

# Strathcona County 2017 Third Quarter Management Report

Prepared by Corporate Finance

**Prepared for**  
Priorities Committee  
November 21, 2017

**Year-to-Date Operating Variance and the Year-End Forecast of the Annual Operating Surplus for Tax Purposes for Municipal, Utility and Library Operations**

**1. Year-to-Date Operating Variance**

The operating variance as of September 30, 2017 is **\$12.4 million** (Q3 2016 \$24.5 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.

<b>County Operating Segments</b>	<b>2017 Q3 YTD Timing Differences \$M</b>	<b>2017 Q3 YTD Permanent Differences \$M</b>	<b>2017 Q3 YTD Variance \$M</b>	<b>2016 Q3 YTD Variance \$M</b>
Municipal	6.1	5.3	11.4	23.1
Utility	0.1	0.6	0.7	1.3
Library	-	0.3	0.3	0.1
<b>TOTAL</b>	<b>6.2</b>	<b>6.2</b>	<b>12.4</b>	<b>24.5</b>

*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)**

<b>County Operating Segments</b>	<b>2017 Q3 Forecast \$M</b>	<b>2016 Q3 Forecast \$M</b>
Municipal	10.8 (3.8%)	15.8 (5.6%)
Utility	1.1 (1.9%)	1.3 (2.2%)
Library	0.2 (2.4%)	0.1 (1.3%)
<b>TOTAL</b>	<b>12.1 (3.4%)</b>	<b>17.2 (4.9%)</b>

*Please note that the percentages represent the proportion of 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, 2017 and is subject to the uncertainty of unknown events or circumstances which may transpire during the remainder of the year.



### **3. Analysis of the 2017 Year-End Forecast**

#### **a. Municipal Operations – \$10.8 million – Contributing Factors (In Order of Significance)**

Favourable:

- i. Savings in winter road maintenance (non-P4);
- ii. Higher investment income;
- iii. Savings on supplies and materials for road maintenance;
- iv. Additional penalty and fine revenues due to continued focus on traffic safety; and
- v. Unbudgeted MSI operating grant 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 – \$1.1 million—Contributing Factors (In Order of Significance)**

Favourable:

- i. Third party reimbursement of 2016 wastewater sewer repair;
- ii. Savings in solid waste contracts; and
- iii. Higher solid waste user fee revenue due to higher customer volumes.

#### **c. Library Operations – No significant impacts to report.**

### **Capital Activity (Excluding PHF)**

#### **1. 2017 Capital Budget and Spending**

The 2017 Annual Capital Budget (cash flowed), as amended, totals \$190.0 million. The capital spending, as of September 30, 2017, totals \$44.6 million (Q3 2016 \$64.7 million), which represents 23% of the planned expenditures for the year.

#### **2. Update on Project Activity**

During the first three quarters of 2017, sixty two projects were completed with \$14.8 million under a total combined budget of \$116.9 million. Of the unused funding, \$9.7 million was budgeted to be funded from external grants, debentures and other sources, and \$5.1 million was budgeted from internal sources (reserves). All funds released are allocated back to their original funding sources.

#### **3. 2017 Capital Budget Amendments**

Twenty project amendments have been approved as of Q3 2017 for a \$20.5 million total net increase of the capital budget.



