
Municipal Accounting Manual

March 2013

Updated: November 2015

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*** Please note the forms in the document are for demonstration purposes only. Please use the forms provided to you by the Province of Saskatchewan.

Introduction

This manual is a reference designed to help Chief Administrative Officers (CAO) better understand the purpose, presentation and disclosure requirements for financial statements as prescribed by the Public Sector Accounting Board (PSAB). This includes the notes and schedules which form an integral part of the completed financial statements. This manual is not meant to be the final authoritative source on financial statement presentation and disclosure. The Chartered Professional Accountants of Canada (CPA Canada) is the final authoritative source.

The CPA Canada Public Sector Accounting Handbook may be purchased by visiting the [CPA Canada's online store](#). The subscription CPA Canada Public Sector Accounting Handbook (PSACC), is available in print, DVD or through internet access. The subscription fee varies based on the media requested and must be paid annually in order to receive updates and/or continued access.

The most recent major development in Public Accounting Standards is PS 3150 – Tangible Capital Asset Reporting. Tangible capital asset reporting has been used as the initial starting point for developing asset management practices and processes. An introductory guide titled “Getting Started in Asset Management” is now available on the Saskatchewan Government Relations [website](#).

Municipal Financial Statements

Overview

PSAB and CPA Canada are the governing bodies in Canada and are responsible for issuing standards with respect to accounting policies and financial reporting requirements for all public and private sectors.

PSAB serves the public interest by:

- Setting financial reporting standards for all levels of government; and
- Enhancing public confidence by providing guidelines that ensure the reporting is both neutral and objective.

Section 185(1) of *The Municipalities Act* states that municipal governments must prepare financial statements as recommended by CPA Canada. These include disclosing:

- Debt limit of the municipality; and
- Amount of debt outstanding.

Saskatchewan municipalities have been reporting in accordance with PSAB standards since 2002. Since that time a number of changes have been implemented within the public sector accounting model. Up to 2008, the financial model had been, simply stated, revenue less expenditures equals excess of revenues or change in net financial assets; in essence a cash model of accounting.

Revisions introduced in 2009 introduced municipalities to a model which shows revenue less expenses equals a surplus or a deficit. This is commonly referred to as the accrual method of accounting and more closely follows the accounting standards followed by businesses across Canada.

The PSAB reporting model places equal emphasis on the annual surplus/deficit and the overall financial health of the municipality.

Municipal financial statement purpose

All municipalities in Canada are required to prepare and provide financial statements that provide the financial position and changes in the financial position over a given fiscal period which is one calendar year.

The financial statements must be prepared in accordance with the generally accepted accounting principles and guidelines set out by PSAB.

General purpose financial statements are:

- Required by legislation,
- Audited, and
- Are publically available to all interested parties.

The financial statements are to be audited by a professional auditor. This is a person who is a member in good standing of a recognized accounting profession under:

- *The Accounting Profession Act, 2014*

Section 186 of *The Municipalities Act* requires that audited financial statements for the fiscal year-ending be submitted to Government Relations no later than:

- July 1 of the year immediately following the financial year for which the financial statements and report have been prepared

For example, a municipality's statements for the fiscal year ending December 31, 2015, must be submitted to Government Relations no later than July 1, 2016. Failure to do so may impact subsequent funding to the municipality.

Financial statements provide the following information:

- The resources available to the municipality at the financial statement date
 - Statement of Financial Position – Statement 1
- A summary of transactions that took place in the financial period summarizing the activities of the municipality
 - Statement of Operations – Statement 2
- A summary of changes to the financial assets retained by the municipality
 - Changes in Net Financial Assets – Statement 3
- An overview of changes to the cash position of the municipality
 - Statement of Cash Flow – Statement 4
- Supporting information
 - Notes to the Financial Statements
 - Schedules 1 – 10

A suggested form of financial statement has been developed in consultation with auditors, administrators and government in order to prepare a document that is flexible to meet the needs of the various parties. The financial information in these reports detail municipal assets, liabilities, revenues and expenditures and is to be made available to the public. Updated forms are available on the Saskatchewan Government Relations [website](#).

Municipal financial statement reporting requirements

Municipal governments are required to report on a consolidated basis. This means that all organizations owned and controlled by the reporting municipality must be included in the summary statements. Generally this is comprised of boards, commissions and corporations of the government.

