

Strathcona County 2018 First Quarter Management Report

Prepared by Corporate Finance

Prepared for
Priorities Committee
June 12, 2018

Year-to-Date Operating Variance and the Year-End Forecast of the Annual Operating Surplus for Tax Purposes

1. Year-to-Date Operating Variance*

The operating variance at March 31, 2018 is **\$0.4 million** (Q1 2017 \$7.3 million). The operating variance is the difference between the year-to-date budgeted and actual results, and is composed of timing differences, that are expected to reverse during the remainder of the year, and permanent differences that have occurred and will affect the year-end results. The lower Q1 2018 operating variance in comparison to previous years' results was anticipated and is due in part to strategic use of reserves, improved alignment with historic trends (budget to actuals), and sensible adjustments to support a less conservative approach to budgeting.

County Operating Segments	2018 Q1 YTD Variance \$M	2017 Q1 YTD Variance \$M	2016 Q1 YTD Variance \$M
Municipal	0.3	7.2	8.0
Utility	0.1	-	(0.5)
Library	-	0.1	-
TOTAL	0.4	7.3	7.5

2. Year-End Forecast of the Annual Operating Surplus for Tax Purposes* (Permanent Differences + Forecasted Items)

The year-end forecast is based on the information available as of March 31, 2018 and is subject to the uncertainty of unknown events or circumstances which may transpire during the remainder of the year.

County Operating Segments	2018 Q1 Forecast \$M	2017 Q1 Forecast \$M	2016 Q1 Forecast \$M
Municipal	0.7 (0.3%)	1.7 (0.6%)	2.6 (0.9%)
Utility	-	-	-
Library	-	-	-
TOTAL	0.7 (0.3%)	1.7 (0.6%)	2.6 (0.9%)

**Please note that the Year-to-Date Operating Variance and the Annual Operating Surplus for Tax Purposes evaluate the results using the same method used to prepare the Operating Budget, in accordance with Municipal Government Act (MGA). This method includes debt repayment expenditures and reserve transactions, and excludes amortization expense, gains/losses on asset disposals, and capital revenues, unlike the Public Sector Accounting Standards (PSAS) surplus used to prepare the financial statements.*



3. Analysis of the 2018 Year-End Forecast Surplus

a. Municipal Operations – \$0.7 million – Contributing Factors (In Order of Significance)

Favourable:

- i. \$1.2 million – Estimated RCMP contract savings due to higher vacancies than anticipated;
- ii. \$0.8 million – Higher than budgeted traffic fine revenues due to a focus on traffic enforcement;

Unfavorable:

- i. \$1.0 million – Higher than anticipated Priority 4 (P4) snow removal costs. The total P4 costs were \$2.6 million compared to the budgeted amount of \$1.6 million.

b. Utility Operations – No significant impacts to report.

c. Library Operations – No significant impacts to report.

Assessment of the County's Financial Condition – Key Financial Indicators

The following section is prepared based on the Q1 2018 Strathcona County Consolidated Financial Statements (unaudited) provided in **Appendix 1**. The Consolidated Financial Statements are prepared in accordance with Public Sector Accounting Standards (PSAS).

Statement of Financial Position – Highlights

a. Net Financial Assets Position

As of March 31, 2018, the County's net financial asset position is \$40.2 million compared to a \$79.2 million net financial asset position at December 31, 2017; a decrease of \$39.0 million. The decrease in net financial assets is expected for the first quarter, as the Q1 operational activity is financed in advance of the recognition of the 2018 property tax revenue.

