



Source: <https://supermug.co.uk/products/its-accrual-world>

What you need to know about municipal financial statements

January 22, 2018

ROMA Conference

Today's speakers, in order

- Shira Babins, Manager of Policy, MFOA
- Umar Saeed, Principal for PSAB, CPA Canada
- Suzanna Dieleman, Treasurer/Director of Finance, Township of Malahide



Agenda

- Introduction
- Why and what has changed
- Municipal experience
- Key takeaways



Source:
<https://www.northernontario.travel/northeastern-ontario/top-ten-roads-northeastern-ontario>



Introduction



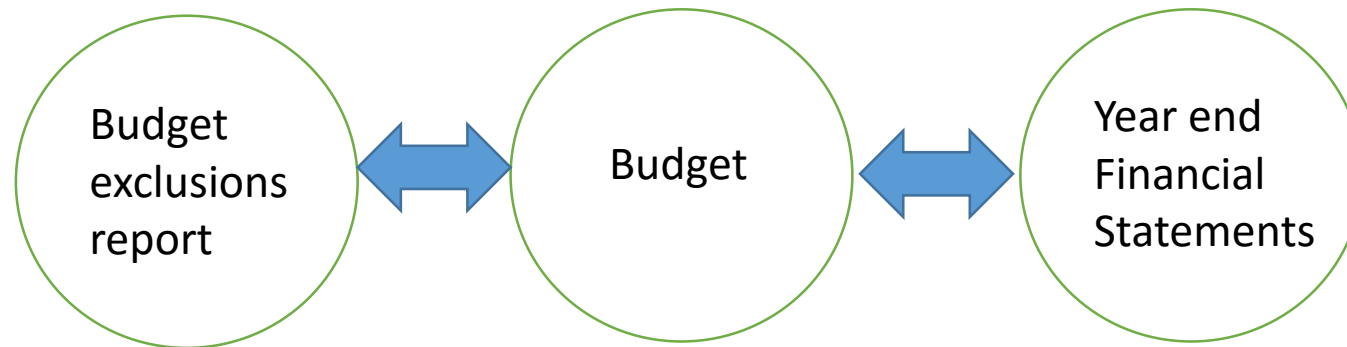
Council's decision making toolkit


Sources of financial information

- Long term financial plan
- Staff reports
- Budget
- Asset management plan
- Financial statements
- More...

Legislative environment

- Municipal Act, 2001 (MA)
 - Budgeting: s289 (UT), s290 (LT) of the MA
 - 3 possible budget exclusions: O. Reg. 284/09 under the MA
 - Financial statements: s294.1 of the MA





Poll: O. Reg. 284/09 report

The regulation allows municipalities to exclude 3 expenses from budgeting:

- Amortization expense (aka depreciation)
- Post-employment benefits expense
- Solid waste landfill closure and post-closure expenses

A report about the excluded expenses should be adopted by council before adopting a budget for the year.

Poll: Do you adopt a report with excluded expenses?

- (a) Before adopting the budget for the year
- (b) After adopting the budget for the year
- (c) I have no idea.



What has changed?



**Tangible Capital Assets (PS3150),
among other standards.**

Why and what has changed?

Why was PSAB Needed?

The financial statements of Canadian governments are now so complex and varied in presentation and terminology that even persons familiar with government accounting have difficulty in appreciating the significance of the information conveyed.

Financial Reporting by Governments, 1980

Canadian Institute of Chartered Accountants

[Federal and Provincial governments]

Why was PSAB Needed?

There is a mishmash of practice, have vacillated on reporting of fixed assets and related depreciation and have indulged in multitudinous, often confusing, inter-fund and intra-fund transactions.

Accounting for Local Government in Canada, 1981

Canadian Certified General Accountants Research Foundation

PSAB – How it Works

- Created in 1981 by the CICA to address the issues at the federal and provincial level
- Expanded scope to include local governments in 1989
- High quality, volunteer board comprising those affected by the standards
- Follow an extensive due process in setting standards

What is accrual accounting?

- Revenues should be allocated in the period they are earned, not when cash is received
- Costs should be allocated in the period they are incurred, not when cash is paid

Benefit of the process

- Accrual accounting is a control to ensure quality record-keeping
- Bond investors, rating agencies and creditors rely on audited financial statements
- Provides the public comfort that the government isn't “cooking” the books

Accounting at the Farm



Source: <http://friendsofthefarm.ca/wp-content/uploads/2017/10/fall-fields1-800x240.jpg>

What accrual accounting can help tell you?