These organizations may prepare separate financial statements which provide important information for their management. However, only summary financial statements that report on the government through aggregated information can provide an understandable overview of the full nature and extent of the financial affairs and resources for which the municipality is responsible.

Detailed information relative to the concept of control is provided in appendix A-1.

Financial Statements

Statement of Financial Position – Statement 1 (Figure 1)

Statement Purpose and Scope

The Statement of Financial Position is a summary of the financial balances of a municipality at a certain point in time; typically at year end. It provides a picture of the municipality's financial position on a specific date and the nature of the resources it has available.

The Statement provides the reader with a fair indication of the municipality's financial position as compared to a prior period.

The Statement of Financial Position is also referred to as a Balance Sheet.

| Municipality of _____ | | | |
|---|--|------|-------------|
| Consolidated Statement of Financial Position | | | |
| As at December 31, 2015 | | | Statement 1 |
| | | 2015 | 2014 |
| FINANCIAL ASSETS | | | |
| Cash and Temporary Investments (Note 2) | | - | - |
| Taxes Receivable - Municipal (Note 3) | | - | - |
| Other Accounts Receivable (Note 4) | | - | - |
| Land for Resale (Note 5) | | - | - |
| Long-Term Investments (Note 6) | | - | - |
| Debt Charges Recoverable (Note 7) | | - | - |
| Other (Specify) | | | |
| Total Financial Assets | | - | - |
| LIABILITIES | | | |
| Bank Indebtedness (Note 8) | | | |
| Accounts Payable | | | |
| Accrued Liabilities Payable | | | |
| Deposits | | | |
| Deferred Revenue (Note 9) | | - | - |
| Accrued Landfill Costs (Note 10) | | - | - |
| Liability for Contaminated Sites (Note 11) | | | |
| Other Liabilities | | | |
| Long-Term Debt (Note 12) | | | |
| Lease Obligations (Note 13) | | | |
| Total Liabilities | | - | - |
| NET FINANCIAL ASSETS (DEBT) | | - | - |
| NON-FINANCIAL ASSETS | | | |
| Tangible Capital Assets (Schedule 6, 7) | | - | - |
| Prepayments and Deferred Charges | | | |
| Stock and Supplies | | | |
| Other (Note 14) | | - | - |
| Total Non-Financial Assets | | - | - |
| ACCUMULATED SURPLUS (DEFICIT) (Schedule 8) | | - | - |

Figure 1 – Statement of Financial Position

Sections of the Statement of Financial Position

The Statement consists of three main sections:

Net Financial Assets

Net financial assets are the difference between the value of the assets and liabilities (obligations) of the municipality. This is commonly referred to as working capital.

Assets

- Assets are best described as the economic resources held by the municipality.
- Assets are listed in the order of liquidity. Liquidity is the level at which an asset can be converted to cash. For example, the quicker an asset is able to be converted to cash, the more liquid the asset is considered. Temporary investments are more liquid than land held for sale and are therefore listed before land for sale.

Liabilities

- A liability is a financial obligation of the municipality arising from past transactions or events.
- Liabilities are listed in the order that they come due. For example, regular trade accounts payable are listed before demand loans or lease obligations.

Non-Financial Assets

Non-Financial assets are the assets of the municipality which are intended to be used (consumed) by the municipality. Some examples include tangible capital assets and prepaid expenses.

Accumulated Surplus

Accumulated surplus = Net Financial Assets + Non-Financial Assets.

This is a measure of the municipality's ability to re-invest in current and future projects.

- Accumulated surplus is further defined between appropriated reserves and unappropriated surpluses.

Key Measures

Financial ratios are used to evaluate an organization's financial health and are useful in determining financial trends.

- Change in Net Financial Assets
 - Calculation - Previous year's net financial asset balance less current year's balance.
 - Purpose – identifies how revenues matched against expenditures for the defined period.
- Cash and Liquid Investment Change
 - Calculation – Previous year's cash and temporary investment asset balance less current year's balance.
 - Purpose – shows how the cash position has changed year over year.
- Asset to Liability Ratio
 - Calculation – Total assets owned by a municipality divided by total liabilities.
 - Purpose – shows the extent to which a municipality is financed by debt.
- Municipal Debt Ratio
 - Calculation – Total debt outstanding divided by the municipal debt limit.
 - Purpose – Indicates the utilization of a municipality's borrowing limits.
- Long Term Debt per Capita
 - Calculation – Total debt outstanding divided by population of a municipality.
 - Purpose – Develop a trend showing how much debt the municipality is carrying.

