



2010 Financial Statements

July 14, 2011



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 assets are broken out by financial assets and non financial assets. The non financial assets section includes the net book value of our tangible capital assets.
- The City has a net debt position, which means our financial liabilities are higher than our financial assets, this requires our net debt to be financed from future revenues, despite the large accumulated surplus.
- This statement now summarizes to the 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.
- The accrual based budget results in a surplus as the City must fund reinvestment in assets well in excess of their historical value.
- 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 now recorded as an inventoried item in our financial assets.



Statement of Operations

Specific Major Changes

- Prior to 2009 there were 3 separate schedules - The Current Fund (Operating), Capital Fund and Reserve and Reserve Funds, that were consolidated into the Statement of Financial Activities. There is now only the Statement of Operations, as Capital expenditures are now recorded as tangible capital assets. Reserves and Reserve Funds form part of the Accumulated Surplus.
- **Revenue Changes:** Now include Developers Contributions, which is the recording of revenue for the value of the assets associated with the City assuming subdivisions.



Specific Major Changes

Statement of Operations

- **Expense Changes:** The financing and transfers section has been eliminated. Proceeds received from issuing long term debt are no longer recorded as revenues and repayment of debt principal is no longer recorded as an expense.
- Transfers to and from Reserves and Reserve funds are no longer revenues or expenses in the different funds, they simply change the balances in the Reserves and Reserve funds, which make up a portion of the accumulated surplus.
- Amortization is now recorded as an expense on the Statement of Operations.
- The annual surplus from each year is determined and combined with the beginning accumulated surplus balance now totals the year ending accumulated surplus position.



Simple Example of Old Format and New Format

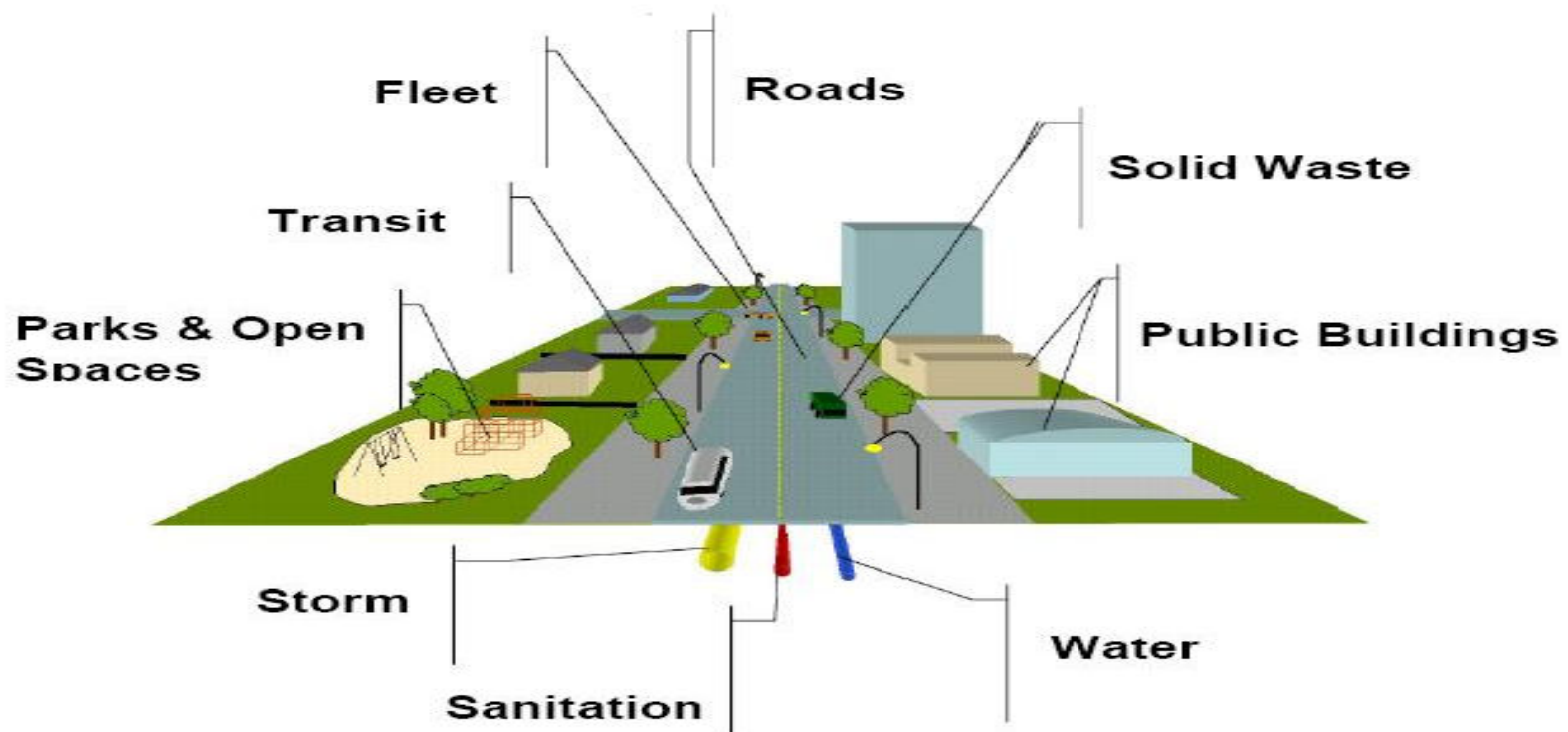
Statement of Operations	Old Format	New Format
Taxation	500,000	500,000
Developer Contributions	<u>0</u>	<u>50,000</u>
Total Revenue	<u>500,000</u>	<u>550,000</u>
Operating Expenses	350,000	350,000
Capital Expenditures	150,000	0
Amortization	0	75,000
Debt Principal Repayments	25,000	0
Transfer to Reserve & 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	New Format
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 are Tangible Capital Assets?