Should I borrow
or save to
replace my roof?

What did it cost
to run the farm
for the year?



What is the cost of
closing my manure
storage structure?

How much life is
left in my
tractor?

Where would you find the information?

Should I borrow or save to replace my roof? **Statements of Financial Position and Operations and notes**

What did it cost to run the farm for the year? **Statement of Operations**



What is the cost of closing my manure storage structure? **Statement of Financial Position and notes**

How much life is left in my tractor? **Statement of Financial Position and notes**

Passing down the farm to the next generation

- Should your children have to pay for your use of the farm and its machinery?
- Consider intergenerational equity for current and future residents



Not all change is bad.

- In the past, all orders of government could ignore asset replacement and other costs of running their jurisdictions to keep tax rates low.
- The result of this policy?
 - A general deterioration of capital assets and government financial position.
- The effect at the municipal level?
 - Pushed the financial implication of capital asset replacement and other costs to future taxpayers and Councils.



New world

Benefits

- Enables a more fulsome understanding of a municipality's financial position.
- Better information for decision making, including costs of using existing assets.
- Actual cost of running the municipality over a year.

Drawbacks

- It takes time to acclimatize to change.

Budget bridges two worlds

Select Budget Components	Cash	Accrual
Debts due within the year	<ul style="list-style-type: none">• Debt Principal payments	<ul style="list-style-type: none">• Interest
Amounts to/from reserves	<ul style="list-style-type: none">• Withdrawals• Replenishments	NA
Expenses		<ul style="list-style-type: none">• Amortization• Post employment benefits• Solid waste landfill closure costs
Prior year surplus or deficit	Bridges	

For discussion purposes only.

Municipal experience



Things to Learn

- Income Statement
 - Why doesn't it look like my budget?
- Balance Sheet
 - Net Assets vs. Net Debt
- Notes to the Financial Statement
 - Municipal Equity or Accumulated Surplus (Deficit)

INCOME STATEMENT

-identified in your financial statements as
 “Statement of Operations”

	Budget (Note 12) \$	Actual 2016 \$	Actual 2015 \$
REVENUES			
Property taxation	6,421,381	6,441,439	6,170,190
Taxation from other governments	791,749	789,196	785,064
User charges, licenses, permits	1,733,965	1,823,474	1,747,778
Local improvement levies	-	551,408	342,976
Government transfers:			
Federal	337,359	300,000	-
Provincial	1,770,889	1,618,241	1,631,239
Other municipalities	1,106,151	1,125,344	1,138,121
Investment income	41,000	65,995	21,912
Penalties and interest on taxes	190,000	226,673	226,751
Other, fines and donations	66,750	34,139	87,758
Gain (loss) on disposal of tangible capital assets	-	59,886	(59,106)
	<u>12,459,244</u>	<u>13,035,795</u>	<u>12,092,683</u>
EXPENSES			
General government	1,241,461	1,161,456	1,099,617
Fire and police protection	1,990,390	2,024,548	1,863,135
Other protective services	475,583	355,920	395,060
Transportation services	5,209,022	4,948,882	4,775,954
Waterworks and sewer	834,905	791,962	832,967
Garbage collection and disposal	498,446	484,972	479,543
Health services	54,300	49,233	30,476
Recreation and cultural services	1,318,027	1,254,210	1,289,208
Planning and zoning	247,356	239,398	242,333
Agriculture	164,799	770,657	285,843
	<u>12,034,289</u>	<u>12,081,238</u>	<u>11,294,136</u>
Total expenses (Note 13)			
ANNUAL SURPLUS	<u>424,955</u>	<u>954,557</u>	798,547
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>46,742,150</u>	<u>46,742,150</u>	<u>45,943,603</u>
ACCUMULATED SURPLUS, END OF YEAR (NOTE 7)	<u>47,167,105</u>	<u>47,696,707</u>	<u>46,742,150</u>

