

Strathcona County

Q3 2016 Management Report

Prepared by Financial Services

Prepared for
Priorities Committee
November 22, 2016

Year-to-Date Operating Variance and the Year-End Forecast of the Annual Operating Surplus for Tax Purposes for Municipal, Utility, Library Operations and Pioneer Housing Foundation (PHF)

1. Year-to-Date Operating Variance

The operating variance at September 30, 2016 is **\$24.5 million** (Q3 2015 \$22.1 million). The operating variance is the difference between the year-to-date actual and budgeted results, and is comprised 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.

County Operating Segments	Q3 2016 YTD Timing Differences \$M	Q3 2016 YTD Permanent Differences \$M	Q3 2016 YTD Variance \$M	Q3 2015 YTD Variance \$M
Municipal	9.9	13.2	23.1	18.3
Utility	0.1	1.2	1.3	3.6
Library	0.1	-	0.1	0.2
PHF	-	-	-	-
TOTAL	10.1	14.4	24.5	22.1

The year-to-date operating variance includes reserve transactions and debt repayments that are excluded from Public Sector Accounting Standards (PSAS) financial reporting.

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

County Operating Segments	Q3 2016 Forecast \$M	Q3 2015 Forecast \$M
Municipal	15.8 (5.6%)	11.7 (4.3%)
Utility	1.3 (2.2%)	2.4 (4.2%)
Library	0.1 (1.3%)	-
PHF	-	-
TOTAL	17.2 (4.9%)	14.1 (4.2%)

Please note that the percentages represent the proportion of forecast surplus compared to the respective annual operating budgets. The annual operating surplus for tax purposes includes reserve transactions and debt repayments that are excluded from Public Sector Accounting Standards (PSAS) financial reporting.

The year-end forecast is based on the information available as of September 30, 2016 and is subject to the uncertainty of unknown events or circumstances which may transpire during the remainder of the year.



3. Analysis of the 2016 Year-End Forecast

a. Municipal Operations – \$15.8 million – Contributing Factors (In Order of Significance)

Favourable:

- i. Personnel cost savings due to staff turnover, vacancies, and deferred hiring (net of slippage);
- ii. Savings due to lower winter maintenance than anticipated;
- iii. Municipal property tax revenues and supplemental taxes exceeding the budget;
- iv. Favourable contract circumstances;
- v. Savings from lower fuel prices and volumes than anticipated;
- vi. Savings on supplies and materials for road maintenance;
- vii. Gains on the disposal of investments and investment income; and
- viii. Unbudgeted emergency services 911 grant and EMS billing revenues.

Unfavourable:

- i. Lower value and volume of building and development permits; and
- ii. Lower user fee revenues from Millennium passes and admissions.

b. Utility Operations – \$1.3 million – Contributing Factors (In Order of Significance)

Favourable:

- i. Higher user fee revenue due to increased residential water consumption and budgeted;
- ii. Personnel cost savings due to staff turnover, vacancies, and deferred hiring; and
- iii. Higher user fee revenue than anticipated due to customer volume.

c. Library Operations – No significant impacts to report.

d. Pioneer Housing Foundation Operations – No significant impacts to report.



Capital Activity (Excluding PHF)

1. 2016 Capital Budget and Spending

The 2016 Capital Budget (cash flowed), as amended, totals \$239.8 million. The capital spending, as of September 30, 2016, totals \$64.7 million (Q3 2015 \$60.7 million), which represents 27% of the planned expenditures for the year.

2. 2016 Capital Budget Amendments

Nineteen project amendments have been approved as of Q3 2016 for a \$2.9 million total net increase of the capital budget.