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

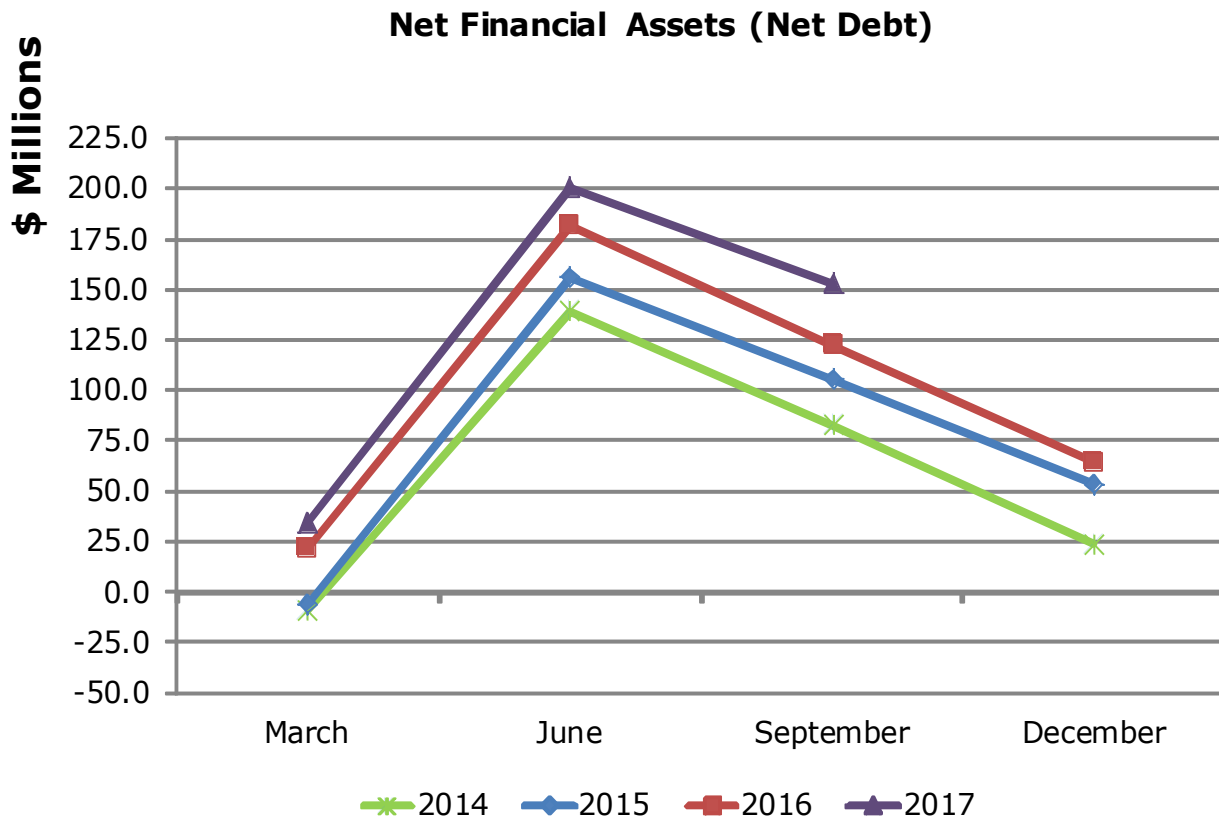
The following section is prepared based on the Q3 2017 Strathcona County Consolidated Financial Statements (unaudited) provided in Appendix 2. The Consolidated Financial Statements are prepared in accordance with PSAS.

**Statement of Financial Position – Highlights**

**a. Net Financial Assets (Net Debt) Position**

As of September 30, 2017, the County's net financial asset position is \$152.9 million compared to a \$64.6 million net financial asset position at December 31, 2016 an increase of \$88.3 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 in the final quarter of 2017.

**b. Net Financial Assets Trend Analysis**



### c. Long-term Debt

The County has issued \$5.2 million of new debt as of September 30, 2017 (Q3 2016 \$13.0 million) for the following capital projects:

Pioneer Housing Foundation - \$4.5 million

Emerald Hills Aquatic Centre - \$0.7 million

Debt repayment of \$8.0 million (Q3 2016 \$7.4 million) has reduced the 2017 long-term debt opening balance of \$166.1 million to 163.3 million as of September 30, 2017.

### d. Reserve Reporting

The following table provides a summary of the County's reserves balances as of September 30, 2017:

<b>Reserves</b>	<b>Committed \$M</b>	<b>Designated \$M</b>	<b>Total \$M</b>	<b>Optimal Variance \$M</b>
<b>Municipal</b>				
Stabilization and Contingency	1.6	12.0	13.6	(0.2)
Projects	47.2	20.4	67.6	(4.6)
Infrastructure, Lifecycle, Maintenance and Replacement	24.3	50.3	74.6	14.1
Special Purpose	24.3	21.5	45.8	11.6
<b>Total Municipal</b>	<b>97.4</b>	<b>104.2</b>	<b>201.6</b>	<b>20.9</b>
<b>Utilities</b>				
Stabilization and Contingency	-	1.3	1.3	(1.3)
Projects	-	-	-	-
Infrastructure, Lifecycle, Maintenance and Replacement	12.0	34.5	46.5	(39.3)
Special Purpose	3.9	-	3.9	-
<b>Total Utilities</b>	<b>15.9</b>	<b>35.8</b>	<b>51.7</b>	<b>(40.6)</b>
<b>Total Library</b>	<b>-</b>	<b>4.5</b>	<b>4.5</b>	<b>-</b>
<b>Total Reserves</b>	<b>113.3</b>	<b>144.5</b>	<b>257.8</b>	<b>(19.7)</b>
<b>Percentage</b>	<b>44%</b>	<b>56%</b>	<b>100%</b>	

