



# City of Moose Jaw

## COMMUNICATION # CC-2019-0104

**TITLE:** 2018 Audited Financial Statements

**TO:** City Council

**FROM:** Department of Financial Services

**DATE:** July 10, 2019

**PUBLIC:** PUBLIC DOCUMENT

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### **RECOMMENDATION**

That the City of Moose Jaw's Audited Financial Statements for the year ended December 31, 2018 be approved; and,

That the Financial Statements be publicized on the City of Moose Jaw's Website.

### **TOPIC AND PURPOSE**

The purpose of this report is to provide City Council with a report on the City of Moose Jaw's 2018 Audited Financial Statements.

### **BACKGROUND**

*The Cities Act* specifies the requirements for preparing the City's Financial Statements. The Act reads in part as follows:

"155(1) A city shall prepare annual financial statements of the city for the preceding financial year in accordance with generally accepted accounting principles for municipal governments recommended from time to time by the Canadian Institute of Chartered Accountants.

(2) The city's financial statements must include:

(a) the city's debt limit; and

(b) the amount of the city's debt.

(3) A city shall publicize its financial statements, or a summary of them, and the auditor's report of the financial statements in the manner the council considers appropriate by September 1 of the year following the financial year for which the financial statements have been prepared."

Deloitte LLP, the duly appointed auditors of the City of Moose Jaw, have recently completed their review of the 2018 Financial Statements of the City of Moose Jaw. The City has received an unqualified audit report. These financial statements have been prepared in accordance with the requirements of *The Cities Act*. The financial statements will be made available on the City of Moose Jaw's website once the financial statements have been presented to City Council. The financial statements are also available to the general public and copies can be obtained by contacting the office of the Director of Financial Services.

## **DISCUSSION**

The Audited Financial Statements for 2018 present the financial status of the City of Moose Jaw as at December 31, 2018. The primary statements are contained on pages 4 to 7 of the attached financial statements and the notes to these statements follow. The remainder of the document contains the supporting schedules for the financial statements.

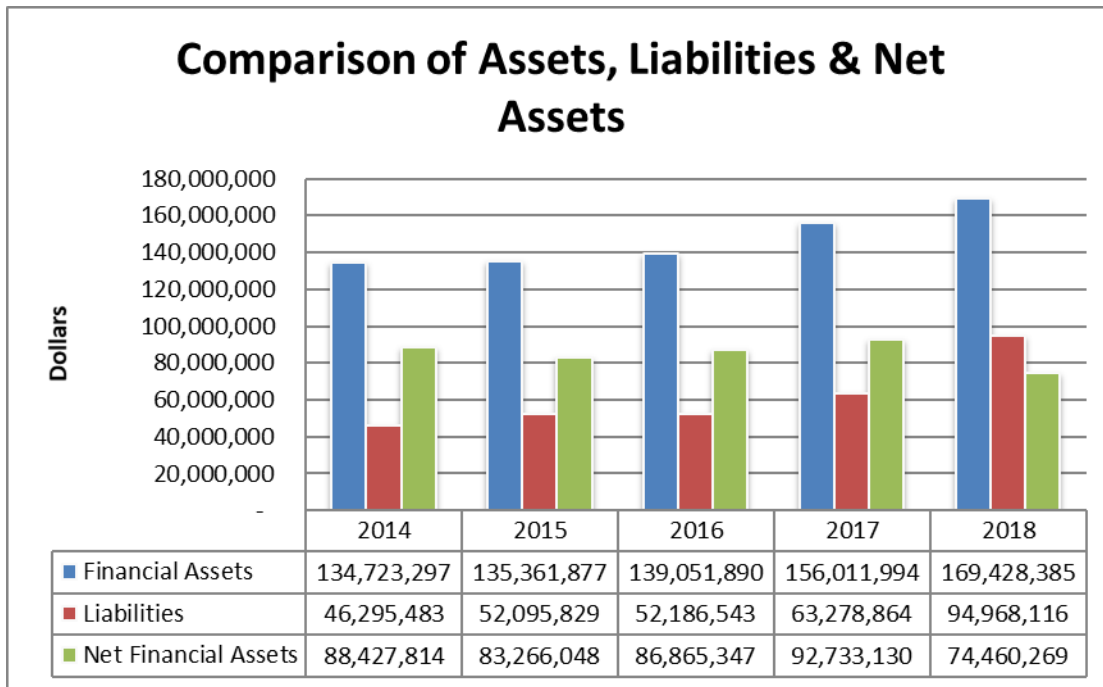
### **Consolidated Statement of Financial Position – Page 4**