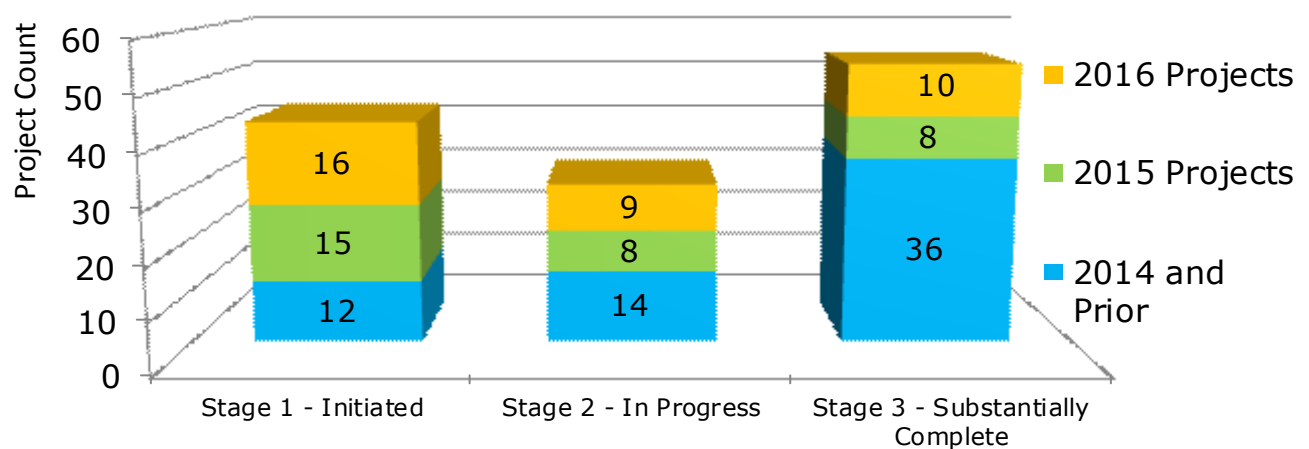
3. Update on Completed Projects

During the first three quarters of 2016, 28 projects were completed \$4.3 million under a total combined budget of \$55.4 million. Of the unused funding, \$0.9 million was budgeted to be funded from external grants, debentures and other sources, and \$3.4 million was budgeted from internal sources (reserves). All funds released are allocated back to their original funding sources, and are available for other emergent or future priorities.

4. Capital Status

The 128 active capital projects, as of September 30, 2016, have been grouped based on work completed according to assessments provided by the responsible departments, consisting of the following project stage groupings; Stage 1 (0 - 10%) Initiated, Stage 2 (11 - 85%) In Progress, and Stage 3 (86 - 99%) Substantially Complete, as illustrated below:

Active Capital Projects at September 30, 2016



STAGE TOTALS = Stage 1 - 43 (34%), Stage 2 - 31 (24%), Stage 3 - 54 (42%)



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

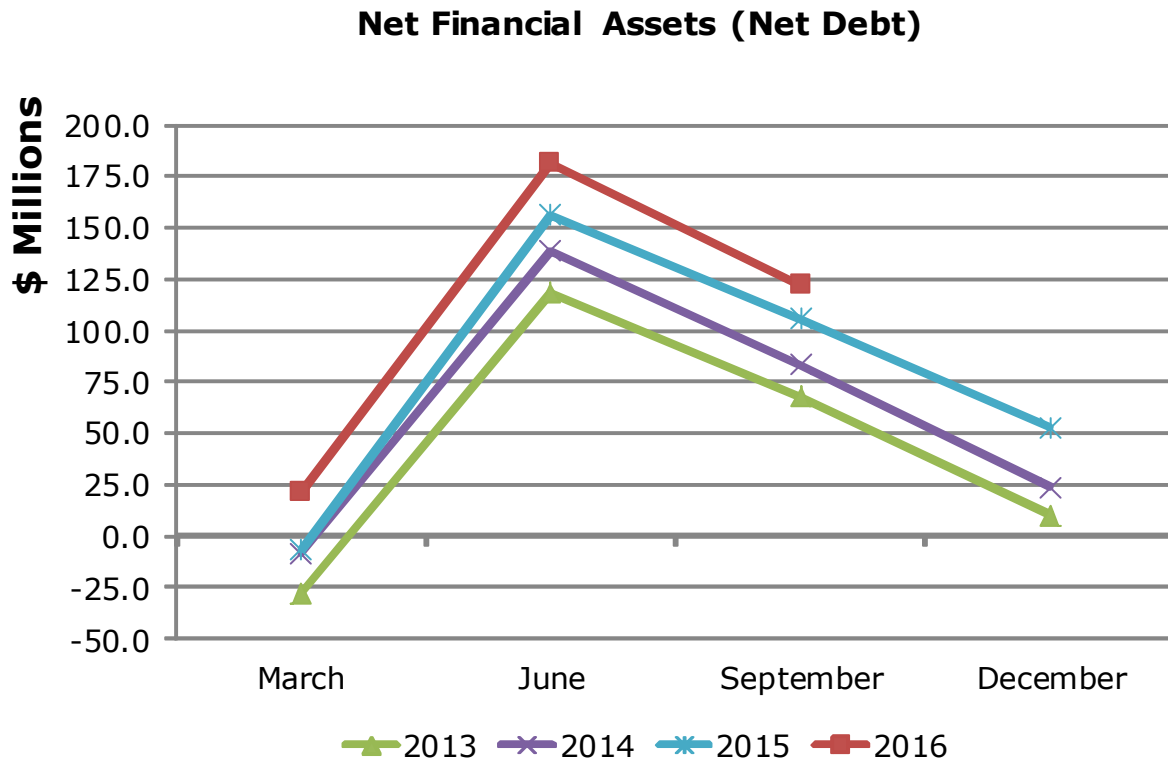
The following section is prepared based on the Q3 2016 Strathcona County Consolidated Financial Statements (unaudited) provided in Appendix 1. The Consolidated Financial Statements are prepared in accordance with Public Sector Accounting Standards (PSAS).

