



Understanding Municipal Financial Reporting

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Understanding Municipal Financial Reporting

Agenda

Municipal Financial Reporting

- Brief History
- Responsibility of setting standards

Elements of Municipal Financial Statements

- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Net Financial Assets
- Statement of Cash Flows

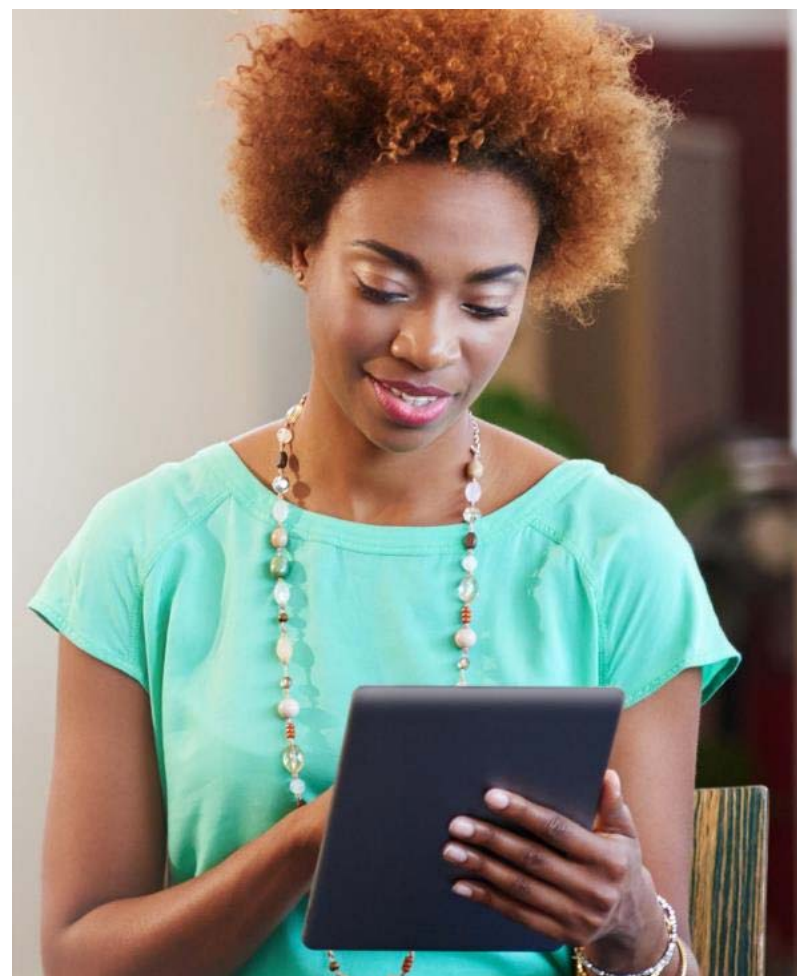
Differences between Municipal Financial Reporting and Municipal Budgeting

Understanding Municipal Financial Reporting

The Public Sector Accounting Standard Board ("PSAB") of CPA Canada is responsible for the standards relating to entities in the public sector

Including federal, provincial, territorial and local governments (including First Nations), Government organizations, Government partnerships, School boards.

Canadian municipalities are required to have audited financial statements prepared on an annual basis prepared in accordance with the PSAB framework.



Understanding Municipal Financial Reporting

Required Elements of Government Financial Statements

Financial Statements should include

Statement of financial position (Balance sheet)

- Highlight – cash resources, net debt position, non-financial assets in use, and accumulated surplus or deficit
- Discretionary reserves are included within the Accumulated surplus balance, Obligatory reserves, ie unspent development charges are included within Liabilities as Deferred revenue

Statement of operations (P and L)

- Present cost of services and revenues recognized

Statement of remeasurement gains and losses (not required until the City's 2023 fiscal year)

- New standards will require equity instruments to be carried at fair value. All other financial instruments can be carried at cost or fair value based upon a policy choice of the City but the choice must be made upon adoption of the standard and is irrevocable.
- The changes in fair value for instruments accounted for as such, will flow through this new statement. Realized gains and losses on instruments carried at book value, will continue to flow through the Statement of operations.

Statement of change in net debt

- Extent to which expenditures and borrowing for capital are offset by revenues

Statement of cash flow

- Change in cash and cash equivalents

Understanding Municipal Financial Reporting

Statement of Financial Position

Should report net debt and accumulated surplus together as an explanation of financial position

The difference of liabilities and financial assets (cash or a contract to receive cash) is reported as **Net Debt** (or net financial assets)

Non-financial assets (tangible capital assets, inventories of supplies and prepaid expenses) and net debt are aggregated to reach **accumulated surplus/deficit**

- When amounts are required to be reported on the statement of remeasurement gains/losses, must disclose
 - Accumulated surplus/deficit from operations
 - Accumulated remeasurement gains and losses

NOTE – EXAMPLE FINANCIAL STATEMENTS used in following slides are excerpted from City of Vaughan Draft Financial Statements for the year ended December 31, 2019 and are presented for illustrative purposes only. Actual audited financial statements are available on line at the City of Vaughan's website or via direct request.