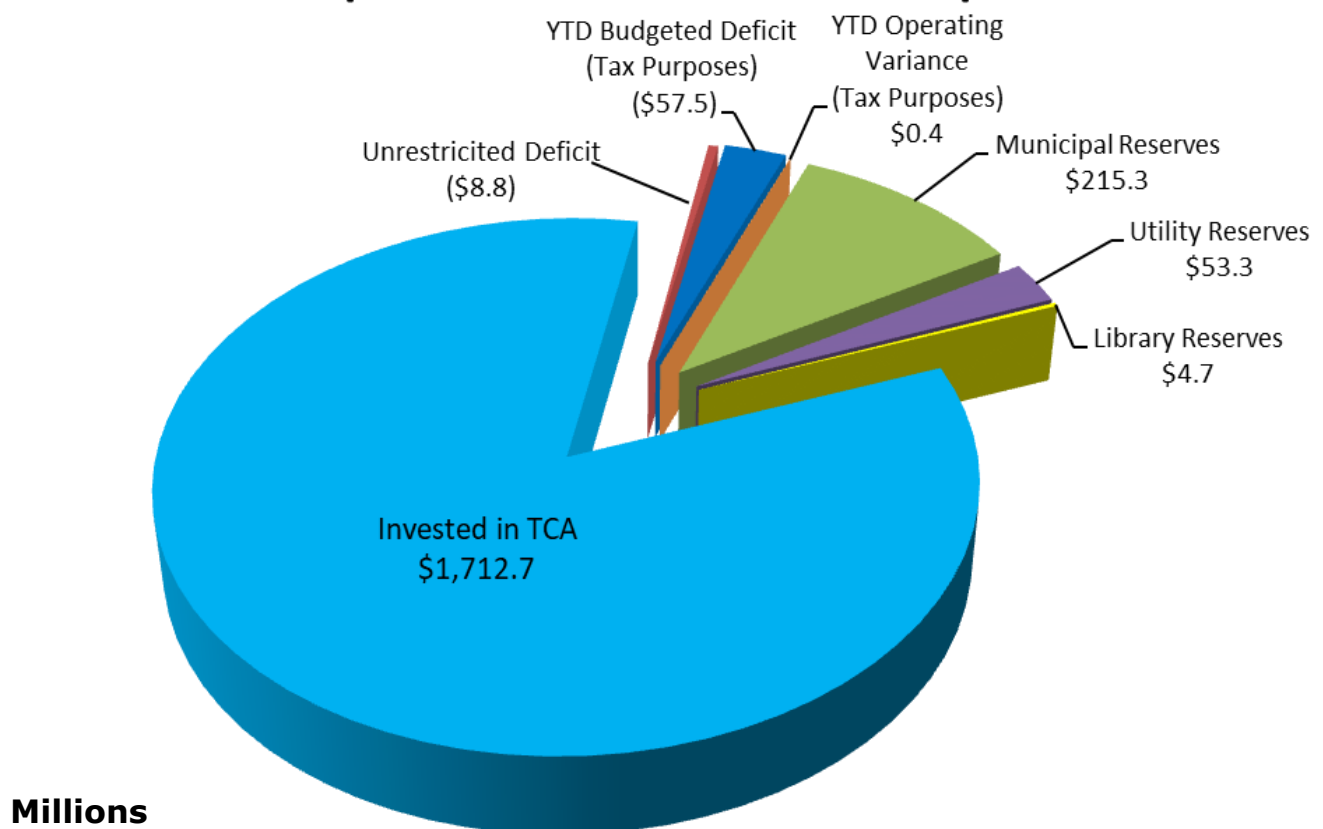


b. Accumulated Surplus

Accumulated surplus totals \$1,920.1 million at March 31, 2018 (\$1,969.1 million at December 31, 2017). The composition of the Q1 2018 accumulated surplus is as follows:

- i. Reserves of \$273.3 million (Q1 2017 \$251.4 million);
- ii. Investments in tangible capital assets of \$1,712.7 million (Q1 2017 \$1,666.4 million);
- iii. The March 31, 2018 budgeted period operating deficit for tax purposes of (\$57.5) million (Q1 2017 (\$59.3));
- iv. The March 31, 2018 year to date favourable operating variance for tax purposes of \$0.4 million (Q1 2017 \$7.3); and
- v. The unrestricted surplus (deficit) of (\$8.8) million (Q1 2017 \$2.0 million).

Composition of Accumulated Surplus



Appendix

1. Consolidated Financial Statements and Supporting Schedules for the Period Ended March 31, 2018 (unaudited)
2. Glossary of Terms



STRATHCONA COUNTY

Consolidated Financial Statements

For the Period Ended March 31, 2018 (in thousands of dollars)

(unaudited)

STRATHCONA COUNTY
Consolidated Statement of Financial Position
As at March 31, 2018 (in thousands of dollars)