The Consolidated Statement of Financial Position presents the City's financial assets and liabilities and the net amount represents the City's net financial assets. The chart below provides a five-year comparison (2014 to 2018) of the three main financial position components. The City of Moose Jaw has financial assets of \$169,428,385 and liabilities of \$94,968,116 for net financial assets totaling \$74,460,269. The net financial assets represent the monies that would be left over if the City of Moose Jaw was to pay for all of its outstanding obligations.

The financial assets are up approximately \$13.0 million from 2017. This increase relates to an increase in cash as a result of the City's borrowing of funds in 2018.

The financial liabilities increased approximately \$31.7 million over 2017 levels. This increase in liabilities is a result of increased debt of \$26.8 million for Waterworks Infrastructure and an increase in accounts payables and accrued liabilities of approximately \$3.7 million.

The difference between the financial assets and the financial liabilities is the net financial assets. The City's net financial assets represent the City's net worth. In 2018, the City's net financial assets decreased \$18,272,861 over 2017 levels. The decrease in net financial assets is attributable to the factors detailed above.



Attachment #2, Comparison of Net Financial Asset Positions, shows that the City of Moose Jaw is in a favorable financial position in comparison to all of the cities.

The City of Moose Jaw's Financial Reserves are contained in a note to the financial statements for 2018 and it is included as Attachment #3, Reserves. Council will note that there was a decline in the City's overall Reserve balance of approximately \$7.7 million. 8. The substantive portion of the Reserves relate to the Equipment Reserve Fund (\$27,765,329) and the Capital Expenditure Fund (\$60,760,335).

It is important to note that in 2018, the City generated \$3,797,393 in investment earnings primarily from these Reserve funds. This amount of interest is at historically low levels due to the current low interest rate climate that exists. Even at these reduced levels, the \$3,797,393 in investment earnings would require a 12.9% municipal taxation increase to replace this revenue if it was not generated by the City's Reserves.

As City Council is aware, the City has recently approved a new Investment Policy that will allow the City to expand the scope of its investments. This expansion of scope and the use of professional institutional investing money managers is expected to result in a gain in overall investment earnings. Based upon the estimated targeted returns in the new Investment Policy, this could amount to an additional \$2,750,000 annually.

The benefit of the Reserve system is significant even at reduced interest rates and continues to ensure that City taxpayers contribute less monies towards City operations than would be the case if the Reserves did not exist. The future benefits are expected to be even more significant as the investment policy is fully implemented.

Also included in the Statement of Financial Position is the amount of long-term debt which currently sits at \$63,692,269. This is up from 2017 due to borrowing of \$30.0 million for use in funding waterworks infrastructure projects such as the Buffalo Pound Transmission line and improvements to the City's reservoir. The chart below compares the newest available figures on long-term debt level of a number of Saskatchewan cities:

<u>City</u>	<u>Long-Term Debt</u>
Moose Jaw	\$63,692,269
North Battleford	\$39,808,742
Prince Albert	\$28,472,568
Regina	\$317,692,000
Saskatoon*	\$349,153,000
Swift Current*	\$82,649,653
Yorkton	\$17,499,255

\*Note:

Both of these cities have electrical utilities which may impact their level of debt more than cities without an electrical utility.