Statement of Operations – Statement 2 (Figure 2)

Statement Purpose and Scope

The Statement of Operations provides information about the performance of the municipality for a given period of time; usually one calendar year.

For comparative purposes, the actual results for the prior fiscal period and the current year budget are included with the current year operating results. This enables a reader to easily see what changes have occurred over the past year and identify variances to the current year budget.

This statement can help the reader determine the past financial performance, predict future performance and assess the ability of the municipality to generate future cash flows. The statement is prepared using summarized information. Each line item is detailed with supporting schedules that are discussed in a subsequent section of this manual.

The Statement of Operations is also commonly referred to as the Income Statement.

| Municipality of _____ | | | | | | |
|---|--|--|--|-------------|----------|-------------|
| Consolidated Statement of Operations | | | | | | |
| As at December 31, 2015 | | | | | | Statement 2 |
| | | | | 2015 Budget | 2015 | 2014 |
| REVENUES | | | | | | |
| Taxes and Other Unconditional Revenue (Schedule 1) | | | | - | - | - |
| Fees and Charges (Schedule 4, 5) | | | | - | - | - |
| Conditional Grants (Schedule 4, 5) | | | | - | - | - |
| Tangible Capital Asset Sales - Gain (Schedule 4, 5) | | | | - | - | - |
| Land Sales - Gain (Schedule 4, 5) | | | | - | - | - |
| Investment Income and Commissions (Schedule 4, 5) | | | | - | - | - |
| Other Revenues (Schedule 4, 5) | | | | - | - | - |
| Total Revenues | | | | - | - | - |
| EXPENSES | | | | | | |
| General Government Services (Schedule 3) | | | | - | - | - |
| Protective Services (Schedule 3) | | | | - | - | - |
| Transportation Services (Schedule 3) | | | | - | - | - |
| Environmental and Public Health Services (Schedule 3) | | | | - | - | - |
| Planning and Development Services (Schedule 3) | | | | - | - | - |
| Recreation and Cultural Services (Schedule 3) | | | | - | - | - |
| Utility Services (Schedule 3) | | | | - | - | - |
| Total Expenses | | | | - | - | - |
| Surplus (Deficit) of Revenues over Expenses before Other Capital Contributions | | | | - | - | - |
| Provincial/Federal Capital Grants and Contributions (Schedule 4, 5) | | | | - | - | - |
| Surplus (Deficit) of Revenues over Expenses | | | | - | - | - |
| Accumulated Surplus (Deficit), Beginning of Year | | | | - | - | - |
| Accumulated Surplus (Deficit), End of Year | | | | - | - | - |

Figure 2 – Statement of Operations

Sections of the Statement of Operations

The Statement consists of three main sections:

Revenues

Revenues are income streams that a municipality receives. They can be received from a number of sources including taxes, fees, grants and sale of assets including land and tangible capital assets. Additional revenues may also be received in the form of interest or dividends on funds held in bank accounts or investments.

- Capital revenues vs. Operating revenues – Operating revenues are those funds generated or received to be used in the day-to-day operations of the municipality. Capital revenues are grants, taxes, levies or transfers that have been identified for expenditures relating to the purchase or improvement of tangible capital assets.
- Own-source revenues – This term refers to revenues that are generated by the municipality. These include property taxes, fees and/or charges.

A section on Revenue Recognition is presented in Appendix A-2. Note however, as accounting pronouncements are constantly evolving the Public Sector Accounting Handbook should be referred to or the local auditor should be consulted when dealing with specific situations.

Expenses

Expenses represent money spent or costs incurred to generate revenue and provide goods and services to the municipality. Expenses can be in the form of cash payments, the promise to pay (accounts payable) or an expired portion of an asset (amortization of capital assets, use/expiration of prepaids or changes in supply inventories).

The accrual method of accounting recognizes the expense in the period it is incurred vs. the period in which payment is made. For example, if shop supplies are received in December but not paid for until January the expense would be recorded in December.

Expenses on the Statement of Operations are separated into functional areas. The supporting schedule provides additional detail of the expenses incurred for each functional area including wages, utilities, repair and maintenance, interest and amortization.

Other Capital Contributions

Capital revenues are grant funds that are specific to a functional area and are stipulated for the use of capital purchases. These totals are detailed on Schedule 4 for the current year and Schedule 5 for the prior year.

