

2009 Draft Financial Statements

**PRESENTATION TO GENERAL COMMITTEE
May 17, 2010**

Agenda

- Public Sector Accounting Board (PSAB) Requirements & Implementation
- 2008 Audited Financial Statements
- 2008 Audited Financials Restated
- 2009 Draft Financial Statements
- Financial Considerations
- Next Steps

PSAB – Requirements and Implementation

Requirements

- Section PS 3150 of the PSAB Regulations requires governments to record and amortize their tangible capital assets (TCA) in their financial statements beginning in Jan. 2009.
- Sections PS1100 & PS1200 of the regulation that deals with financial reporting requires public sector organizations to account and report annually on an accrual basis beginning in Jan. 2009.

PSAB – Requirements and Implementation Process

- In order to conform to the requirements of PSAB, the following process was required
- Restate the audited 2008 Financial Statements – to enable a year over year comparison
- Compile the 2009 Financial Statements as per mandated regulation

PSAB – Requirements and Implementation

Implementation

Process for Restating 2008 Financial Statements

1. Beginning in early 2008 staff began inventorying and valuing eligible assets in service at Dec 31, 2007 to establish the opening 2008 Tangible Capital Assets (TCA) balances .
2. All 2008 expenditures (capital & operating) were reviewed for TCA eligibility and capitalized or expensed accordingly.
3. KPMG has conducted an audit of the Town's 2007 TCA opening balances along with the 2008 TCA additions/deletions.
4. 2008 Financial Statements have been restated for year over year comparisons on the 2009 Financial Statements.
5. 2008 expenses/revenues were reviewed for compliance to accrual accounting principals.

PSAB – Requirements and Implementation

Implementation

Process for Restating 2009 Financial Statements

1. All projects in the capital fund were reviewed for TCA eligibility and non TCA projects were expenses. Operating budget transactions were also reviewed for eligibility.
2. Processes were implemented to correctly identify and record TCAs including identifying internal staff time, reviewing all transactions for TCA eligibility & identifying and valuing assumed subdivisions.
3. The Town moved from fund based accounting to full accrual accounting.
4. KPMG conducted the 2009 field audit in several steps:
 - a. Review of the Financial Statements without TCA as in previous years.
 - b. Review of 2009 TCA and work in progress (WIP) additions/deletions.
 - c. Review of the 2009 Draft Financial Statements (PSAB compliant)
5. 2009 Audited Draft Financial Statements have been completed in accordance with PSAB guidelines.

2008 Audited Financial Statements

Consolidated Statement of Financial Activities

\$ in thousands

	Operating Fund	Capital Fund	Reserve Fund	Consolidated
Revenues	178,795	51,640	5,652	236,086
Expenses	150,686	62,223	-	212,908
	28,109	(10,583)	5,652	23,178
Equity pick in Markham Enterprises Corporation	-	-	-	7,464
Increase in net financial assets	28,109	(10,583)	5,652	30,642
Transfer to/from Operating, Capital and Reserves Funds	(31,749)	37,673	(5,924)	-
Change in fund balance	(3,640)	27,090	(272)	30,642
Opening fund balance	432	23,963	127,132	
Closing fund balance	(3,208)	51,053	126,860	

2008 Audited Financial Statements Restated

Accumulated Surplus, beginning of Year

(\$ in thousands)

i) Fund balances as at December 31, 2007

- Operating Fund	432
- Capital Fund	23,963
- Reserves and Reserve Fund (net of amount to be recovered)	127,132
- Investment in Markham Enterprises	186,304
Amounts to be recovered for sick leave and WSIB	(5,466)
Municipal Position, as previously reported	<u>332,365</u>

Net book value of tangible capital assets as of January 1, 2008
including work in progress (expensed previously)

2,865,218

Accumulated Surplus, beginning of year

3,197,583

2008 Audited Financial Statements Restated

Surplus for the year

(\$ in thousands)

