



2011 Financial Statements

June 28, 2012

PSAB Sections Adopted PS1200 & PS3150

Effective January 1, 2009 the City has adopted PS3150 Tangible Capital Assets and PS1200 Financial Statement Presentation.

The new accounting standards require recognition of tangible capital assets and amortization of those costs over the useful life of the assets.

The City's financial statements are now prepared on a full accrual accounting basis, the same basis of accounting used by the Federal and Provincial governments.

Purpose of Financial Statements

Name	Purpose
Consolidated Statement of Financial Position	Provides a summary of the City's financial assets and liabilities (the financial resources the City has available for future services and the future revenues required to pay for past transactions).
Consolidated Statement of Operations	Outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operating, capital, reserve and reserve funds for the City and its consolidated entities and provides the calculation of the City's accumulated surplus at year end.
Consolidated Statement of Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.
Consolidated Statement of Cash Flows	Summarized the City's cash position and changes during the year by outlining the City's sources and uses of cash.

Statement of Financial Position

- The City still has a net debt position of \$9.2 million, however this is an improvement of \$23.7 million over 2010, which means that although our financial liabilities are higher than our financial assets, which requires our net debt to be financed from future revenues, this is a fairly balanced position.
- As you can see this statement summarizes to an accumulated surplus figure, which is the total of our financial assets and liabilities and non financial assets. The surplus includes the balances of our reserves and reserve funds and indicates a governments ability to provide future services.
- Tangible capital assets are not liquid or readily available for sale, which places the emphasis on the net debt position of a municipality.
- Land which is specifically held for resale is recorded as an inventoried item in our financial assets.

Statement of Operations

- **Revenues** – Our 2011 revenues were down \$64 million compared to 2010
- Most revenue items were consistent with prior year, only Government Transfers were significantly lower, a reduction of \$75 million from 2010, mainly due to the end of the Infrastructure Stimulus Programs
- Government Transfers – Funding from senior levels of government that is accounted for in the year of receipt. For amounts that are specific to purchases of tangible capital assets, the revenue is brought in immediately, but the amortization expense of the asset purchased is recorded over the life of the asset. So in years where we receive higher government transfer for infrastructure, we will have higher annual surpluses

Statement of Operations

- **Expenses** – increased by \$40 million in 2011, this was not due to increases in operational expenses, but rather increases in budgeted capital expenses, that were not tangible capital assets
- The increase was made up predominantly of capital grants, that are now included within the operating expenses, despite being budgeted through capital
- **Items different than budget** - Amortization is recorded as an expense on the Statement of Operations, Debt principal repayments are not expensed, contributions to reserve funds are not expensed.

Simple Example of PSAB Accounting vs. City Budget

Statement of Operations	City Budget	PSAB Accounting
Taxation	500,000	500,000
Developer Contributions	<u>0</u>	<u>50,000</u>
Total Revenue	<u>500,000</u>	<u>550,000</u>
Operating Expenses	350,000	350,000
Capital Expenditures	150,000	0
Amortization	0	75,000
Debt Principal Repayments	25,000	0
Transfer to Reserve & Reserve Funds	<u>25,000</u>	<u>0</u>
Total Expenses	<u>500,000</u>	<u>425,000</u>
Annual Surplus	<u>0</u>	<u>125,000</u>

Simple Example of Usage of the New Surplus Amount

Statement of Operations	PSAB
Taxation	500,000
Other Revenues	<u>300,000</u>
Total Revenue	<u>800,000</u>
Operating Expenses	<u>600,000</u>
Accumulated Surplus	<u>200,000</u>
Replacement of Tangible Capital Assets	150,000
Other Obligations	<u>50,000</u>
Total Usage of Surplus	<u>200,000</u>

What Do We Have in Capital Assets

	Replacement Cost	Historical Costs
Land, Landfills & Land Improvements	\$1.0 Billion	\$ 0.490 Billion
Building and Building Improvements	\$1.6 Billion	\$ 0.838 Billion
Fleet & Equipment & Furniture	\$ 0.6 Billion	\$ 0.442 Billion
Water Infrastructure	\$ 1.6 Billion	\$ 0.596 Billion
Wastewater Infrastructure	\$ 3.1 Billion	\$ 1.080 Billion
Roads Infrastructure	\$ 2.3 Billion	\$ 1.002 Billion
Computers	\$0.06 Billion	\$ 0.014 Billion
Assets Under Construction	\$0.2 Billion	\$ 0.155 Billion
Total	\$10.46 Billion	\$ 4.619 Billion

These estimates are based upon various inflation factors.

Net Book Value of Assets – December 31, 2011 (in millions)

Tangible Capital Assets	Historical Cost 2011	Accumulated Amortization 2011	Net Book Value 2011
Land	366	0	366
Landfill and Land Improvements	124	52	72
Buildings and Building Improvements	834	312	522
Leasehold Improvements	4	2	2
Machinery, Equipment and Furniture	343	169	174
Vehicles	99	53	46
Water Infrastructure	596	171	425
Wastewater Infrastructure	1,080	324	756
Roads Infrastructure	1,003	353	650
Computers	15	9	6
Assets under Construction	155	0	155
Totals	4,619	1,445	3,174

Comparing the Surplus to Budget (in millions)

Surplus – Financial Statements PSAB Rules	117.6
Removal of privately held Tangible Capital Assets	(19.4)
Less: Boards Surplus –Financial Statements	(14.5)
Less: Tangible Capital Assets – change in assets resulting from assumption of subdivisions (developer contributions), capital works, disposals, works-in-progress exposed in prior years and formed part of annual surplus calculation.	(233.7)
Plus: Amortization of Assets	106.3
Plus Long Term Debt principal proceeds and less principal repayments were formerly part of Statement of Operations.	60.0
Less: Change in Reserves and Reserve Funds, Capital Fund, Government Business Enterprises resulting from contributions and draws formerly part of Statement of Operations.	(27.5)
Plus: Change in employer benefits and solid waste landfill closure liabilities.	11.2
Change in unconsolidated operating fund balance after approved budget.	0

What is the Impact on the City's Budget?

These changes will have no impact on the 2013 budget for taxes and rate setting. It is simply a change in the way we report our finances. We will be gradually incorporating certain items into our operating budget, that were previously capital, but this will be offset in the budget by reducing transfers to the capital fund. This is due to capital items previously budgeted in capital that are not tangible capital assets.

These accounting changes make no difference in our overall financial position, it is just a change in the way we report different items, such as tangible capital assets that results in the way our surplus and deficit are reported.

What Has Changed

- Financial Information Returns (FIRs)
- Municipal Performance Measurement Program
- Audited Financial Statements

What Will Change

- Budget Development – Changes ongoing, started with 2012 budget
- Business Processes – Ongoing refinement
- Data Collection – Automation of manual systems
- Asset Management Reporting – New information reported to Council through Asset Management Division
- Asset Management Systems – purchase and setup of new system
- Additional Reporting Requirements due to PSAB implementation related to budget submission, MMAH and MOF discussing
- International Financial Reporting Standards – Date not established (yet)



London
CANADA

Questions?