Debt

Issuance and repayment of debt is not revenue or an expense as it relates strictly to financing activities. These are reflected on Statement 4, the Statement of Cash Flow.

Key measures

- Long Term Debt Flexibility
 - Calculation – Long-term debt repayments divided by total municipal operating revenues.
 - Purpose – shows how much flexibility a municipality has to respond to operational changes.
- Level of Capital Investment
 - Calculation – Long-term debt repayments divided by total municipal operating revenues.
 - Purpose – shows how much flexibility a municipality has to respond to operational changes.
- Municipal Reserve Size
 - Calculation – Appropriated reserves divided by total annual operating revenues.
 - Purpose – shows the percentage of annual operating revenues that are in municipal reserves.
 - Reserves play a key role in long-term financial plans.
- Municipal Administration
 - Calculation – General government expenses divided total operating expenses.
 - Purpose – shows the percentage the municipality spends on administration related expenses.
 - Caution when comparing to other municipalities due to differences in cost allocations or classifications.
- Third Party Transfers
 - Calculation – Third party transfers received divided by total operating revenues.
 - Could be done with other third party transfers such as inter-municipal agreements, capital transfers and other outside revenue sources.
 - Purpose – shows how much the municipality receives in third party revenue.

Statement of Change in Net Financial Assets – Statement 3 (Figure 3)

Statement Purpose and Scope

The Statement of Changes in Net Financial Assets provides information regarding the extent to which expenditures were covered by revenues recognized in the year.

The Change in Net Financial Assets is a very important indicator due to its exclusion of non-financial asset transactions which include amortization, change in supplies and Tangible Capital Assets (TCA) acquisitions and disposals. It enables financial statement users to work from the annual surplus/(deficit) presented under accrual accounting to a cash basis. The only items that Statement 3 does not consider are the issuance/payment of long-term debt or the transfers to/from reserves.

| Municipality of _____ | | | | | | |
|---|--|--|--|-------------|----------|-------------|
| Consolidated Statement of Change in Net Financial Assets | | | | | | |
| As at December 31, 2015 | | | | | | Statement 3 |
| | | | | 2015 Budget | 2015 | 2014 |
| Surplus (Deficit) | | | | - | - | - |
| (Acquisition) of tangible capital assets | | | | | - | - |
| Amortization of tangible capital assets | | | | | - | - |
| Proceeds on disposal of tangible capital assets | | | | | | |
| Loss (gain) on the disposal of tangible capital assets | | | | | - | - |
| Surplus (Deficit) of capital expenses over expenditures | | | | - | - | - |
| (Acquisition) of supplies inventories | | | | | | |
| (Acquisition) of prepaid expense | | | | | | |
| Consumption of supplies inventory | | | | | | |
| Use of prepaid expense | | | | | | |
| Surplus (Deficit) of expenses of other non-financial over expenditures | | | | - | - | - |
| Increase/Decrease in Net Financial Assets | | | | - | - | - |
| Net Financial Assets (Debt) - Beginning of Year | | | | - | - | - |
| Net Financial Assets (Debt) - End of Year | | | | - | - | - |

Figure 3 – Statement of Changes in Net Financial Assets

Sections of the Statement of Changes in Net Financial Assets

The Statement consists of four main sections:

Surplus (Deficit)

The surplus or deficit is taken directly from Statement 2, Statement of Operations and is the starting point for this statement.

Changes in capital expenses over expenditures

This section details adjustments for the changes relating to capital items such as amortization and gains or losses on disposal as well as TCA acquisitions and proceeds from disposals.

Changes in other non-financial expenses over expenditures

Other items not directly tied to the operations such as changes to inventories and prepaid expenses are shown in this section. The expired or used up portion charged in the operating statement is added back and the cost of purchases made during the year are deducted.

Increase/Decrease in Net Financial Assets

This section identifies the net revenues over expenditures for the current year, the beginning balance from the prior year and the ending result. The final line, Net Financial Assets – End of Year ties directly to the corresponding line on Statement 1, Statement of Financial Position which is the difference between the financial assets and liabilities of the municipality.

Statement of Cash Flow – Statement 4 (Figure 4)

Statement Purpose and Scope

The Statement of Cash Flow identifies the change in cash for the year and how the municipality has generated or used cash for the year. This is a good indicator of the municipality's capacity to generate cash or the need of the municipality for cash resources.