- Source: City of Hamilton, 2005 Life-Cycle State of the Infrastructure Report on Public Works Assets



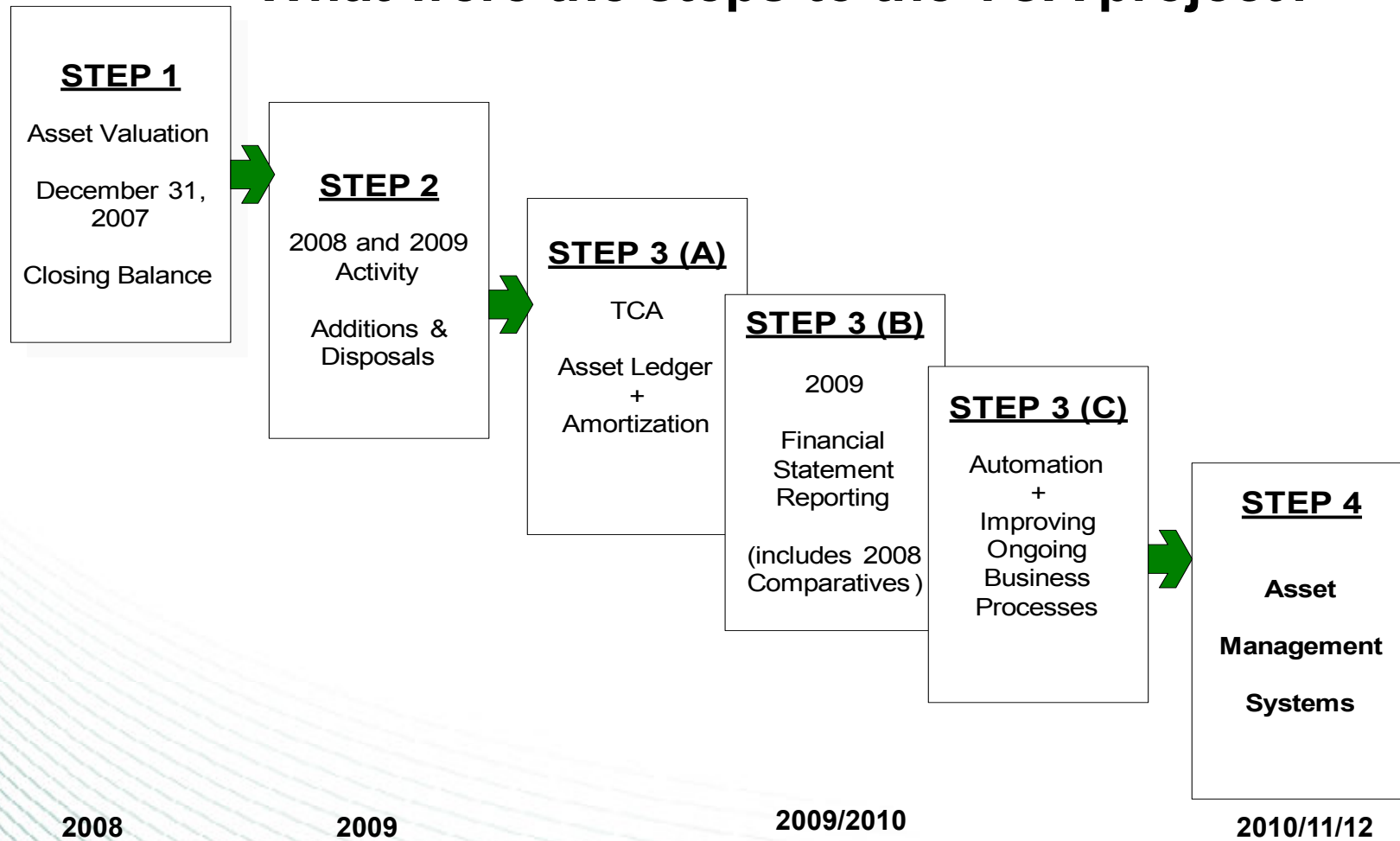
Tangible Capital Assets (TCA) Goals

Develop a system that enables capitalization of fixed assets in the financial statements in order to comply with new accounting standards to receive an unqualified audit opinion.

Provide valuable financial information to departments and Council as to the inventory and cost of assets owned to assist in making decisions regarding future capital investments and financing strategies.

Provide the foundation of asset identification and valuation for the basis of a ***sustainable infrastructure asset management system***.

What were the steps to the TCA project?





What Do We Have in Capital Assets

	Replacement Cost	Historical Costs
Land, Landfills & Land Improvements	\$2.0 Billion	\$ 0.468 Billion
Building and Building Improvements	\$1.6 Billion	\$ 0.776 Billion
Fleet & Equipment & Furniture	\$1.0 Billion	\$ 0.399 Billion
Water Infrastructure	\$1.8 Billion	\$ 0.567 Billion
Wastewater Infrastructure	\$3.6 Billion	\$ 1.032 Billion
Roads Infrastructure	\$1.6 Billion	\$ 0.913 Billion
Computers	\$0.02 Billion	\$ 0.016 Billion
Assets Under Construction	\$0.3 Billion	\$ 0.296 Billion
Total	\$11.92 Billion	\$ 4.467 Billion

Note that we record our assets at historical cost, but to replace them would cost nearly three times as much.



Net Book Value of Assets – December 31, 2010 (in millions)

Tangible Capital Assets	Historical Cost 2010	Accumulated Amortization 2010	Net Book Value 2010
Land	347	0	347
Landfill and Land Improvements	121	50	71