Statement of Financial Position – Highlights

a. Net Financial Assets (Net Debt) Position

As of September 30, 2016, the County's net financial asset position is \$121.6 million compared to a \$53.3 million net financial asset position at December 31, 2015, an increase of \$68.3 million. The increase in net financial assets is expected and mainly due to the timing of property tax revenue, which will be drawn down to finance operations for the final quarter of 2016.

b. Net Financial Assets Trend Analysis



c. Long-term debt

The County has issued \$13.0 million of new debt during 2016 for the following capital projects:

Pioneer Housing Foundation - \$3.5 million

RCMP Building Expansion - \$4.0 million

Glen Allan Recreation Complex - \$5.5 million

d. Reserve Reporting

The following table provides a summary of the County's reserve balances as at September 30, 2016:

Reserves	Committed \$M	Designated \$M	Total \$M	Optimal Variance \$M
Municipal				
Stabilization and Contingency	-	9.5	9.5	(2.6)
Projects	40.3	19.2	59.5	(2.4)
Infrastructure, Lifecycle, Maintenance and Replacement	33.5	40.4	73.9	6.7
Special Purpose	15.1	12.7	27.8	3.7
Total Municipal	88.9	81.8	170.7	5.4
Utilities				
Stabilization and Contingency	-	1.2	1.2	(1.3)
Projects	-	-	-	-
Infrastructure, Lifecycle, Maintenance and Replacement	4.5	40.5	45.0	(33.3)
Special Purpose	4.2	-	4.2	-
Total Utilities	8.7	41.7	50.4	(34.6)
Total Library	-	4.2	4.2	-
Total Reserves	97.6	127.7	225.3	(29.2)
Percentage	43%	57%	100%	

The presentation of reserve groupings is in accordance with the Policy: FIN-001-024 Municipal Reserves. Please note that the optimal variance column is determined through a comparison of the reserve's optimal balance with the designated funds available within the respective reserve. A positive figure indicates a balance above the optimal amount and a negative figure indicates a balance below the optimal amount.