	March 31, 2018	December 31, 2017
FINANCIAL ASSETS		
Cash and Cash Equivalents	\$ 4,779	\$ 7,042
Accounts Receivable		
Property Taxes	-	5,262
Government Transfers	2,240	12,117
Trade and Other	13,997	15,191
Development Levies and Charges	2,645	3,190
Investments	310,999	344,256
Investment Interest Receivable	11,269	10,589
	345,929	397,647
LIABILITIES		
Accounts Payable and Accrued Liabilities	17,263	53,023
Deposit Liabilities	17,204	17,325
Deferred Revenue	107,289	82,712
Long-Term Debt	163,947	165,423
	305,703	318,483
NET FINANCIAL ASSETS	40,226	79,164
NON-FINANCIAL ASSETS		
Tangible Capital Assets	1,876,622	1,886,035
Inventories of Materials and Supplies	863	1,028
Prepaid Expenses	2,421	2,903
	1,879,906	1,889,966
ACCUMULATED SURPLUS	\$ 1,920,132	\$ 1,969,130

STRATHCONA COUNTY
Consolidated Statement of Operations and Accumulated Surplus
For the period ended March 31, 2018 (in thousands of dollars)

	2018 Period Budget	March 31, 2018	March 31, 2017
REVENUE			
Property Taxes	\$ -	\$ -	\$ -
Utility User Rates	14,051	13,121	13,386
User Fees and Charges	10,800	10,539	11,809
Penalties and Fines	1,586	2,143	1,752
Investment Income	1,559	1,779	1,546
Government Transfers - Operating	1,194	1,432	1,270
Other	2,230	2,010	1,930
TOTAL REVENUE	31,420	31,024	31,693
EXPENSES			
Infrastructure and Planning Services			
Economic Development and Tourism	425	449	323
Planning and Development Services	2,367	2,277	1,963
Transportation and Agriculture Services	8,194	8,819	4,849
Transportation Planning and Engineering	1,119	1,033	942
Utilities	13,802	12,793	12,184
	25,907	25,371	20,261
Community Services			
Emergency Services	8,341	8,240	8,020
Family and Community Services	2,083	1,964	1,959
Strathcona Transit	4,921	4,337	4,247
RCMP and Enforcement Services	6,321	6,191	6,054
Recreation, Parks and Culture	9,406	9,075	8,607
	31,072	29,807	28,887
Corporate Services	9,131	8,192	8,037
Elected Officials	333	285	262
Financial and Strategic Management	2,114	1,811	1,766
Fiscal Services	13,750	13,752	12,657
Senior Administration	1,519	1,182	1,185
Strathcona County Library	2,601	2,601	2,506
	29,448	27,823	26,413
TOTAL EXPENSES	86,427	83,001	75,561
DEFICIT BEFORE CAPITAL REVENUE	(55,007)	(51,977)	(43,868)
CAPITAL REVENUE			
Contributed Tangible Capital Assets	-	1,879	1,139
Government Transfers - Capital	-	444	646
Other Capital Revenue	-	656	219
TOTAL CAPITAL REVENUE	-	2,979	2,004
PERIOD DEFICIT	(55,007)	(48,998)	(41,864)
ACCUMULATED SURPLUS, BEGINNING OF PERIOD	1,969,130	1,969,130	1,909,672
ACCUMULATED SURPLUS, END OF PERIOD	\$ 1,914,123	\$ 1,920,132	\$ 1,867,808

STRATHCONA COUNTY
Consolidated Statement of Change in Net Financial Assets (Net Debt)
For the period ended March 31, 2018 (in thousands of dollars)

	<u>2018 Period Budget</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
PERIOD (DEFICIT) SURPLUS	\$ (55,007)	\$ (48,998)	\$ 59,458
Acquisition of Tangible Capital Assets	-	(3,212)	(84,518)
Contributed Tangible Capital Assets	-	(1,879)	(18,167)
Amortization of Tangible Capital Assets	15,146	14,453	57,292
Gain on Disposal of Tangible Capital Assets	-	(79)	(1,110)
Proceeds from Disposal of Tangible Capital Assets	-	130	2,302
	<u>(39,861)</u>	<u>(39,585)</u>	<u>15,257</u>
Acquisition of Inventories of Materials and Supplies	-	(411)	(1,798)
Acquisition of Prepaid Expenses	-	(367)	(3,437)
Use of Inventories of Materials and Supplies	-	575	1,717
Use of Prepaid Expenses	-	850	2,863
	<u>-</u>	<u>647</u>	<u>(655)</u>
(DECREASE) INCREASE IN NET FINANCIAL ASSETS	(39,861)	(38,938)	14,602
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	<u>79,164</u>	<u>79,164</u>	<u>64,562</u>
NET FINANCIAL ASSETS, END OF PERIOD	<u>\$ 39,303</u>	<u>\$ 40,226</u>	<u>\$ 79,164</u>