The Statement of Financial Position also contains non-financial assets, which are primarily made up of tangible capital assets. The tangible capital assets are recorded at book value and amortized over their useful lives. The amortization charge is reflected in the Statement of Operations. Overall, the City has \$294,153,979 in non-financial assets that represent an investment in assets that will benefit the City in the future. These assets will be depleted over time by being used for the delivery of the City's various programs and services. Attachment #4, Tangible Capital Assets, provides more detail as to the assets overall makeup.

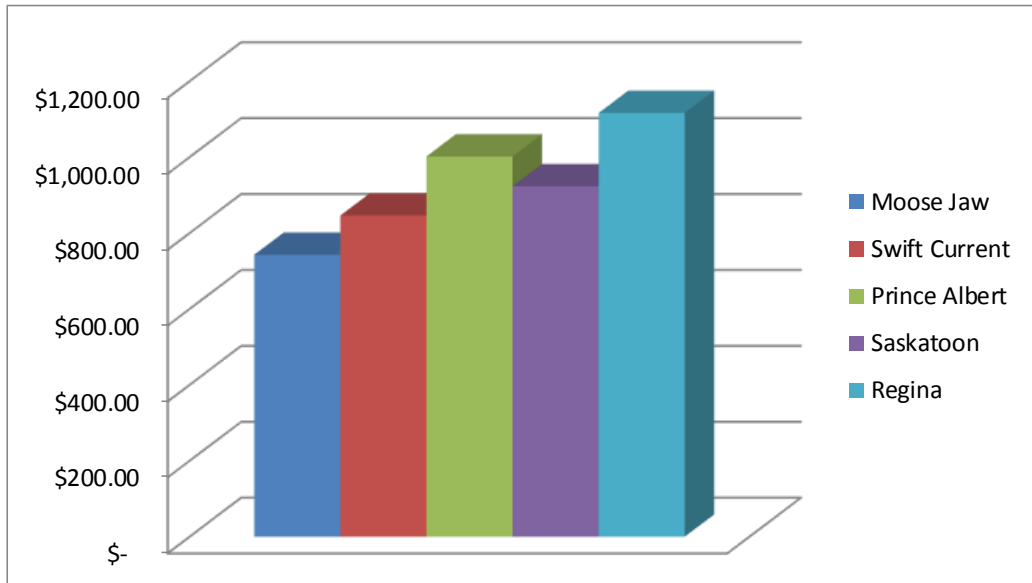
### **Consolidated Statement of Operations and Accumulated Surplus – Page 5**

The Consolidated Statement of Operations presents the overall picture of the revenues and expenditures for the year. The difference between the revenues and expenditures represents the surplus or deficit for the year. In 2018, the City had revenues of \$92,982,304 and expenditures of \$78,173,534 which results in a surplus of \$14,808,770 for 2018. A major portion of the surplus is a result of the accounting treatment of capital projects which are no longer expensed, but rather amortized over their useful lives while the funding for these capital programs are recognized in the year it is received or earned. This results in a timing issue in respect to when the revenues to fund those capital projects are recognized and when the amortization expense related to the consumption of those assets is recognized.

The largest revenue item is that of Municipal Taxation which totals \$27,933,085 which represents approximately 30.0% of total revenues. Municipal Tax revenues were up \$1,139,621 over 2018 which represents a 4.3% increase which is a result of the tax increase in 2018.

The chart below compares the amount of municipal taxation paid per resident to the municipality for 2018. As can be seen from the chart, Moose Jaw is the lowest of the five cities sampled. Also, if one takes into account the \$3,797,393 in investment earnings on a per capita basis, this is \$112.05. The City's investment earnings from reserves is what keeps our level of taxation down.

