payroll accruals only recorded at year end.

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 totalled $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. The new debt issue in April 2018 of $20.2 million was primarily used for the purchase of Sims Square. The purchase of the building was a strategic acquisition to preserve office space in the downtown core. New debt issued to June 30, 2019 is $7.7 million.

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 2018 financial statements.



As of December 31, 2019, 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 December 31, 2018 financial statements are as follows:

	Revenues from the Consolidated Financial Statements As at December 31 2018 Actual $000
Taxation	164,720
User fees and charges	46,185
Grants	14,321
Contributions from developers	7,621
Investment income	9,084
Sale of land and other capital assets	2,739
Penalties and interest on taxes	2,173
Donations	653
Fines and penalties	13,271
Rents and concessions	5,723
Licenses and permits	6,368
Other	1,839
Hydro dividends and interest	5,687
Contributed tangible capital assets	-
Burlington Hydro Electric Inc, net increase in equity	2,517
Total Revenues	282,901

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:

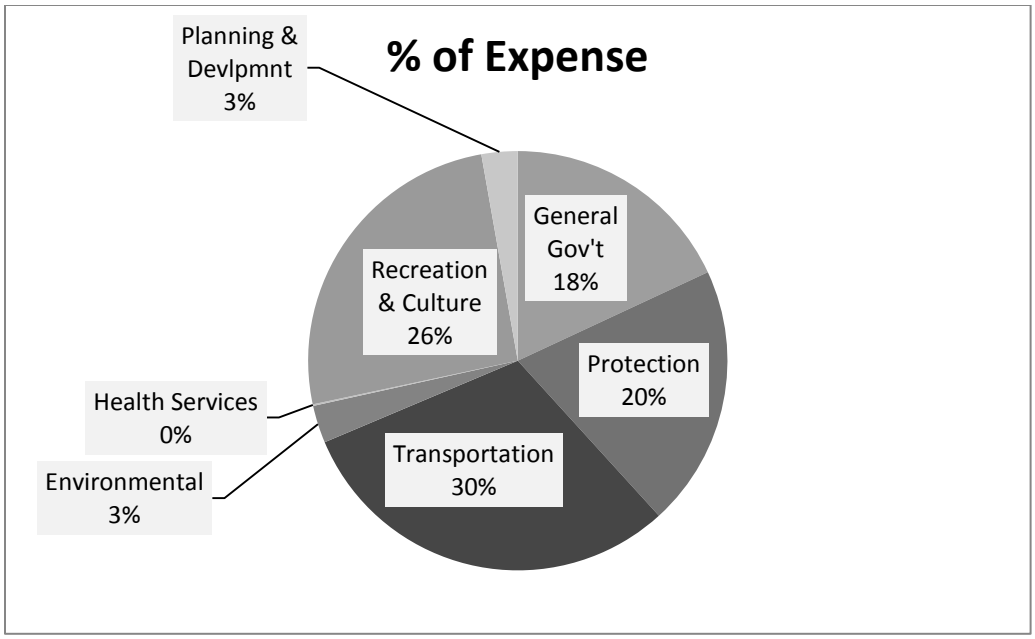
	30-Jun-19	30-Jun-18
General Tax Levy	261,263	252,543
User fees and charges	11,253	15,439
Grants	8,316	8,164
Investment income	5,248	5,757
Penalties and interest on taxes	1,200	1,180
Hydro dividends and interest	1,809	2,559

The decline in user fees may be partially attributed to a difference in accounting methodology for registration fees that is used by the new Parks and Recreation registration software system as compared to the previous software system. The new system more accurately defers revenue until earned. As a result, deferred revenue at June 2019 is $2.4 milion as compared to $0.8 million in 2018.

Also, important to note is that tax revenue includes taxes billed but not yet due.

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 2018 financial statements:



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

	Expenses from the Consolidated Financial Statements As at December 31
	2018 Actual $000
General Government	47,284
Protection to persons and property	52,851
Transportation services	79,582
Environmental services	7,576
Health services	327
Recreation and cultural services	66,894
Planning and development	7,300
Total Expenses	261,814

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 2019 and 2018 with the noted adjustments excluded:

	30-Jun-19	30-Jun-18
General Government	18,266	17,063
Protection to persons and property	20,349	17,598
Transportation services	24,260	23,888
Environmental services	138	131
Health services	158	160
Recreation and cultural services	23,292	22,563
Planning and development	2,804	3,064
Total Expenses	89,267	84,467

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. The increase in expenses for protection to persons and property between the 2019 and 2018 results include a union wage settlement for fire personnel as well set up costs for the new courthouse.

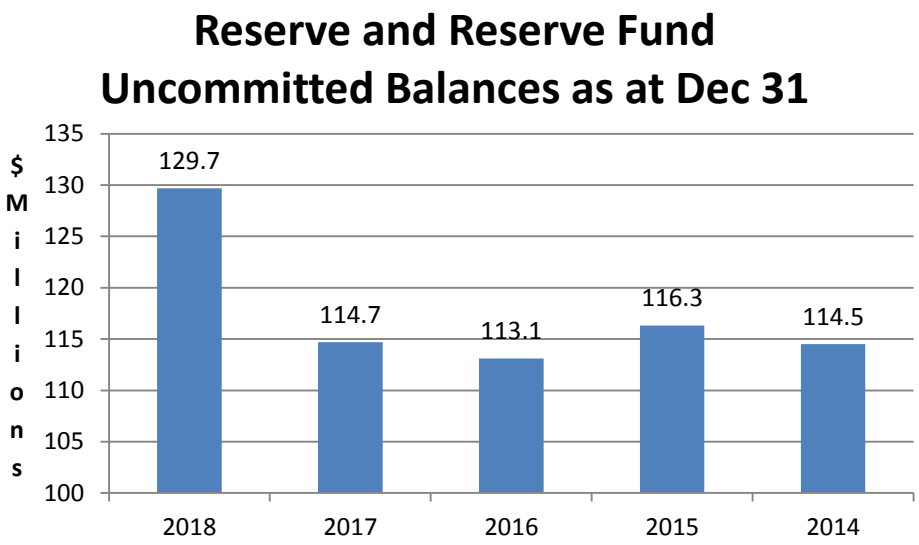
Other Financial Information

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:



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 2018 financial statements as $74.1 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.

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.