*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.*

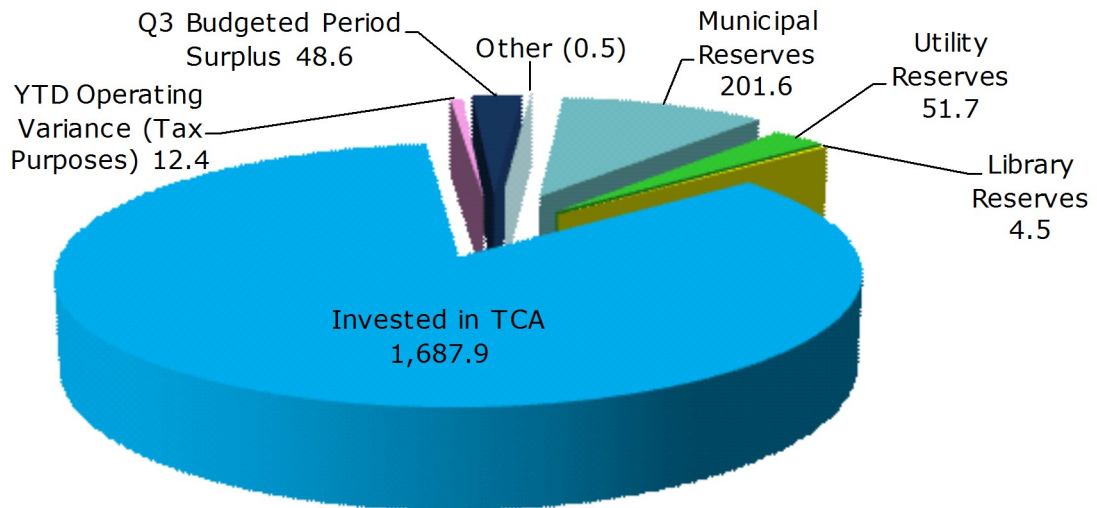


### **e. Accumulated Surplus**

Accumulated surplus totals \$2,006.2 million as of September 30, 2017 (\$1,920.7 million at Q3 2016). The composition of the Q3 2017 accumulated surplus is as follows:

- i. Reserves of \$257.8 million (Q3 2016 \$225.3 million);
- ii. Investments in Tangible Capital Assets of \$1,687.9 million (Q3 2016 \$1,638.5 million);
- iii. The September 30, 2017 budgeted period operating surplus of \$48.6 million (Q3 2016 \$48.2 million);
- iv. The September 30, 2017 year-to-date favourable operating variance of \$12.4 million (Q3 2016 \$24.5 million); and
- v. The unrestricted deficit of (\$0.5) million (Q3 2016 (\$15.8) million).

### **Composition of Accumulated Surplus**



**\$ Millions**

### **Appendix**

1. Consolidated Financial Statements and Supporting Schedules for the Period Ended September 30, 2017 (unaudited)
2. Glossary of Terms



# **STRATHCONA COUNTY**

## **Consolidated Financial Statements**

For the Period Ended September 30, 2017 (in thousands of dollars)

*(unaudited)*

**STRATHCONA COUNTY**  
**Consolidated Statement of Financial Position**  
As at September 30, 2017 (in thousands of dollars)

	September 30, 2017	December 31, 2016
<b>FINANCIAL ASSETS</b>		
Cash and Cash Equivalents	\$ 3,027	\$ 5,718
Accounts Receivable		
Property Taxes	23,396	4,050
Government Transfers	33	9,510
Trade and Other	20,032	16,114
Development Levies and Charges	775	1,617
Investments	419,997	306,498
Investment Interest Receivable	9,888	10,071
	<u>477,148</u>	<u>353,578</u>
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	61,293	41,047
Deposit Liabilities	17,367	16,082
Deferred Revenue	82,272	65,747
Long-Term Debt	163,290	166,140
	<u>324,222</u>	<u>289,016</u>
<b>NET FINANCIAL ASSETS</b>	<u>152,926</u>	<u>64,562</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible Capital Assets	1,851,204	1,841,834
Inventories of Materials and Supplies	829	947
Prepaid Expenses	1,236	2,329
	<u>1,853,269</u>	<u>1,845,110</u>
<b>ACCUMULATED SURPLUS</b>	<u><u>\$ 2,006,195</u></u>	<u><u>\$ 1,909,672</u></u>