## Comparison of Municipal Taxation on a Per Capita Basis



### Comparison of Municipal Taxation on a per Capita basis

	Taxation	Population	Taxation Per Capita
Moose Jaw	27,933,085	33,890 *	\$ 824.23
Swift Current	18,316,541	16,604	\$ 1,103.14
Prince Albert	35,957,196	35,926	\$ 1,000.87
Saskatoon	242,886,000	246,376	\$ 985.83
Regina	260,358,000	215,106	\$ 1,210.37

\*Note: This is Moose Jaw, City [Census Subdivision] population which covers the entire City's population and should not be confused with Moose Jaw [Population Centre] population of 32,724 which does not include the whole area of the City.

The second largest component of revenue is from the Utilities at \$26,983,295 or 29.0% of overall revenues. Utility revenue consists of the revenue from the Waterworks, Sanitary Sewer, and the City's share of the Buffalo Pound Water Treatment Corporation. Utility revenues are higher than 2017 levels due to increases in utility rates.

The third largest revenue item relates to Contributions, Grants and Subsidies at \$14,896,839 or 16.0% of overall revenues. Major components of this revenue source are detailed in Attachment #5, Contributions, Grants & Subsidies.

On the expenditure side, the largest expenditure area is the Utilities totaling \$22,187,449 and consists of the City's Waterworks, Sanitary Sewer and Buffalo Pound areas of operation. This area represents 28.4% of total expenditures. The increase in costs over 2017 relate to increased operating costs and debt expense.

The second largest component of expenditures is the Protection to Persons and Property which is comprised primarily of the City's Police and Fire Protective Services. This expenditure area totaled \$18,750,648 or 24.0% of total expenditures.

The third largest component of expenditures is Recreation & Community Services at \$14,587,330 which represents 18.7% of overall expenditures. The Recreation & Community Services area includes the Library, Art Museum, Cultural Centre, Mosaic Place, Yara Centre and those programs and services found in the City's Parks & Recreation Department.

As well, it is important to note that included within all of the expenditure categories is amortization of the tangible capital assets related to that area of operation. Attachment #6, Amortization of Tangible Capital Assets, provides detail on the \$12,750,911 of expenditures.

### **Consolidated Statement of Change in Net Financial Assets – Page 6**

The Consolidated Statement of Change in Net Financial Assets represents a snapshot of what non-financial assets the City spent its monies on in 2018 and 2017. As can be seen from the statement, the City spent almost \$45.4 million on the acquisition of Tangible Capital Assets.

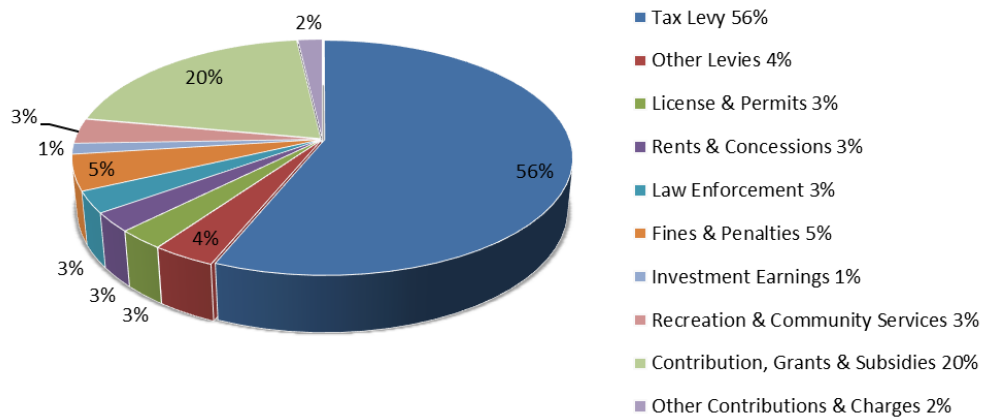
### **Consolidated Statement of Cash Flows – Page 7**

The last of the required Financial Statements is the Consolidated Statement of Cash Flows. This statement presents the changes in cash from Operating Activities, Capital Activities, Investing Activities and Financing Activities.