STATEMENT OF OPERATIONS

	2016						2016
SUMMARY	Financial	Consolidation	Recognition	Long Term Debt	Reserve Transfer	Capital	(Budget)
	Statements	Entries	Entries	Entries	Entries	Entries	Results
REVENUES							
Property Taxation	\$6,441,439.00						\$6,441,439.00
Taxation from Other Governments	\$789,196.00						\$789,196.00
User Fees	\$1,823,474.00	(\$371,524.00)	\$94,607.00				\$1,546,557.00
Local Improvement Levies	\$551,408.00		(\$508,252.00)				\$43,156.00
Government Transfers							
Federal	\$300,000.00		(\$21,932.00)				\$278,068.00
Provincial	\$1,618,241.00	(\$215,614.00)	(\$29,295.00)				\$1,373,332.00
Other Municipalities	\$1,125,344.00		\$2,825.00				\$1,128,169.00
Investment Income	\$65,995.00	(\$9,838.00)	\$42,490.00				\$98,647.00
Penalties and Interest on Taxes	\$226,673.00						\$226,673.00
Other, fines and donations	\$34,139.00						\$34,139.00
Gain (Loss) on Disposal of Tangible Capital Assets	\$59,886.00		\$3,862.00				\$63,748.00
Transfers from Reserves					\$443,274.00		\$443,274.00
Total Revenues	\$13,035,795.00	(\$596,976.00)	(\$415,695.00)	\$0.00	\$443,274.00	\$0.00	\$12,466,398.00

STATEMENT OF OPERATIONS

	2016						2016
SUMMARY	Financial	Consolidation	Recognition	Long Term Debt	Reserve Transfer	Capital	(Budget)
	Statements	Entries	Entries	Entries	Entries	Entries	Results
EXPENDITURES							
Governance & Administration	\$1,161,456.00		\$21,956.00		\$212,197.00	(\$55,728.00)	\$1,339,881.00
Fire & Police	\$2,024,548.00				\$29,755.00	(\$272,823.00)	\$1,781,480.00
Other Protection services	\$355,920.00				\$63,000.00	(\$5,727.00)	\$413,193.00
Transportation Services	\$4,948,882.00		(\$238.00)		\$212,652.00	(\$1,451,752.00)	\$3,709,544.00
Water & Sewer	\$791,962.00	\$55,425.00			\$174,043.00	(\$160,729.00)	\$860,701.00
Waste Management	\$484,972.00						\$484,972.00
Health Services	\$49,233.00					(\$609.00)	\$48,624.00
Recreation & Culture	\$1,254,210.00	(\$450,885.00)			\$10,000.00	(\$246,710.00)	\$566,615.00
Planning & Zoning	\$239,398.00				\$35,000.00	(\$4,656.00)	\$269,742.00
Agriculture	\$770,657.00		(\$648,713.00)			(\$5,403.00)	\$116,541.00
Transfer to Reserve				\$108,308.00	\$1,792,595.00		\$1,900,903.00
Capital						\$1,013,781.00	\$1,013,781.00
Amortization							
Total Expenditures	\$12,081,238.00	(\$395,460.00)	(\$626,995.00)	\$108,308.00	\$2,529,242.00	(\$1,190,356.00)	\$12,505,977.00
SURPLUS (DEFICIT)	\$954,557.00	(\$201,516.00)	\$211,300.00	(\$108,308.00)	(\$2,085,968.00)	\$1,190,356.00	(\$39,579.00)

BALANCE SHEET

Savings ----->

Long Term Debt ----->

Focus on this line----->

	2016 <u>\$</u>	2015 <u>\$</u>
FINANCIAL ASSETS		
Cash	2,524,049	2,960,944
Investments (Note 2 & 3)	2,079,200	2,000,725
Taxes receivable (net of allowance of \$105,735; 2015 - \$nil)	1,729,061	1,356,059
Accounts receivable	<u>2,392,515</u>	<u>1,413,307</u>
Total financial assets	<u>8,724,825</u>	<u>7,731,035</u>
FINANCIAL LIABILITIES		
Deferred revenue - obligatory reserve funds (Note 8)	532,415	367,854
Accounts payable and accrued liabilities	2,637,294	2,817,359
Net long-term liabilities (Note 6)	<u>912,678</u>	<u>1,020,986</u>
Total financial liabilities	<u>4,082,387</u>	<u>4,206,199</u>
NET FINANCIAL ASSETS	<u>4,642,438</u>	<u>3,524,836</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 5)	42,946,422	43,045,517
Inventories	40,272	54,093
Prepaid expenses	<u>110,065</u>	<u>117,704</u>
Total non-financial assets	<u>43,096,759</u>	<u>43,217,314</u>
TOTAL NET ASSETS	<u>47,739,197</u>	<u>46,742,150</u>
NET ASSETS IS COMPRISED OF:		
ACCUMULATED SURPLUS (NOTE 7)	47,696,707	46,742,150
ACCUMULATED REMEASUREMENT GAINS (NOTE 2)	<u>42,490</u>	<u>-</u>
	<u>47,739,197</u>	<u>46,742,150</u>