Two cash flow methods are acceptable under PSAB for reporting purposes; the direct method and the indirect method. The direct method is not widely used and therefore the indirect method will be illustrated throughout this manual.

| Municipality of _____ | | | |
|---|--|------|-------------|
| Consolidated Statement of Cash Flow | | | Statement 4 |
| As at December 31, 2015 | | | |
| | | 2015 | 2014 |
| Cash provided by (used for) the following activities | | | |
| Operating: | | | |
| Surplus (Deficit) | | - | - |
| Amortization | | - | - |
| Loss (gain) on disposal of tangible capital assets | | - | - |
| | | - | - |
| Change in assets/liabilities | | | |
| Taxes Receivable - Municipal | | - | - |
| Other Receivables | | - | - |
| Land for Resale | | - | - |
| Other Financial Assets | | - | - |
| Accounts and Accrued Liabilities Payable | | - | - |
| Deposits | | - | - |
| Deferred Revenue | | - | - |
| Accrued Landfill Costs | | - | - |
| Liability for Contaminated Sites | | - | - |
| Other Liabilities | | - | - |
| Stock and Supplies | | - | - |
| Prepayments and Deferred Charges | | - | - |
| Other (Specify) | | - | - |
| Cash provided by operating transactions | | - | - |
| Capital: | | | |
| Acquisition of capital assets | | - | - |
| Proceeds from the disposal of capital assets | | - | - |
| Other capital | | - | - |
| Cash applied to capital transactions | | - | - |
| Investing: | | | |
| Long-term investments | | - | - |
| Other investments | | - | - |
| Cash provided by (applied to) investing transactions | | - | - |
| Financing: | | | |
| Debt charges recovered | | | |
| Long-term debt issued | | | |
| Long-term debt repaid | | | |
| Other financing | | | |
| Cash provided by (applied to) financing transactions | | - | - |
| Change in Cash and Temporary Investments during the year | | - | - |
| Cash and Temporary Investments - Beginning of Year | | - | - |
| Cash and Temporary Investments - End of Year | | - | - |

Figure 4 – Statement of Cash Flow

Sections of the Statement of Cash Flow

The Statement consists of four main sections:

Operating

The section begins with the operating surplus (deficit) as provided on statement 4 - Statement of Operations. Any non-cash items relating to tangible capital assets are adjusted reflecting amortization and gains or losses on disposal. These items affect the operating results but do not affect the cash position of the municipality.

The balance of the section identifies changes that are sources of cash or uses of cash such as changes to accounts receivable, prepaid accounts or inventories relative to operations.

Capital

The Capital section tells the financial statement users how much cash was spent on tangible capital assets and what cash flow was generated from the sale of capital assets (proceeds).

Investing

This section provides information about cash that was used or generated by the municipality's investing policies. An example of an investing activity could be changes in term investments such as purchases or redemptions.

Financing (borrowing)

The section identifies the level of debt acquired by the municipality and the amount of debt paid back over the course of the year.

Notes to Financial Statements

Notes are used to provide additional detail or information pertaining to certain financial and non-financial transactions that are not included in any of the statements or schedules.

Areas supported in the Notes to the Financial Statement typically fall into the following groups;

- Significant Accounting Policies
 - Reporting entity
 - Identifies which controlled entities are consolidated in the municipality's financial statements.
 - Basis of accounting
 - Tangible capital asset policies
 - Provides details found in the municipalities TCA policy including asset useful lives, capitalization of interests and amortization methods used.
 - Basis of segmentation
 - Provides a list and description of the functional areas in the municipality.
- Detail of items on Statement 1 – Statement of Financial Position. In addition to quantitative details these notes would provide information about terms of repayment (time frame and interest rate) and the basis for accrual or estimated recognition dates in the case of deferred revenues.
 - Land for resale
 - A breakdown between tax title property and other land for resale is provided.
 - Deferred revenues
 - Revenues that have been received but not yet earned (or spent) by the municipality.