In 2018, changes in non-cash assets and liabilities contributed \$17,172,395 in cash flows. Likewise, the capital activities of acquiring Tangible Capital Assets consumed \$45,338,876. Investing activities saw a decrease of \$9,944,837 while financing activities resulted in an increase of cash flows of \$26,774,715. Once these increases and decreases are combined with the surplus for the year, the overall increase in cash from 2017 to 2018 is \$23,361,841.

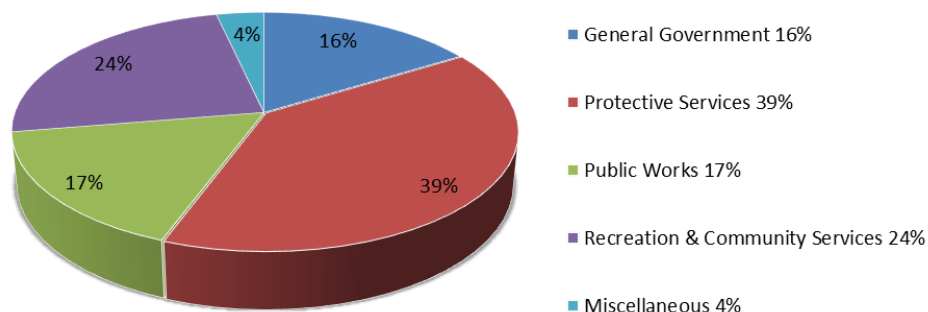
**General Revenue Fund Statement of Operations (pages 39-43):**

**General Revenue Fund Revenues**



The General Revenue Fund is the City's Operating Fund and is the source of program funding for the City's main services such as Public Works, Parks & Recreation, General Government, Police and Fire. In 2018, this fund had revenues of \$46,761,907 of which \$26,311,247 was generated from Municipal Taxation which accounted for 56% of the overall revenues. Another major source of revenues is the Contribution, Grants and Subsidies area which accounts for 20% of overall revenues and includes Provincial Revenue Sharing, Federal and Provincial Grants in lieu of taxes and municipal surcharges from utilities.

**General Revenue Fund Expenditures**



General Revenue Fund expenditures totaled \$49,752,828 and then there are net transfers, capitalized expenditures and contribution of assets taken into account which results in a surplus of \$201,805. This surplus is reflective of the requirements for statement presentation as required by the Public Sector Accounting Board (PSAB) and includes things such as amortization, capital assets setup in the General Revenue Fund but paid for by another fund, removal of uncompleted works, etc.

If one reconciles the General Revenue Fund to the way that the City budgets and accounts for the fund, it differs somewhat from the PSAB presentation in the financial statements.

**City of Moose Jaw**  
**Summary of Revenues & Expenses**

Description	2018 Actual	2018 Budget
TAXATION MUNICIPAL	26,541,510	27,155,332
OTHER LEVIES	1,677,139	1,617,114
LICENSES AND PERMITS	1,260,222	1,473,728
RENTS & CONCESSIONS	1,224,310	1,357,869
LAW ENFORCEMENT	1,440,525	1,167,099
FINES & PENALTIES	2,287,549	1,805,180
INTEREST & TAX PENALTIES	576,003	495,398
SERVICE CHARGES	147,323	128,882
RECREATION&COMM SERV	1,689,306	1,610,201
FEDERAL GRANTS & SUBS	107,239	140,989
PROVINCIAL GRANTS & SUB	9,366,549	9,422,454
OTHER CONTRIBUTIONS	562,381	570,037
MISCELLANEOUS REVENUE	193,471	282,988
<b>REVENUES</b>	<b>47,073,527</b>	<b>47,227,271</b>