STRATHCONA COUNTY
Consolidated Statement of Cash Flows
For the period ended March 31, 2018 (in thousands of dollars)

	March 31, 2018	December 31, 2017
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
PERIOD (DEFICIT) SURPLUS	\$ (48,998)	\$ 59,458
Items Not Involving Cash:		
Contributed Tangible Capital Assets	(1,879)	(18,167)
Amortization of Tangible Capital Assets	14,453	57,292
Amortization of Discount on Investments	20	64
Gain on Disposal of Tangible Capital Assets	(79)	(1,110)
Gain on Disposal of Investments	-	(944)
Changes to Non-Cash Assets and Liabilities:		
Property Taxes Receivable	5,262	(1,212)
Government Transfers Receivable	9,877	(2,607)
Trade and Other Receivables	1,194	923
Development Levies and Charges Receivable	545	(1,573)
Accounts Payable and Accrued Liabilities	(35,761)	11,976
Deposit Liabilities	(121)	1,243
Deferred Revenue	24,577	16,965
Inventories of Materials and Supplies	165	(81)
Prepaid Expenses	482	(574)
Cash (Applied to) Provided by Operating Activities	(30,262)	121,653
CAPITAL		
Proceeds from Disposal of Tangible Capital Assets	130	2,302
Acquisition of Tangible Capital Assets	(3,212)	(84,518)
Cash (Applied to) Capital Activities	(3,082)	(82,216)
INVESTING		
Purchase of Investments	(38,693)	(257,256)
Proceeds from Sale/Maturity of Investments	71,930	220,378
Change to Investment Interest Receivable	(680)	(518)
Cash Provided by (Applied to) Investing Activities	32,557	(37,396)
FINANCING		
Long-Term Debt Issued	1,557	9,850
Long-Term Debt Repaid	(3,033)	(10,567)
Cash (Applied to) Financing Activities	(1,476)	(717)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,263)	1,324
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,042	5,718
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,779	\$ 7,042

STRATHCONA COUNTY
Consolidated Schedule of Segmented Information
For the period ended March 31, 2018 (in thousands of dollars)

Municipal Operations												
	Infrastructure and Planning Services	Community Services	Corporate Services	Financial and Strategic Management	Senior Administration	Elected Officials	Fiscal Services	Total Municipal Operations	Utility Operations	Library Operations	March 31, 2018	2018 Period Budget
OPERATING REVENUE												
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utility User Rates	-	-	-	-	-	-	-	-	13,121	-	13,121	14,051
User Fees and Charges	790	8,173	129	62	31	-	988	10,173	353	13	10,539	10,800
Penalties and Fines	3	1,341	-	-	-	-	755	2,099	-	44	2,143	1,586
Investment Income	-	-	-	-	-	-	1,489	1,489	271	19	1,779	1,559
Government Transfers - Operating	45	1,315	-	-	-	-	65	1,425	7	-	1,432	1,194
Other	180	1,609	4	96	-	-	93	1,982	11	17	2,010	2,230
TOTAL OPERATING REVENUE	1,018	12,438	133	158	31	-	3,390	17,168	13,763	93	31,024	31,420
EXPENSES												
Salaries, Wages and Benefits	6,933	20,943	5,564	1,689	1,067	219	334	36,749	2,453	1,497	40,699	40,659
Contracted and General Services	4,108	4,953	1,706	261	73	52	378	11,531	2,163	99	13,793	14,940
Supplies, Materials and Utilities	1,392	3,595	745	(150)	42	14	(647)	4,991	5,697	403	11,091	12,617
Interest on Long-Term Debt	-	-	-	-	-	-	948	948	576	248	1,772	1,768
Grants and Requisitions	134	249	82	-	-	-	297	762	-	-	762	906
Amortization	-	-	-	-	-	-	12,210	12,210	1,889	354	14,453	15,144
(Gain) Loss on Asset Disposals	-	-	-	-	-	-	(79)	(79)	-	-	(79)	-
Other Expenses	11	67	95	11	-	-	311	495	15	-	510	393
TOTAL EXPENSES	12,578	29,807	8,192	1,811	1,182	285	13,752	67,607	12,793	2,601	83,001	86,427
DEFICIT BEFORE CAPITAL REVENUE	(11,560)	(17,369)	(8,059)	(1,653)	(1,151)	(285)	(10,362)	(50,439)	970	(2,508)	(51,977)	(55,007)
CAPITAL REVENUE												
Contributed Tangible Capital Assets	-	-	-	-	-	-	1,879	1,879	-	-	1,879	-
Government Transfers - Capital	-	-	-	-	-	-	482	482	(38)	-	444	-
Other Capital Revenue	-	-	-	-	-	-	337	337	319	-	656	-
TOTAL CAPITAL REVENUE	-	-	-	-	-	-	2,698	2,698	281	-	2,979	-
PERIOD DEFICIT	\$ (11,560)	\$ (17,369)	\$ (8,059)	\$ (1,653)	\$ (1,151)	\$ (285)	\$ (7,664)	\$ (47,741)	\$ 1,251	\$ (2,508)	\$ (48,998)	\$ (55,007)