- Accrued landfill costs
 - This recognizes the future obligation for decommissioning a landfill at the end of its useful life.
- Debt of the Municipality
 - Long-term debt
 - Identifies the debt limit of the municipality
 - Provides information about repayment terms such as repayment dates and interest rates.
 - Obligations under capital leases
 - Provides additional information about repayment, interest rates and end-of-lease terms.
- Additional notes
 - Liability for Contaminated Sites
 - Identifies the future costs for remediation of a contaminated site the municipality is responsible for
 - Debt Charges Recoverable
 - Contractual obligations
 - Contingencies
 - These can be items that are recognized in the financial statements or events that may occur but the amount of the liability cannot be reasonably estimated.
 - Retirement benefits
 - Financial instruments
 - Pension plan
 - Subsequent events
 - Events occurring subsequent to the reporting period that would be considered material in nature that cause significant changes to the assets or liabilities of the municipality or have significant impact on the future operations of the municipality.
 - Accounting changes
 - Change in presentation
 - Change in accounting policy
 - Change in accounting estimate
 - Correction of a prior period error

Supporting Schedules

Supporting schedules provide the user of the financial statements with additional detailed information relative to the information found in the financial statements. Schedules are similar to notes but due to the nature of the information it is clear when presented in a detailed schedule.

The information provided in the schedules becomes part of the audited financial statements and much of the information in the financial statements is taken directly from the supporting schedules.

Schedule 1 – Schedule of Taxes and Other Unconditional Revenue (Figure 5)

The intent of this schedule is to provide users with a detailed breakdown of the makeup of the Taxes and Unconditional revenues received by the municipality. Due to the difficulty in allocating this revenue by functional area, the schedule does not attempt to allocate these funds into the various functional categories.

The Total Taxes and Other Unconditional Revenue total carries forward to the corresponding line on Statement 2 – Statement of Operations.

| Municipality of _____ | | | | |
|--|--------------------------------|-------------|------|------------|
| Schedule of Taxes and Other Unconditional Revenue | | | | |
| As at December 31, 2015 | | | | Schedule 1 |
| | | 2015 Budget | 2015 | 2014 |
| TAXES | | | | |
| | General municipal tax levy | | | |
| | Abatements and adjustments | | | |
| | Discount on current year taxes | | | |
| | Net Municipal Taxes | - | - | - |
| | Potash tax share | | | |
| | Trailer license fees | | | |
| | Penalties on tax arrears | | | |
| | Special tax levy | | | |
| | Other (Specify) | | | |
| Total Taxes | | - | - | - |
| UNCONDITIONAL GRANTS | | | | |
| | Equalization (Revenue Sharing) | | | |
| | Organized Hamlet | | | |
| Total Unconditional Grants | | - | - | - |
| GRANTS IN LIEU OF TAXES | | | | |
| | Federal | | | |
| | Provincial | | | |
| | S.P.C. Electrical | | | |
| | SaskEnergy Gas | | | |
| | TransGas | | | |
| | SPMC - Municipal Share | | | |
| | SaskTel | | | |
| | Other (Specify) | | | |
| | Local/Other | | | |
| | Housing Authority | | | |
| | C.P.R. Mainline | | | |
| | Treaty Land Entitlement | | | |
| | Other (Specify) | | | |
| | Other Government Transfers | | | |
| | S.P.C. Surcharge | | | |
| | Sask Energy Surcharge | | | |
| | Other (Specify) | | | |
| Total Grants in Lieu of Taxes | | - | - | - |
| TOTAL TAXES AND OTHER UNCONDITIONAL REVENUE | | - | - | - |

Figure 5 – Schedule of Taxes and Other Unconditional Revenue

Schedule 2 – Revenues by Function (Figure 6)

The purpose of Schedule 2 is to detail revenue other than taxes and unconditional grants, and report them by functional area. The schedule usually consists of multiple pages and is numbered sequentially, Schedule 2-1, Schedule 2-2, etc. This enables each page to contain information on two functional areas.

A municipality can report on a variety of functional areas but the most common are:

- General government services
- Protective services
- Transportation services
- Environmental and public health services
- Planning and development services
- Recreation and cultural services
- Utility services

Within each functional area revenues are broken down into two categories; Operating and Capital.

Operating revenues consist of fees and charges such as custom work, sale of supplies and charges for water and sewer. Certain conditional grants that are specific to the operations of the functional area are also classified as operating revenues. These include grants for student employment, local government and donations to a specific area.

Capital revenues are grant funds that are specific to a functional area and are stipulated to be used for capital purchases.