BALANCE SHEET

Do they need to improve collections? --->

Do they have short term loans to manage cash flow? ----->

How much is due in 2016 or later? ----->

Focus on this line----->

December 31	2014	2013
	\$	\$
Financial Assets		
Cash and shortterm deposits	1,248,593	1,342,702
Taxes receivable (net of allowance \$35,901)	2,292,549	2,013,970
Accounts receivable	413,769	630,854
TOTAL FINANCIAL ASSETS	3,954,911	3,987,526
LIABILITIES		
Bank indebtedness (note 4)	2,610,000	1,970,000
Accounts payable and accrued liabilities	577,833	731,171
Accrued landfill closure and post closure costs (note 9)	1,486,721	1,486,721
Other current liabilities	167,410	165,085
Employee future benefit obligations (note 10)	5,777	5,777
Deferred revenues (note 5)	663,328	622,562
Long term liabilities (note 6)	9,631,992	8,616,851
	15,143,061	13,598,167
NET DEBT	(11,188,150)	(9,610,641)
NON-FINANCIAL ASSETS		
Tangible capital assets (note 14)	35,331,344	34,745,489
Prepaid expenses	24,431	23,155
	35,355,775	34,768,644
MUNICIPAL EQUITY (note 7)	24,167,625	25,158,003

BALANCE SHEET

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	<u>\$</u>	<u>\$</u>
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NET ASSETS IS COMPRISED OF:		
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ACCUMULATED REMEASUREMENT GAINS (NOTE 2)	<u>42,490</u>	<u>-</u>
	<u>47,739,197</u>	<u>46,742,150</u>

Surplus (deficit) ----->

SURPLUS (DEFICIT)

The General Fund is KEY to your budget results. ----->

The net book value of your assets ----->
Reserves are savings for future capital ->

Matches the Balance Sheet ----->

	<u>2016</u>	<u>2015</u>
	<u>\$</u>	<u>\$</u>
SURPLUS		
General revenue fund	8,775	48,354
Consolidated water boards reserves	137,169	650,366
Consolidated East Elgin Community Centre Complex reserve	43,380	12,551
Benefiting land owners	(338,945)	(166,756)
Invested in tangible capital assets	42,946,422	43,045,517
Funded (unfunded) capital projects	(102,499)	(124,046)
Reserves	<u>5,915,083</u>	<u>4,297,150</u>
	48,609,385	47,763,136
AMOUNTS TO BE RECOVERED		
Net long-term debt	<u>(912,678)</u>	<u>(1,020,986)</u>
ACCUMULATED SURPLUS		
	<u>47,696,707</u>	<u>46,742,150</u>
RESERVES		
Reserves set aside for specific purposes by council:		
Working capital	736,943	701,943
Contingencies	40,047	39,439
Roadway purposes	1,522,381	833,166
Water and sewer purposes	551,204	617,644
Asset replacement purposes	2,270,945	1,247,374
Other municipal services	<u>793,563</u>	<u>857,584</u>
Total reserves	<u>5,915,083</u>	<u>4,297,150</u>

SURPLUS (DEFICIT)

The net book value of your assets ----->

The General Fund is KEY to your budget results. ----->

Reserves are savings for future capital ->

Matches the Balance Sheet ----->

7. Municipal Equity

Municipality equity consists of:

	2014	2013
	\$	\$
Investment in tangible capital assets		
Tangible capital assets	35,331,344	34,745,489
Long term debt	(9,631,992)	(8,616,851)
Unexpended capital financing (unfinanced capital outlay)	---	200,000
	25,699,352	26,328,638
Operating fund surplus (deficit) Township	(1,113,830)	(990,174)
Public Library Board	---	35,743
Seniors Housing	5,500	3,026
Park Management Board	(123,934)	(149,779)
Unfunded landfill closure	(1,486,721)	(1,486,721)
Unfunded future employee benefits	(5,777)	(5,777)
Reserves (Schedule 1)	1,084,386	1,347,806
Reserves Funds (Schedule 1)	108,649	75,241
Municipal Equity	24,167,625	25,158,003

Key Takeaways

- Financial statements are one source of financial information.
- Key financial statement indicators should be used to guide discussions about a municipality's financial position and year-over-year results.
- The financial statements provide information on deficits that need to be included and funded in the subsequent year's budget.



Source: <https://www.memecreator.org/meme/its-accrual-world-im-ready/>

Resources and contacts

Reference material

- Common Language Guide to Municipal Financial Statements
<http://www.mah.gov.on.ca/Page15026.aspx>

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