Understanding Municipal Financial Reporting

Example Statement of Financial Position

THE CORPORATION OF THE CITY OF VAUGHAN

Consolidated Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Financial Assets		
Cash and cash equivalents	\$ 779,700,486	\$ 730,444,327
Taxes receivable	48,247,575	47,789,114
Water and sewer billings receivable	25,220,469	23,111,989
Accounts receivable	21,575,321	22,340,589
Investments (note 3)	88,610,584	87,293,174
Investment in Hydro Vaughan Corporations (note 4)	629,320,313	635,860,859
	<u>1,592,674,748</u>	<u>1,546,840,052</u>
Financial Liabilities		
Accounts payable and accrued liabilities	125,121,697	101,371,381
Accrued interest on long-term liabilities	93,272	115,548
Employee future benefits (note 5)	144,778,571	134,218,756
Deposits and deferred revenue (note 6(a))	40,013,432	40,032,009
Deferred revenue - obligatory reserve funds (note 6(b))	619,182,836	617,005,751
Debenture and other debt (note 7)	64,569,163	59,061,732
Note payable (note 8)	3,303,523	3,303,523
	<u>997,062,494</u>	<u>955,108,700</u>
Net financial assets	595,612,254	591,731,352
Non-Financial Assets		
Tangible capital assets (note 9)	9,041,767,804	8,551,359,525
Prepaid expenses	2,355,744	2,408,580
	<u>9,044,123,548</u>	<u>8,553,768,105</u>
Contractual rights (note 15)		
Commitments (note 16)		
Subsequent event and contingencies (note 17)		
Accumulated surplus (note 10)	<u>\$ 9,639,735,802</u>	<u>\$ 9,145,499,457</u>

See accompanying notes to consolidated financial statements.

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Statement of Operations

Report revenues by significant type

Excluding remeasurement gains

Report expenses by function or program

Excluding remeasurement losses

Expenses should be disclosed by object (in notes)

Difference between revenues and expenses is the operating surplus or deficit

- This surplus or deficit differs from the traditional definition or the Municipal Act meaning

Report accumulated surplus/deficit from operations at the beginning and end of the period

Understanding Municipal Financial Reporting

Statement of Operations

THE CORPORATION OF THE CITY OF VAUGHAN

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2019, with comparative information for 2018

	Budget (note 13) (note 1(o))	2019	2018
Revenue (note 12):			
Property taxation	\$ 209,736,159	\$ 210,313,730	\$ 202,262,689
Taxation from other governments	1,500,000	1,649,320	1,495,421
Municipal accommodation tax	2,400,000	2,117,140	–
User charges	55,202,238	64,190,969	55,348,100
Water and sewer billings	175,807,601	162,355,455	150,397,663
Government transfers (note 11)	12,047,665	18,125,035	24,422,947
Investment income	5,345,500	8,675,665	6,132,140
Penalties and interest on taxes	5,200,000	5,774,042	5,736,228
Other fees and services	260,200	3,277,186	7,679,527
Contributions from developers	80,499,093	27,170,561	64,587,558
Contributed assets (note 9(b))	–	486,611,658	316,239,032
Hydro Vaughan Corporations (note 4):			
Share of net earnings	12,202,000	10,772,850	25,221,531
Interest on notes receivable	–	3,450,220	3,743,683
	560,200,456	1,004,483,831	863,266,519
Expenses (note 12):			
General government	44,690,235	28,653,424	29,951,241
Protection to persons and property	83,680,481	84,017,469	82,375,193
Transportation services	65,392,011	62,157,780	96,917,361
Environmental services	219,934,566	200,467,273	172,668,608
Health services	121,071	94,844	106,593
Social and family services	305,411	126,154	129,210
Recreation and cultural services	114,189,207	108,649,537	99,380,921
Planning and development	74,753,690	25,072,447	21,740,395
	603,066,672	509,238,928	503,269,522
	(42,866,216)	495,244,903	359,996,997
Gain on merger of Alectra Inc. with Guelph Hydro Electric Systems Inc. (note 4)	–	989,605	–
Adjustment for the decrease of the City's equity interest in the net assets of Alectra Inc. (note 4)	–	(1,998,163)	(2,211,345)
Annual surplus (deficit)	(42,866,216)	494,236,345	357,785,652
Accumulated surplus, beginning of year	9,145,499,457	9,145,499,457	8,787,713,805
Accumulated surplus, end of year	\$ 9,102,633,241	\$ 9,639,735,802	\$ 9,145,499,457

See accompanying notes to consolidated financial statements.