**STRATHCONA COUNTY**  
**Consolidated Statement of Operations and Accumulated Surplus**  
For the period ended September 30, 2017 (in thousands of dollars)

	2017 Period Budget	September 30, 2017	September 30, 2016
<b>REVENUE</b>			
Property Taxes	\$ 220,517	\$ 220,091	\$ 221,530
Utility User Rates	42,848	40,856	41,174
User Fees and Charges	29,834	30,770	29,182
Investment Income	4,226	6,204	5,396
Penalties and Fines	4,753	6,013	4,967
Government Transfers - Operating	5,103	5,422	5,310
Other	6,241	6,774	11,393
<b>TOTAL REVENUES</b>	<b>313,522</b>	<b>316,130</b>	<b>318,952</b>
<b>EXPENSES</b>			
<b>Infrastructure and Planning Services</b>			
Transportation Planning and Engineering	3,225	3,283	2,990
Economic Development and Tourism	1,172	1,125	1,002
Planning and Development Services	7,608	6,532	6,354
Transportation and Agriculture Services	25,112	20,575	19,364
Utilities	41,697	40,112	39,828
	<b>78,814</b>	<b>71,627</b>	<b>69,538</b>
<b>Community Services</b>			
Emergency Services	25,764	24,122	24,441
Family and Community Services	6,315	6,460	6,069
Strathcona Transit	14,028	13,059	12,924
RCMP and Enforcement Services	18,460	18,667	17,997
Recreation, Parks and Culture	32,474	31,062	30,379
	<b>97,041</b>	<b>93,370</b>	<b>91,810</b>
<b>Corporate Services</b>	26,789	25,197	23,294
<b>Financial and Strategic Management</b>	6,139	5,310	4,348
<b>Senior Administration</b>	4,035	3,793	4,528
<b>Elected Officials</b>	998	841	835
<b>Fiscal Services</b>	37,927	39,114	37,760
<b>Strathcona County Library</b>	7,813	7,891	7,777
<b>Pioneer Housing Foundation</b>	730	730	325
	<b>84,431</b>	<b>82,876</b>	<b>78,867</b>
<b>TOTAL EXPENSES</b>	<b>260,286</b>	<b>247,873</b>	<b>240,215</b>
<b>SURPLUS BEFORE CAPITAL REVENUE</b>	<b>53,236</b>	<b>68,257</b>	<b>78,737</b>
<b>CAPITAL REVENUE</b>			
Contributed Tangible Capital Assets	-	7,486	4,349
Government Transfers - Capital	14,278	15,702	10,739
Other Capital Revenue	8,610	5,078	2,294
<b>TOTAL CAPITAL REVENUE</b>	<b>22,888</b>	<b>28,266</b>	<b>17,382</b>
<b>PERIOD SURPLUS</b>	<b>76,124</b>	<b>96,523</b>	<b>96,119</b>
<b>ACCUMULATED SURPLUS, BEGINNING OF PERIOD</b>	<b>1,909,672</b>	<b>1,909,672</b>	<b>1,824,629</b>
<b>ACCUMULATED SURPLUS, END OF PERIOD</b>	<b>\$ 1,985,796</b>	<b>\$ 2,006,195</b>	<b>\$ 1,920,748</b>

**STRATHCONA COUNTY**  
**Consolidated Statement of Cash Flows**  
For the period ended September 30, 2017 (in thousands of dollars)

	September 30, 2017	December 31, 2016
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Period Surplus	\$ 96,523	\$ 85,043
Items Not Involving Cash:		
Contributed Tangible Capital Assets	(7,486)	(32,711)
Amortization of Tangible Capital Assets	42,093	54,469
Amortization of Discount on Investments	51	65
Gain on Disposal of Tangible Capital Assets	(1,598)	661
Gain on Disposal of Investments	(905)	(732)
Changes to Non-Cash Assets and Liabilities:		
Property Taxes Receivable	(19,346)	777
Government Transfers Receivable	9,477	343
Trade and Other Receivables	(3,918)	(2,484)
Development Levies and Charges Receivable	842	1,199
Land Held for Resale	-	2,632
Accounts Payable and Accrued Liabilities	20,246	(3,730)
Deposit Liabilities	1,285	(2,557)
Deferred Revenue	16,525	1,659
Inventories of Materials and Supplies	118	28
Prepaid Expenses	1,093	409
Cash Provided by Operating Activities	155,000	105,071
<b>CAPITAL</b>		
Proceeds from Disposal of Tangible Capital Assets	2,261	244
Acquisition of Tangible Capital Assets	(44,640)	(96,906)
Cash Applied to Capital Activities	(42,379)	(96,662)
<b>INVESTING</b>		
Purchase of Investments	(249,753)	(274,454)
Proceeds from Sale/Maturity of Investments	137,108	259,916
Change to Investment Interest Receivable	183	(1,854)
Cash Applied to Investing Activities	(112,462)	(16,392)
<b>FINANCING</b>		
Long-Term Debt Issued	5,200	19,347
Capital Leases Repaid	-	(108)
Long-Term Debt Repaid	(8,050)	(9,752)
Cash (Applied to) Provided by Financing Activities	(2,850)	9,487
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	(2,691)	1,504
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	5,718	4,214
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 3,027	\$ 5,718