Most revenue is recognized in the period it is earned for goods and services or when authorized/received in the case of operating and capital grants. Appendix A-2 provides specific details pertaining to revenue recognition as it pertains to:

- Own source revenue
- Government transfers
- Restricted funds (deferral method)

| | | | | | | |
|--|--|---|--|--------------------|-------------|----------------|
| Municipality of _____ | | | | | | |
| Schedule of Operating and Capital Revenue by Function | | | | | | |
| As at December 31, 2015 | | | | | | Schedule 2 - 1 |
| | | | | 2015 Budget | 2015 | 2014 |
| GENERAL GOVERNMENT SERVICES | | | | | | |
| Operating | | | | | | |
| | Other Segmented Revenue | | | | | |
| | Fees and Charges | | | | | |
| | | - Custom work | | | | |
| | | - Sales of supplies | | | | |
| | | - Other (Specify) | | | | |
| | Total Fees and Charges | | | - | - | - |
| | | - Tangible capital asset sales - gain (loss) | | | | |
| | | - Land sales - gain | | | | |
| | | - Investment income and commissions | | | | |
| | | - Other (Specify) | | | | |
| | Total Other Segmented Revenue | | | - | - | - |
| | Conditional Grants | | | | | |
| | | - Student Employment | | | | |
| | | - Other (Specify) | | | | |
| | Total Conditional Grants | | | - | - | - |
| | Total Operating | | | - | - | - |
| Capital | | | | | | |
| | Conditional Grants | | | | | |
| | | - Federal Gas Tax | | | | |
| | | - Canada/Sask Municipal Rural Infrastructure Fund | | | | |
| | | - Provincial Disaster Assistance | | | | |
| | | - Other (Specify) | | | | |
| | Total Capital | | | - | - | - |
| | Total General Government Services | | | - | - | - |
| PROTECTIVE SERVICES | | | | | | |
| Operating | | | | | | |
| | Other Segmented Revenue | | | | | |
| | Fees and Charges | | | | | |
| | | - Other (Specify) | | | | |
| | Total Fees and Charges | | | - | - | - |
| | | - Tangible capital asset sales - gain (loss) | | | | |
| | | - Other (Specify) | | | | |
| | Total Other Segmented Revenue | | | - | - | - |
| | Conditional Grants | | | | | |
| | | - Student Employment | | | | |
| | | - Local government | | | | |
| | | - Other (Specify) | | | | |
| | Total Conditional Grants | | | - | - | - |
| | Total Operating | | | - | - | - |
| Capital | | | | | | |
| | Conditional Grants | | | | | |
| | | - Federal Gas Tax | | | | |
| | | - Provincial Disaster Assistance | | | | |
| | | - Local government | | | | |
| | | - Other (Specify) | | | | |
| | Total Capital | | | - | - | - |
| | Total Protective Services | | | - | - | - |

Figure 6 – Schedule of Operating and Capital Revenue by Function

Schedule 3 – Expenses by Function (Figure 7)

The purpose of Schedule 3 is to detail expenses and report them by functional area. The schedule usually consists of multiple pages and is numbered sequentially, Schedule 3-1, Schedule 3-2, etc. Each page contains information about two or three functional areas.

Expenses are recognized as the goods and/or services are provided to or received by the municipality. Throughout the year expenses are recorded when the invoice is received and/or paid. At year end certain estimates and accruals may be required to record expenses incurred but not yet invoiced by the vendor. This is consistent with accrual basis accounting.

Non-cash expenses such as amortization and change in inventories are also recorded in Schedule 3 and are recorded once a year.

- Amortization figures are taken from the TCA spreadsheet or other software packages used for tangible capital asset recording. The change in inventories, gravel and supplies is calculated by taking the difference between the opening inventory and the closing inventory. Note that the figure could also be a negative if the ending inventory value has increased over the prior year.