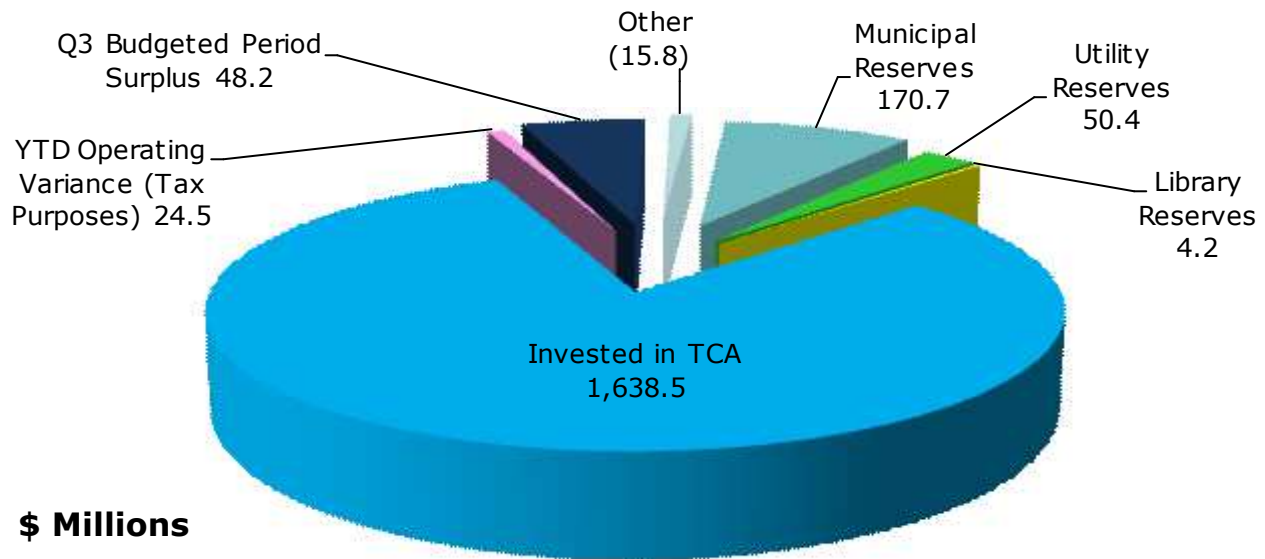


e. Accumulated Surplus

Accumulated surplus totals \$1,920.7 million at September 30, 2016 (\$1,824.6 million at December 31, 2015). The composition of the Q3 2016 accumulated surplus is as follows:

- i. Reserves of \$225.3 million (Q4 2015 - \$223.4 million);
- ii. Investments in tangible capital assets of \$1,638.5 million (Q4 2015 - \$1,611.6 million);
- iii. The September 30, 2016 budgeted period operating surplus of \$48.2 million (Q4 2015 - \$nil);
- iv. The September 30, 2016 year-to-date favourable operating variance of \$24.5 million (Q4 2015 - \$nil after year end surplus allocation); and
- v. The unrestricted surplus (deficit) of (\$15.8) million (Q4 2015 - (\$10.3) million).

Composition of Accumulated Surplus



Appendix

1. Consolidated Financial Statements and Supporting Schedules for the Period Ended September 30, 2016 (unaudited)
2. Glossary of Terms



STRATHCONA COUNTY

Consolidated Financial Statements

For the Period Ended September 30, 2016 (in thousands of dollars)

(unaudited)

STRATHCONA COUNTY
Consolidated Statement of Financial Position
As at September 30, 2016 (in thousands of dollars)

	September 30 2016 (unaudited)	December 31 2015
FINANCIAL ASSETS		
Cash and Cash Equivalents	\$ 4,136	\$ 4,214
Accounts Receivable		
Property Taxes	22,181	4,827
Government Transfers	331	9,853
Trade and Other	17,116	13,630
Development Levies and Charges	2,516	2,816
Land Held for Resale	1,844	2,632
Investments	368,094	291,293
Investment Interest Receivable	9,227	8,217
	425,445	337,482
LIABILITIES		
Accounts Payable and Accrued Liabilities	55,763	44,777
Deposit Liabilities	17,121	18,639
Deferred Revenue	72,282	64,088
Capital Leases	3	108
Long-Term Debt	158,638	156,545
	303,807	284,157
NET FINANCIAL ASSETS	121,638	53,325
NON-FINANCIAL ASSETS		
Tangible Capital Assets	1,797,142	1,767,591
Inventories of Materials and Supplies	942	975
Prepaid Expenses	1,025	2,738
	1,799,109	1,771,304
ACCUMULATED SURPLUS	\$ 1,920,747	\$ 1,824,629