**STRATHCONA COUNTY**  
**Consolidated Statement of Change in Net Financial Assets (Net Debt)**  
For the period ended September 30, 2017 (in thousands of dollars)

	<b>2017 Period Budget</b>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
<b>PERIOD SURPLUS</b>	\$ 76,124	\$ 96,523	\$ 85,043
Acquisition of Tangible Capital Assets	(142,531)	(44,640)	(96,906)
Contributed Tangible Capital Assets	-	(7,486)	(32,711)
Amortization of Tangible Capital Assets	27,305	42,093	54,469
Gain on Disposal of Tangible Capital Assets	-	(1,598)	661
Proceeds from Disposal of Tangible Capital Assets	-	2,261	244
	<u>(39,101)</u>	<u>87,153</u>	<u>10,800</u>
Acquisition of Inventories of Materials and Supplies	-	(1,176)	(1,359)
Acquisition of Prepaid Expenses	-	(852)	(3,439)
Use of Inventories of Materials and Supplies	-	1,293	1,387
Use of Prepaid Expenses	-	1,945	3,848
	<u>-</u>	<u>1,211</u>	<u>437</u>
<b>INCREASE (DECREASE) IN NET FINANCIAL ASSETS</b>	(39,101)	88,364	11,237
<b>NET FINANCIAL ASSETS, BEGINNING OF PERIOD</b>	<u>64,562</u>	<u>64,562</u>	<u>53,325</u>
<b>NET FINANCIAL ASSETS, END OF PERIOD</b>	<u>\$ 25,461</u>	<u>\$ 152,926</u>	<u>\$ 64,562</u>

**STRATHCONA COUNTY**  
**Consolidated Schedule of Segmented Information**  
For the period ended September 30, 2017 (in thousands of dollars)