Understanding Municipal Financial Reporting

Inherent Differences Between Municipal Planning vs Municipal Reporting

Traditional Municipal Budgeting prepared on a cash basis, used for setting tax rates, other revenue requirements ie accommodation taxes, user charges, other rates

Traditional Municipal Budgeting based on previous year budget exercise with limited input from prior year actual results

- Existing budget method only includes annual cash (operating expenses) requirements
- Full accrual budgeting must include non-cash requirements (as on financial statements), such as:
- Depreciation
- Developer contributed assets
- Public Service Accounting Board (PSAB) adjustments for employee post retirement and other liabilities
- Interest earned on reserve and reserve funds

Understanding Municipal Financial Reporting

Statement of Changes in Net Financial Assets / Net Debt

- Expense – consumption of goods during period
- Expenditure – goods acquired during period
- Report extent to which expenditures are met by revenues recognized and the extent to which net debt changed due to net remeasurement gains and losses
- Report acquisition of tangible capital assets and other significant items explaining difference between change in net debt and surplus or deficit
- Report net debt at beginning and end of period

Statement of Changes in Net Financial Assets

THE CORPORATION OF THE CITY OF VAUGHAN

Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2019, with comparative information for 2018

	Budget (note 13) (note 1(o))	2019	2018
Annual surplus (deficit)	\$ (42,866,216)	\$ 494,236,345	\$ 357,785,652
Amortization of tangible capital assets	—	76,674,645	74,041,429
Proceeds on disposal of tangible capital assets	—	137,172	120,100
Loss on disposal of tangible capital assets	—	1,741,538	39,163,780
Acquisition of tangible capital assets	—	(568,961,634)	(442,850,116)
	(42,866,216)	3,828,066	28,260,845
Acquisition of prepaid expenses	—	52,836	(1,034,103)
Increase (decrease) in net financial assets	(42,866,216)	3,880,902	27,226,742
Net financial assets, beginning of year	591,731,352	591,731,352	564,504,610
Net financial assets, end of year	\$ 548,865,136	\$ 595,612,254	\$ 591,731,352

See accompanying notes to consolidated financial statements.

Understanding Municipal Financial Reporting

Statement of Cash Flows

- Report how cash was generated and used
- Classify by operating, capital, investing and financing
- May use direct or indirect method
- Some options for net reporting allowed in limited circumstances
- Disclose components of cash and cash equivalents and policy for determination

Understanding Municipal Financial Reporting

Statement of Cash Flows

THE CORPORATION OF THE CITY OF VAUGHAN

Consolidated Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 494,236,345	\$ 357,785,652
Items not involving cash:		
Amortization of tangible capital assets	76,674,645	74,041,429
Loss on disposal of tangible capital assets	1,741,538	39,163,780
Contributed tangible capital assets	(486,611,658)	(316,239,032)
Gain on merger of Alectra Inc. with Guelph Hydro Electric Inc.	(989,605)	—
Share of net earnings of Hydro Vaughan Corporations	(10,772,850)	(25,221,531)
Decrease in equity interest in net assets of Alectra Inc.	1,998,163	2,211,345
Change in non-cash assets and liabilities:		
Increase in taxes receivable	(458,461)	(6,487,635)
Increase in water and sewer billings receivable	(2,108,480)	(4,453,521)
Decrease (increase) in accounts receivable	765,268	(6,577,609)
Increase (decrease) in accounts payable and accrued liabilities	23,750,316	(2,559,208)
Decrease in accrued interest on long-term liabilities	(22,276)	(22,170)
Increase in employee future benefits	10,559,815	9,642,922
Increase (decrease) in deposits and deferred revenue	(18,577)	8,092,529
Increase in deferred revenue - obligatory reserve funds	2,177,085	208,128,467
Decrease (increase) in prepaid expenses	52,836	(1,034,103)
	110,974,104	336,471,315
Capital activities:		
Proceeds on disposal of tangible capital assets	137,172	120,100
Cash used to acquire tangible capital assets	(82,349,976)	(126,611,084)
	(82,212,804)	(126,490,984)
Financing activities:		
Debenture and other debt repaid	(6,827,447)	(13,576,921)
Debenture and other debt incurred	12,334,878	16,104,977
	5,507,431	2,528,056
Investing activities:		
Increase in investments, net	(1,317,410)	(1,442,080)
Decrease in investment in Hydro Vaughan Corporations	16,304,838	23,664,032
	14,987,428	22,221,952
Increase in cash and cash equivalents	49,256,159	234,730,339
Cash and cash equivalents, beginning of year	730,444,327	495,713,988
Cash and cash equivalents, end of year	\$ 779,700,486	\$ 730,444,327
Supplemental cash flow information:		
Interest paid	\$ 693,472	\$ 881,561
Interest and dividends received	39,927,229	31,740,490

See accompanying notes to consolidated financial statements.

Understanding Municipal Financial Reporting

Notes to the Financial Statements

- Integral part of external financial reporting
- Includes key accounting policies – ie amortization periods of tangible capital assets, basis of consolidation
- Notes that support or provide additional detail to amounts reported within financial statements
- Include information about key financial items not otherwise reported within financial statements – commitments (leases, capital projects with signed contracts), contingencies
- Must refrain from including future oriented information and variance explanation (Management discussion and analysis)



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