Buildings and Building Improvements	772	293	479
Leasehold Improvements	4	1	3
Machinery, Equipment and Furniture	302	154	148
Vehicles	97	47	50
Water Infrastructure	567	161	406
Wastewater Infrastructure	1,032	312	720
Roads Infrastructure	913	342	571
Computers	16	9	7
Assets under Construction	296	0	296
Totals	4,467	1,369	3,098



Comparing the Surplus to Budget (in millions)

Surplus – Financial Statements PSAB Rules	220.5
Less: Boards Surplus –Financial Statements	(34.2)
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.	(334.3)
Plus: Amortization of Assets	119.1
Plus Long Term Debt principal proceeds and less principal repayments were formerly part of Statement of Operations.	10.2
Plus: Change in Reserves and Reserve Funds, Capital Fund, Government Business Enterprises resulting from contributions and draws formerly part of Statement of Operations.	13.0
Plus: Change in employer benefits and solid waste landfill closure liabilities.	5.7
Change in unconsolidated operating fund balance after approved budget.	0

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Where is the information for this - need time to absorb it!!

Sharon has completed it, I will review it tonight (Monday) and will have it finalized for tomorrow.

%UserName%, 9/6/2010



What is the Impact on the City's Budget?

These changes will have no impact on the 2012 budget for taxes and rate setting. It is simply a change in the way we report our finances. We will be 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 starting 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
- International Financial Reporting Standards – Date not established (yet)



Questions?