Description	2018 Actual	2018 Budget
GENERAL GOVERNMENT	7,772,883	8,100,002
PROTECTION TO PERSONS	18,888,788	18,971,422
PUBLIC WORKS	5,074,573	5,238,408
SANITATION & WASTE REMOVAL	420,613	392,076
SOCIAL SERVICES	323,593	252,512
RECREATION & COMMUNITY	8,983,266	8,823,541
DEBT CHARGES	5,517	3,750
PROVISIONS FOR RESERVES & ALLO	795,350	695,537
MISCELLANEOUS	4,842,725	4,750,023
<b>EXPENDITURES</b>	<b>47,107,307</b>	<b>47,227,271</b>

Annual Surplus(Deficit)	<b>(33,780)</b>	-
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The specific differences in accounting related to how the City budgets include removing amortization expense (as it is unfunded), allowing for uncompleted works expenditures to be recognized, not recognizing capital asset transfers from other funds, as well as several other smaller adjustments. These adjustments are made for the purpose of clarity and are reflective of actual practices related to how the City budgets. The following synopsis of the General Revenue Fund presents the final results of the fiscal year 2018 as compared to the City's method of budgeting.

As can be seen from the results, overall the City had a deficit of \$33,780 in the General Revenue Fund. This deficit was the result of revenues being lower than budgeted.



In 2018, the majority of revenue and expenditure areas were close to budget with these exceptions:

- Municipal Taxation was \$613,822 under budget. This was the result of almost no supplemental tax revenue growth in 2018, a significant loss in commercial assessment due to SAMA maintenance of the roll after tax estimates had been prepared and a significant loss of tax revenue in the Elevator class due to a successful appeal.
- Licenses and Permits came in \$213,506 under budget as a result of parking meter receipts coming in \$192,738 below expected levels.
- Rents & Concessions was \$133,559 under budget due primarily to workshop revenues being lower than estimated.
- Law Enforcement revenues were above budget \$273,426 due to receipt of more policing services and provincial funding revenues.
- Fines & Penalties were above budget by \$482,369 due to automatic speed enforcement revenues being higher than estimated.
- General Government expenditures came in \$327,119 under budget due to savings in most business units comprising this sector.
- Public Works expenditures were \$163,835 under budget due to reduced expenditures in the Streets & Roads Branch.
- Recreation & Community Services came in \$159,725 over budget due to increased costs primarily in Recreation related areas.
- Provisions for Reserves and Allowances was \$99,813 over the budget due to increased provisions for reserves for uncollectible taxes.

The overall deficit of \$33,780 will be funded from the City's accumulated surplus. The end result is an accumulated surplus which totals \$1,651,465. The City's practice has been to maintain the overall accumulated surplus at approximately 5% of the annual Operating Budget (\$48,512,047) or \$2,425,602. The current balance in the accumulated surplus leaves the City approximately \$774,000 short of this target. Therefore, City Administration would not recommend any further allocations occur from the accumulated surplus until it has been rebuilt to the target 5% level.

### **COMMUNICATION PLAN**

This report and the 2018 Financial Statements will be presented in public to City Council. The presentation will be televised on Shaw cable and available on the City's live stream service. As well, a copy of the City's Financial Statements will be posted to the City's website.

### **PRESENTATION**

VERBAL: The Director of Financial Services will provide a report overview.

## **ATTACHMENTS**

1. City of Moose Jaw 2018 Financial Statements.
2. Comparison of Net Financial Asset Positions.
3. Reserves.
4. Tangible Capital Assets.
5. Contributions, Grants & Subsidies.
6. Amortization of Tangible Capital Assets.

## **REPORT APPROVAL**

Written by: Brian Acker, B.Comm., CPA, CMA, Director of Financial Services

Reviewed by: Tracy Wittke, Assistant City Clerk

Approved by: Jim Puffalt, City Manager

Approved by: Fraser Tolmie, Mayor

*To be completed by the Clerk's Department only.*

Presented to Regular Council or Executive Committee on \_\_\_\_\_.

No. \_\_\_\_\_ Resolution No. \_\_\_\_\_

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