STRATHCONA COUNTY
Consolidated Statement of Operations and Accumulated Surplus
For the period ended September 30, 2016 (in thousands of dollars)

	2016 Period Budget <i>(unaudited)</i>	September 30 2016 <i>(unaudited)</i>	September 30 2015 <i>(unaudited)</i>
REVENUE			
Property Taxes	\$ 219,653	\$ 221,530	\$ 208,997
Government Transfers - Operating	3,585	5,310	5,912
Utility User Rates	40,894	41,174	42,331
User Fees and Charges	30,200	29,182	30,970
Penalties and Fines	4,725	4,967	4,965
Investment Income	4,479	5,396	6,277
Other	5,960	11,394	7,279
TOTAL REVENUES	309,496	318,953	306,731
EXPENSES			
Infrastructure and Planning Services			
Capital Planning and Construction	3,374	2,990	2,158
Economic Development and Tourism	1,026	1,002	902
Planning and Development Services	8,183	6,354	6,852
Transportation and Agriculture Services	25,147	19,364	21,029
Utilities	41,418	39,828	40,591
	79,148	69,538	71,532
Community Services			
Emergency Services	25,404	24,441	22,274
Family and Community Services	5,622	6,069	5,492
Strathcona Transit	14,283	12,924	13,029
RCMP and Enforcement Services	17,425	17,997	15,889
Recreation, Parks and Culture	31,656	30,379	28,538
	94,390	91,810	85,222
Corporate Services	25,967	23,294	21,226
Chief Financial Officer	4,908	4,348	4,024
Senior Administration	4,864	4,528	4,504
Elected Officials	964	835	824
Fiscal Services	37,588	37,763	37,200
Strathcona County Library	7,534	7,777	7,137
Pioneer Housing Foundation	1,249	325	485
	83,074	78,869	75,400
TOTAL EXPENSES	256,612	240,217	232,154
SURPLUS BEFORE CAPITAL REVENUE	52,884	78,736	74,577
CAPITAL REVENUE			
Contributed Tangible Capital Assets	-	4,349	18,067
Government Transfers - Capital	28,529	10,739	26,138
Other Capital Revenues	43,498	2,294	2,483
TOTAL CAPITAL REVENUE	72,027	17,382	46,688
PERIOD SURPLUS	124,911	96,118	121,265
ACCUMULATED SURPLUS, BEGINNING OF PERIOD	1,824,629	1,824,629	1,697,101
ACCUMULATED SURPLUS, END OF PERIOD	\$ 1,949,540	\$ 1,920,747	\$ 1,818,366

STRATHCONA COUNTY
Consolidated Statement of Change in Net Financial Assets (Net Debt)
For the period ended September 30, 2016 (in thousands of dollars)

	2016 Period Budget <i>(unaudited)</i>	September 30, 2016 <i>(unaudited)</i>	December 31, 2015
PERIOD SURPLUS	\$ 124,911	\$ 96,118	\$ 127,528
Acquisition of Tangible Capital Assets	(179,857)	(64,651)	(88,863)
Contributed Tangible Capital Assets	-	(4,349)	(60,325)
Amortization of Tangible Capital Assets	39,963	39,032	51,153
Loss on Tangible Capital Assets Transfers and Disposals	-	171	307
Proceeds from Transfers and Disposals of Tangible Capital Assets	-	245	417
	<u>(14,983)</u>	<u>66,566</u>	<u>30,217</u>
Acquisition of Inventories of Materials and Supplies	-	(477)	(1,908)
Acquisition of Prepaid Expenses	-	(902)	(3,608)
Use of Inventories of Materials and Supplies	-	510	1,783
Use of Prepaid Expenses	-	2,615	3,198
	<u>-</u>	<u>1,746</u>	<u>(535)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(14,983)	68,312	29,682
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	<u>53,325</u>	<u>53,325</u>	<u>23,643</u>
NET FINANCIAL ASSETS, END OF PERIOD	<u>\$ 38,342</u>	<u>\$ 121,636</u>	<u>\$ 53,325</u>