STRATHCONA COUNTY
Consolidated Schedule of Tangible Capital Assets
As at March 31, 2018 (in thousands of dollars)

Cost	Balance at January 1, 2018	Additions	Contributed Additions	Disposals	Balance at March 31, 2018
Land	\$ 499,530	\$ -	\$ -	\$ -	\$ 499,530
Land Improvements	115,426	75	88	-	115,589
Buildings	455,981	913	-	-	456,894
Engineered Structures	1,193,865	109	1,791	-	1,195,765
Machinery and Equipment	74,168	144	-	-	74,312
Books and Periodicals	6,132	79	-	-	6,211
Vehicles	76,063	173	-	(335)	75,901
Assets under Construction	60,377	1,719	-	-	62,096
	\$ 2,481,542	\$ 3,212	\$ 1,879	\$ (335)	\$ 2,486,298

Accumulated Amortization	Balance at January 1, 2018	Disposals	Amortization Expense	Balance at March 31, 2018
Land Improvements	\$ 38,564	\$ -	\$ 1,301	\$ 39,865
Buildings	111,479	-	2,798	114,277
Engineered Structures	363,819	-	7,197	371,016
Machinery and Equipment	40,940	-	1,523	42,463
Books and Periodicals	2,965	-	153	3,118
Vehicles	37,740	(284)	1,481	38,937
	\$ 595,507	\$ (284)	\$ 14,453	\$ 609,676

Net Book Value	Balance at January 1, 2018	Balance at March 31, 2018
Land	\$ 499,530	\$ 499,530
Land Improvements	76,862	75,724
Buildings	344,502	342,617
Engineered Structures	830,046	824,749
Machinery and Equipment	33,228	31,849
Books and Periodicals	3,167	3,093
Vehicles	38,323	36,964
Assets under Construction	60,377	62,096
	\$ 1,886,035	\$ 1,876,622

GLOSSARY OF TERMS:

- **Annual Operating Surplus for Tax Purposes** – The annual surplus or (deficit) resulting from the modified cash flow basis, which includes debt repayment expenditures and reserve transactions, and excludes amortization expense, gains/losses on asset disposals and capital revenues, unlike the Public Sector Accounting Standards (PSAS) surplus or (deficit).
- **Budgeted Slippage** - An adjustment to the budget at the corporate level to offset projected surpluses based on historical trends.
- **Committed** – Funding approved as per FIN-001-024: Municipal Reserves policy to be applied towards specific expenditures.
- **Designated** – Funding designated to reserves for a specific purpose, which has not yet been approved by Council to be applied towards specific expenditures.
- **Forecast Variances** – Future variances to budget that have yet to occur, but are expected to be realized based on current information, and are projected to affect the year-end surplus or (deficit).
- **Permanent Differences** – Variances to budget that have occurred and will affect the year-end surplus or (deficit).
- **PSAS Surplus** – The surplus or (deficit) resulting from financial statements prepared in accordance with PSAS.
- **Timing Differences** – Variances to budget that are expected to reverse during the remainder of the year and not affect the year-end surplus or (deficit).
- **Year-End Forecast** – Permanent Differences plus the Forecast Variances make up the Year-End Forecast surplus or (deficit).
- **Year-To-Date Operating Variance** – The favorable or (unfavorable) difference between budget and actuals at a point in time including any Timing Differences.