

City and Borough of Sitka

Financial Review
October 28, 2014

Results as of June 30, 2014 (All Funds)

City and Borough of Sitka
Financial Review
FY2014 General Fund Budget Execution
June 30, 2014

Planned Deficit Per Budget:	(675,000)
Budget Adjustments	(732,000)

Plus:

Revenues Exceeding Planned Levels	716,100
Unplanned Revenues (SRS)	464,000
Principal and Interest on School Bonds	
Now Paid By 1% sales Tax (Net)	381,000
Outlays less than Planned Levels	<u>860,300</u>
Equals FY14 General Fund Budget Surplus	<u>1,014,400</u>

City and Borough of Sitka
Financial Review
FY2014 General Fund
Budget Adjustments

Pay Raise For	
Collective Bargained Employees	241,000
Extra Bed Tax to SCVB	46,000
Net Roll-Overs & Misc. Small Adjustments	<u>537,000</u>
Total Net Budget Adjustments	<u>732,000</u>

City and Borough of Sitka
Financial Review
FY2014 General Fund Budget

Major Components of Revenues Exceeding
Planned Levels:

Sales Tax Receipts	657,900
Property Tax Receipts	28,700
All Other (net)	<u>29,500</u>
Total:	716,100

City and Borough of Sitka
 Financial Review
 General Fund Balance
 June 30, 2014 Versus 2013

	6/30/2013	6/30/2014	Difference
Net Available Cash	1,314,900	2,414,900	1,100,000
Working Capital	5,999,400	7,384,900	1,385,500
Unrestricted Fund Balance	3,341,600	5,496,100	2,154,500

Notes:

\$7,748,100 of cash and fund balance is designated for liquidity and emergency response

Net Available Cash equals cash plus investments less liabilities less all designated fund balances

Working Capital is current assets less current liabilities less liquidity and emergency response reserves

**City and Borough of Sitka
Financial Review
Fund Net Income and Working Capital
FY2014 Results Through June 30, 2014**

<u>Fund</u>		<u>Income/(Loss)</u>	<u>For Capex</u>	<u>Working Capital</u>	<u>Working Capital</u>
Electric Fund		21,575,431	8,427,417	9,712,333	18,139,750
Water Fund		251,113	510,012	(438,026)	71,986
Wastewater Fund		(10,040)	2,708,196	2,095,757	4,803,953
Solid Waste Fund		(223,075)	647,413	271,353	918,766
Harbor Fund		3,871,028	873,704	6,809,338	7,683,042
Airport Terminal Fund	*	(34,935)	423,894	321,953	745,847
Marine Service Center Fund	*	73,491	-	1,462,488	1,462,488
SMC Industrial Park Fund	*	(88,894)	16,984	873,804	890,788
MIS Fund	*	65,957	100,176	295,306	395,482
Central Garage Fund	*	417,665	263,663	1,991,553	2,255,216
Building Maintenance Fund	*	(309,251)	-	2,126,331	2,126,331
CPET Fund	*	(9,775)	1,917,881	-	1,917,881
Permanent Fund		2,566,314	-	22,780,095	22,780,095

Comments on Net Losses and Working Capital

- Net losses signify that depreciation expense (the decline in value of infrastructure) exceeds revenue and may signify that infrastructure replacement may eventually need to be funded by bonding and higher user fees.
- Negative undesignated working capital signifies that we have more approved spending for infrastructure than we have fund balance to pay for.
- Net Income/and loss includes grant revenue. This was significant for the Electric Fund and Harbor Fund; Electric Fund grant revenue was \$19.5 million, and Harbor Fund grant revenue was \$3.19 million.
- Both of these situations are being addressed through long-term infrastructure plans, which seek to identify long-term infrastructure needs and determine the correct level of user fees necessary to finance the plan.

Summary

- FY2014 is complete; the annual external audit is currently ongoing.
- The General Fund surplus has already been discussed by the Assembly and has been transferred to the Permanent Fund and the Public Infrastructure Sinking Fund.
- Additional planned annual increases in electric rates, water rates, wastewater rates, and harbor moorage rates are still required in order to achieve plan goals in future years. Furthermore, electric and moorage rates must be annually evaluated for bond rate covenant sufficiency.
- The financial position in three Funds, the Water Fund, Solid Waste Fund, and Building Maintenance Fund bear attention and possible action.
 - The financial position of the Water Fund as perhaps finally hit bottom unless an unforeseen requirement comes forth. As of June 30, 2014, the Water Fund had working capital of just \$72.0K and a negative cash balance of (\$76K), in essence a net borrower from the Central Treasury. This is because project outlays must be made out of fund cash first, then reimbursed through grant reimbursements or State of Alaska loan disbursements.
 - The financial performance of the Solid Waste Fund continues to deteriorate, causing working capital to begin to decline. This is due to rising costs coupled with no user rate increases. Working capital declined by \$291,9K in FY2014, and is now less than a million dollars ((918.8K).
 - The Building Maintenance Fund continues to experience a decline in working capital and fund balance. As this fund is an internal service fund, it derives its revenues from jobbing, and, from investment earnings on the balance of the Southeast Alaska Economic Development Fund. These jobbing revenues and investment earnings have been insufficient to cover operating costs. Raising jobbing rate, however, will place pressure on all other funds.
- With the closing of the 4th revenue bond issue on October 30, 2014, borrowing will be complete for the Blue Lake Hydroelectric Project, barring some unforeseen circumstance..

Financial Statements

- You will find attached financial statements for the various significant funds of the City and Borough of Sitka. For the General Fund and for major Enterprise Funds for whom we report monthly results, information is through June, 2014.
- Financial reporting is shown in the custom reporting format designed by the Finance Department, which combines significant elements of the income statement, cash flow and working capital into one single page report. Traditional financial statements are produced monthly and are distributed to the Administrator and appropriate Department Heads.

Definitions of Key Terms

Working Capital - This is essentially what a Fund has to spend. It is defined as current assets less current liabilities, including the current portion of long term debt. Working capital already earmarked for capital expenditures or otherwise restricted is called Designated Working Capital; the remainder is Undesignated Working Capital. The calculation of General Fund working capital also excludes designated amounts for liquidity and emergency response.

Depreciation Expense - This is an estimation of the decline in value of a long lived asset, which is an expense. When a long lived asset is purchased, cash is paid but expense is not recorded; instead, expense is recorded gradually, over the life of the asset, to match its use against revenues earned in the same period. Most importantly, Depreciation Expense **IS NOT** the accumulation of cash to replace an asset; that is called a sinking fund and is part of Working Capital.

Fund Balance – This is the net assets of a fund. It is equal to total assets less liabilities. It is important to note that a Fund Balance is usually only partially in cash; the remainder may be made up of long lived assets, receivables, and other assets.

Definitions of Key Terms

Net Available Cash – This is equal to cash and investments, less liabilities and restricted or designated fund balances. This is similar to “cash on the barrelhead”.

EBI/EBID – These are accounting terms which measure earnings before certain expenses. EBI is Earnings Before Interest and measures earnings before interest expense. EBID is Earnings Before Interest and Depreciation, and is a rough measure of cash flow from operations.

Enterprise Fund – A fund which is run, and accounted for, similar to a private business. In such a fund, profit is measured and operations are accounted for on a full accrual basis.

Internal Service Fund - A fund which provides services to other funds. Such funds usually have no external source of revenue. Similar to an enterprise fund, profit is measured and operations are accounted for on a full accrual basis.