STRATHCONA COUNTY
Consolidated Statement of Cash Flows
For the period ended September 30, 2016 (in thousands of dollars)

	September 30 2016 <i>(unaudited)</i>	December 31 2015
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Period Surplus	\$ 96,118	\$ 127,528
Items Not Involving Cash:		
Contributed Tangible Capital Assets	(4,349)	(60,325)
Amortization of Tangible Capital Assets	39,032	51,153
Amortization of Discount on Investments	48	51
Loss on Tangible Capital Assets Transfers and Disposals	171	307
Gain on Disposal of Investments	(719)	(1,835)
Changes to Non-Cash Assets and Liabilities:		
Property Taxes Receivable	(17,354)	(1,528)
Government Transfers Receivable	9,522	(7,444)
Trade and Other Receivables	(3,486)	1,871
Development Levies and Charges	300	3,974
Land Held for Resale	788	(7)
Accounts Payable and Accrued Liabilities	10,987	7,583
Deposit Liabilities	(1,518)	2,063
Deferred Revenue	8,194	(14,970)
Inventories of Materials and Supplies	33	(125)
Prepaid Expenses	1,713	(410)
Cash Provided by Operating Activities	<u>139,479</u>	<u>107,886</u>
CAPITAL		
Proceeds from Transfers and Disposals of Tangible Capital Assets	245	417
Acquisition of Tangible Capital Assets	(64,651)	(88,863)
Cash Applied to Capital Activities	<u>(64,406)</u>	<u>(88,446)</u>
INVESTING		
Purchase of Investments	(268,747)	(332,130)
Proceeds from Sale/Maturity of Investments	192,618	329,609
Change to Investment Interest Receivable	(1,010)	(1,924)
Cash Applied to Investing Activities	<u>(77,139)</u>	<u>(4,445)</u>
FINANCING		
Long-Term Debt Issued	(5,331)	4,600
Capital Leases Repaid	(105)	(138)
Long-Term Debt Repaid	7,424	(11,779)
Cash Provided by (Applied to) Financing Activities	<u>1,988</u>	<u>(7,317)</u>
EQUIVALENTS	(78)	7,678
CASH AND CASH EQUIVALENTS (CHEQUES ISSUED IN EXCESS OF CASH), BEGINNING OF PERIOD	<u>4,214</u>	<u>(3,464)</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 4,136</u></u>	<u><u>\$ 4,214</u></u>

STRATHCONA COUNTY
Consolidated Schedule of Segmented Information
For the period ended September 30, 2016 (in thousands of dollars)

	Municipal Operations	Utility Operations	Library Operations	Pioneer Housing Foundation	Eliminations	September 30 2016 (unaudited)	September 30 2015 (unaudited)	2016 Period Budget (unaudited)
OPERATING REVENUE								
Property Taxes	\$ 212,268	\$ 6	\$ 9,256	\$ -	\$ -	\$ 221,530	\$ 208,997	\$ 219,653
Government Transfers - Operating	4,727	23	560	-	-	5,310	5,912	3,585
Utility User Rates	-	41,174	-	-	-	41,174	42,331	40,894
User Fees and Charges	28,179	959	44	-	-	29,182	30,970	30,200
Penalties and Fines	4,836	-	131	-	-	4,967	4,965	4,725
Investment Income	4,614	703	80	-	-	5,396	6,277	4,479
Other	10,255	60	367	1,122	(411)	11,393	7,279	5,960
TOTAL OPERATING REVENUE	264,879	42,925	10,438	1,122	(411)	318,953	306,731	309,496
EXPENSES								
Salaries, Wages and Benefits	105,199	7,968	4,527	-	-	117,694	111,248	122,459
Contracted and General Services	30,544	7,969	249	-	-	38,762	40,002	45,676
Supplies, Materials and Utilities	17,193	16,676	868	-	-	34,738	34,984	40,708
Interest on Long-Term Debt	2,441	1,901	744	411	(411)	5,086	5,440	5,053
Grants and Requisitions	1,778	-	-	-	-	1,778	1,717	1,617
Amortization	32,748	5,260	1,024	325	-	39,357	37,129	39,963
Loss (Gain) on Tangible Capital Assets								
Transfers and Disposals	171	-	-	-	-	171	123	-
Other Expenses	2,211	54	366	-	-	2,631	1,510	1,135
TOTAL EXPENSES	192,286	39,828	7,777	736	(411)	240,217	232,154	256,612
SURPLUS BEFORE CAPITAL REVENUE	72,593	3,097	2,660	386	-	78,736	74,576	52,884
CAPITAL REVENUE								
Contributed Tangible Capital Assets	4,349	-	-	-	-	4,349	18,067	-
Government Transfers - Capital	10,280	459	-	-	-	10,739	26,138	28,529
Other Capital Revenues	2,021	272	2	-	-	2,294	2,483	43,498
TOTAL CAPITAL REVENUE	16,650	731	2	-	-	17,382	46,688	72,027
ANNUAL SURPLUS	89,242	3,829	2,662	386	-	96,118	121,265	124,911
ACCUMULATED SURPLUS (DEFICIT), BEGINNING OF PERIOD	1,494,241	312,737	9,450	15,625	(7,424)	1,824,629	1,697,101	1,824,629
ACCUMULATED SURPLUS (DEFICIT), END OF PERIOD	\$ 1,583,484	\$ 316,566	\$ 12,113	\$ 16,011	\$ (7,424)	\$ 1,920,747	\$ 1,818,366	\$ 1,949,540