	Municipal Operations															
	Infractructure and Planning Services	Community Services	Corporate Services	Financial and Strategic Management	Senior Administration	Elected Officials	Fiscal Services	Total Municipal Operations	Utility Operations	Library Operations	Total Strathcona County	Pioneer Housing Foundation	Eliminations	September 30, 2017	September 30, 2016	2017 Period Budget
OPERATING REVENUE																
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210,646	\$ 210,646	\$ 6	\$ 9,439	\$ 220,091	\$ -	\$ -	\$ 220,091	\$ 221,530	\$ 220,517
Utility User Rates	-	-	-	-	-	-	-	-	40,856	-	40,856	-	-	40,856	41,174	42,848
User Fees and Charges	3,381	21,949	395	287	92	-	2,898	29,002	1,716	52	30,770	-	-	30,770	29,182	29,834
Investment Income	-	-	-	-	-	-	5,239	5,239	855	110	6,204	-	-	6,204	5,396	4,226
Penalties and Fines	18	4,071	-	-	-	-	1,801	5,890	-	123	6,013	-	-	6,013	4,967	4,753
Government Transfers - Operating	60	4,745	-	17	-	-	-	4,822	28	572	5,422	-	-	5,422	5,310	5,103
Other	357	4,747	135	95	-	-	949	6,283	19	456	6,758	234	(218)	6,774	11,393	6,241
TOTAL OPERATING REVENUE	3,816	35,512	530	399	92	-	221,533	261,882	43,480	10,752	316,114	234	(218)	316,130	318,952	313,522
EXPENSES																
Salaries, Wages and Benefits	20,823	64,781	16,395	4,986	3,292	726	833	111,836	7,888	4,611	124,335	-	-	124,335	117,695	125,532
Contracted and General Services	4,591	16,347	6,900	687	345	79	1,353	30,302	7,764	231	38,297	-	-	38,297	38,762	45,614
Supplies, Materials and Utilities	5,924	11,162	1,754	(401)	110	36	(425)	18,160	16,799	950	35,909	-	-	35,909	34,738	39,339
Interest on Long-Term Debt	-	-	-	-	-	-	2,597	2,597	1,797	719	5,113	218	(218)	5,113	5,086	5,192
Grants and Requisitions	115	747	82	-	46	-	847	1,837	34	-	1,871	-	-	1,871	1,778	1,675
Amortization	-	-	-	-	-	-	34,931	34,931	5,390	1,042	41,363	730	-	42,093	39,357	41,692
Gain/Loss on Asset Disposals	-	-	-	-	-	-	(1,986)	(1,986)	387	-	(1,599)	-	-	(1,599)	171	-
Other Expenses	62	333	66	38	-	-	964	1,463	53	338	1,854	-	-	1,854	2,628	1,242
TOTAL EXPENSES	31,515	93,370	25,197	5,310	3,793	841	39,114	199,140	40,112	7,891	247,143	948	(218)	247,873	240,215	260,286
SURPLUS (DEFICIT) BEFORE CAPITAL REVENUE	(27,699)	(57,858)	(24,667)	(4,911)	(3,701)	(841)	182,420	62,742	3,368	2,861	68,971	(715)	-	68,257	78,737	53,236
CAPITAL REVENUE																
Contributed Tangible Capital Assets	-	-	-	-	-	-	5,487	5,487	1,980	19	7,486	-	-	7,486	4,349	-
Government Transfers - Capital	-	-	-	-	-	-	15,727	15,727	(25)	-	15,702	-	-	15,702	10,739	14,278
Other Capital Revenues	-	-	-	-	-	-	3,993	3,993	96	-	4,089	989	-	5,078	2,294	8,610
TOTAL CAPITAL REVENUE	-	-	-	-	-	-	25,207	25,207	2,051	19	27,277	989	-	28,266	17,382	22,888
ANNUAL SURPLUS (DEFICIT)	\$ (27,699)	\$ (57,858)	\$ (24,667)	\$ (4,911)	\$ (3,701)	\$ (841)	\$ 207,626	\$ 87,949	\$ 5,419	\$ 2,881	\$ 96,247	\$ 274	\$ -	\$ 96,523	\$ 96,119	\$ 76,124

**STRATHCONA COUNTY**  
**Consolidated Schedule of Tangible Capital Assets**  
As at September 30, 2017 (in thousands of dollars)

<b>Cost</b>	Balance at January 1, 2017	Additions	Contributed Additions	Disposals	Balance at September 30, 2017
Land	\$ 491,112	\$ 87	\$ 2,363	\$ (92)	\$ 493,470
Land Improvements	106,236	302	1,339	(21)	107,856
Buildings	445,163	3,544	-	-	448,707
Engineered Structures	1,159,091	11,697	3,765	-	1,174,553
Machinery and Equipment	71,774	3,192	-	(1,710)	73,256
Books and Periodicals	5,841	433	19	-	6,293
Vehicles	75,516	1,671	-	(1,662)	75,525
Assets under Construction	41,784	23,714	-	-	65,498
	\$ 2,396,517	\$ 44,640	\$ 7,486	\$ (3,485)	\$ 2,445,158

<b>Accumulated Amortization</b>	Balance at January 1, 2017	Disposals	Amortization Expense	Balance at September 30, 2017
Land Improvements	\$ 34,002	\$ -	\$ 3,598	\$ 37,600
Buildings	100,410	-	8,244	108,654
Engineered Structures	346,276	-	21,044	367,320
Machinery and Equipment	37,225	(1,188)	4,610	40,647
Books and Periodicals	2,717	-	440	3,157
Vehicles	34,053	(1,634)	4,157	36,576
Assets under Construction	-	-	-	-
	\$ 554,683	\$ (2,822)	\$ 42,093	\$ 593,954

<b>Net Book Value</b>	Balance at September 30, 2017
Land	\$ 493,470
Land Improvements	70,256
Buildings	340,053
Engineered Structures	807,233
Machinery and Equipment	32,609
Books and Periodicals	3,136
Vehicles	38,949
Assets under Construction	65,498
	\$ 1,851,204

**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.
- **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 favourable or (unfavourable) difference between budget and actuals at a point in time including any Timing Differences.