Increase in net financial assets	30,642
Developers contribution - assumed sub-divisions capitalized	133,742
Assets expenses previously now capitalized	42,858
Amortization expenses	(47,863)
Total	159,379

2008 Audited Financial Statements Restated

Accumulated Surplus , end of year

(\$ in thousands)

Surplus for the year	159,379
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Accumulated surplus beginning of year	3,197,583
Accumulated surplus end of year	<u>3,356,962</u>

2009 Draft Financial Statements

- Financial Statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP)
- Audit conducted in accordance with Generally Accepted Auditing Standards
- Town's operations include BIA, Community Boards, Water and Wastewater operations
- The balance in the operating surplus as of January each year to transfer to Reserves as per Municipal Act

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Consolidated Statement of Financial Activities

(\$ in thousands)

	Operating Fund	Capital Fund	Reserve Fund	Consolidated
Revenues	190,304	33,970	6,115	230,389
Expenses	170,714	61,649	-	232,363
	19,590	(27,679)	6,115	(1,974)
Equity pick up in Markham Enterprises	-	-	-	(8,008)
Decrease in net financial assets	19,590	(27,679)	6,115	(9,982)
Transfer from Operating - Non TCA projects	(14,511)	5,618	(9,044)	(17,938)
Change in Fund balance	5,079	(22,062)	(2,929)	(27,920)
Opening Fund balance	(3,208)	51,053	126,860	
Closing Fund balance	1,870	28,991	123,931	

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Restated Surplus for the year

(\$ in thousands)

Decrease in net financial assets	(9,982)
Developers Contribution - assumed sub-divisions capitalized	86,187
Assets expensed previously now capitalized	49,297
Amortization expenses	(50,996)
Total	<u>74,506</u>

2009 Draft Financial Statements

Accumulated Surplus, end of year

(\$ in thousands)

Surplus for the year	74,506
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Accumulated Surplus beginning of year	3,356,962
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Accumulated Surplus end of year	<u>3,431,468</u>
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Accumulated Surplus, end of year - comprises of

Operating surplus	1,870
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Invested in tangible capital assets	3,119,907
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Equity in Markham Enterprises	185,760
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Reserves and Reserve Fund	123,931
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	<u>3,431,468</u>
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2009 Draft Financial Statements

2009 Vs 2008 Surplus

(\$ in thousands)

	<u>2009</u>	<u>2008</u>	<u>Variance</u>
	\$	\$	\$
Surplus	74,506	159,379	(84,873)

Major factor:

(i) Contribution from developers for - Assumed land parcels from sub-divisions	3,906	81,590	(77,684)
(ii) Equity pick up in Markham Enterprises - Due to merger with Barrie Hydro			(8,008)

Financial Considerations

Amortization Vs Reserve Study

- **Amortization** is the accounting process of allocating the net cost of a TCA to operating periods as an expense over its useful life in a rational and systematic manner appropriate to its nature and use.
- The purpose of the **Reserve Study** to forecast the on-going capital replacement and preventative maintenance of capital assets over the next 25 years in order to determine the adequacy of the Reserve Fund.

Amortization	Life Cycle Reserve Study
➤ Historic cost	➤ Replacement cost
➤ Non cash expense	➤ Cash based
➤ TCA assets only	➤ Includes repair & maintenance
➤ Expensed evenly over useful life	➤ Lump sum costs

Financial Considerations

2009 - Amortization Vs Reserve Study

(\$ in thousands)

Amortization excluding Waterworks (Town total - \$50,996)	37,192
Life Cycle Reserve Fund transfers	18,674
Difference	<u>18,517</u>
Difference due to:	
Amortization relating to assets beyond 25 years life	14,840
Annual Depreciation relating to:	
Library Media Collections (previously in Operating)	1,245
Storm Water Management not fully included in Reserve Study	2,432
	<u>18,517</u>

Next Steps

- General Committee approval of 2009 Draft Financial Statements and forward Recommendations to Council