STRATHCONA COUNTY
Consolidated Schedule of Tangible Capital Assets
As at September 30, 2016 (in thousands of dollars)

Cost	Balance at January 1 2016 (unaudited)	Additions (unaudited)	Contributed Additions (unaudited)	Disposals (unaudited)	Balance at September 30 2016 (unaudited)
Land	\$ 473,870	\$ -	\$ -	\$ -	\$ 473,870
Land Improvements	98,507	1,092	168	-	99,767
Buildings	374,102	27,961	-	(37)	402,025
Engineered Structures	1,125,477	5,101	4,181	-	1,134,760
Machinery and Equipment	68,349	1,886	-	(292)	69,944
Books and Periodicals	5,592	379	-	-	5,970
Vehicles	69,404	6,893	-	(2,219)	74,078
Assets under Construction	67,687	21,338	-	-	89,025
	\$ 2,282,988	\$ 64,651	\$ 4,349	\$ (2,548)	\$ 2,349,439

Accumulated Amortization	Balance at January 1 2016 (unaudited)	Disposals (unaudited)	Amortization Expense (unaudited)	Balance at September 30 2016 (unaudited)
Land Improvements	\$ 29,860	\$ -	\$ 3,356	\$ 33,216
Buildings	90,961	(37)	5,983	96,906
Engineered Structures	329,834	-	20,694	350,528
Machinery and Equipment	31,886	(281)	4,495	36,100
Books and Periodicals	2,526	-	419	2,945
Vehicles	30,330	(1,813)	4,085	32,602
Assets under Construction	-	-	-	-
	\$ 515,397	\$ (2,132)	\$ 39,032	\$ 552,297

Net Book Value	Balance at January 1 2016 (unaudited)	Balance at September 30 2016 (unaudited)
Land	\$ 473,870	\$ 473,870
Land Improvements	68,647	66,551
Buildings	283,141	305,119
Engineered Structures	795,643	784,231
Machinery and Equipment	36,463	33,844
Books and Periodicals	3,066	3,026
Vehicles	39,074	41,476
Assets under Construction	67,687	89,025
	\$ 1,767,591	\$ 1,797,142

GLOSSARY OF TERMS:

- **Annual Operating Surplus for Tax Purposes** – The annual surplus or (deficit) resulting on 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 PSAS Surplus.
- **Cash Flow** – Planned or actual timing of expenditures/costs and/or the receipt or disbursement of funding or financing sources.
- **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 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).
- **Public Sector Accounting Standards Surplus** – The surplus or (deficit) resulting from financial statements prepared in accordance with Public Sector Accounting Standards (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).