| | | | | | | |
|--------------------------------------|--------------------------------------|--|--|--------------------|-------------|----------------|
| Municipality of _____ | | | | | | |
| Total Expenses by Function | | | | | | |
| As at December 31, 2015 | | | | | | Schedule 3 - 1 |
| | | | | 2015 Budget | 2015 | 2014 |
| GENERAL GOVERNMENT SERVICES | | | | | | |
| | Council remuneration and travel | | | | | |
| | Wages and benefits | | | | | |
| | Professional/Contractual services | | | | | |
| | Utilities | | | | | |
| | Maintenance, materials and supplies | | | | | |
| | Grants and contributions - operating | | | | | |
| | - capital | | | | | |
| | Amortization | | | | | |
| | Interest | | | | | |
| | Allowance for uncollectibles | | | | | |
| | Other (Specify) | | | | | |
| Total Government Services | | | | - | - | - |
| PROTECTIVE SERVICES | | | | | | |
| | Police protection | | | | | |
| | Wages and benefits | | | | | |
| | Professional/Contractual services | | | | | |
| | Utilities | | | | | |
| | Maintenance, material and supplies | | | | | |
| | Grants and contributions - operating | | | | | |
| | - capital | | | | | |
| | Other (Specify) | | | | | |
| | Fire protection | | | | | |
| | Wages and benefits | | | | | |
| | Professional/Contractual services | | | | | |
| | Utilities | | | | | |
| | Maintenance, material and supplies | | | | | |
| | Grants and contributions - operating | | | | | |
| | - capital | | | | | |
| | Amortization | | | | | |
| | Interest | | | | | |
| | Other (Specify) | | | | | |
| Total Protective Services | | | | - | - | - |
| TRANSPORTATION SERVICES | | | | | | |
| | Wages and benefits | | | | | |
| | Professional/Contractual Services | | | | | |
| | Utilities | | | | | |
| | Maintenance, materials, and supplies | | | | | |
| | Gravel | | | | | |
| | Grants and contributions - operating | | | | | |
| | - capital | | | | | |
| | Amortization | | | | | |
| | Interest | | | | | |
| | Other (Specify) | | | | | |
| Total Transportation Services | | | | - | - | - |

Figure 7 – Total Expenses by Function

Schedule 4/5 – Segment Disclosure by Function (Figure 8)

Schedule 4 provides a summarized side-by-side view of each expense category by function for the current fiscal year while Schedule 5 provides the same detail for the prior year.

The total for the municipality is provided in the final column. These figures can be directly tied to figures presented on Statement 2, Statement of Operations.

The summarized breakdown of each expense category by function can be useful for comparative purposes between functional areas.

| Municipality of _____ | | | | | | | | |
|---|--------------------|---------------------|-------------------------|-------------------------------|--------------------------|------------------------|------------------|------------|
| Consolidated Schedule of Segment Disclosure by Function | | | | | | | | |
| As at December 31, 2015 | | | | | | | | Schedule 4 |
| | General Government | Protective Services | Transportation Services | Environmental & Public Health | Planning and Development | Recreation and Culture | Utility Services | Total |
| Revenues (Schedule 2) | | | | | | | | |
| Fees and Charges | - | - | - | - | - | - | - | - |
| Tangible Capital Asset Sales - Gain | - | - | - | - | - | - | - | - |
| Land Sales - Gain | - | - | - | - | - | - | - | - |
| Investment Income and Commissions | - | - | - | - | - | - | - | - |
| Other Revenues | - | - | - | - | - | - | - | - |
| Grants - Conditional | - | - | - | - | - | - | - | - |
| - Capital | - | - | - | - | - | - | - | - |
| Total revenues | - | - | - | - | - | - | - | - |
| Expenses (Schedule 3) | | | | | | | | |
| Wages & Benefits | - | - | - | - | - | - | - | - |
| Professional/ Contractual Services | - | - | - | - | - | - | - | - |
| Utilities | - | - | - | - | - | - | - | - |
| Maintenance Materials and Supplies | - | - | - | - | - | - | - | - |
| Grants and Contributions | - | - | - | - | - | - | - | - |
| Amortization | - | - | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - | - | - |
| Allowance for Uncollectibles | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - |
| Total expenses | - | - | - | - | - | - | - | - |
| Surplus (Deficit) by Function | - | - | - | - | - | - | - | - |
| Taxes and other unconditional revenue (Schedule 1) | | | | | | | | - |
| Net Surplus (Deficit) | | | | | | | | - |

Figure 8 – Consolidated Schedule of Segment Disclosure by Function

Schedule 8 – Schedule of Accumulated Surplus (Figure 10)

Schedule 8 provides details about the opening balances, changes for the year and closing balances of the municipal reserves; both appropriated and unappropriated.

The net investment in tangible capital assets is also detailed in Schedule 8.

| Municipality of _____ | | | | | | |
|--|--------------------------------------|--|--|------|---------|------------|
| Consolidated Schedule of Accumulated Surplus | | | | | | |
| As at December 31, 2015 | | | | | | Schedule 8 |
| | | | | 2014 | Changes | 2015 |
| UNAPPROPRIATED SURPLUS | | | | | | - |
| APPROPRIATED RESERVES | | | | | | |
| | Machinery and Equipment | | | | | - |
| | Public Reserve | | | | | - |
| | Capital Trust | | | | | - |
| | Utility | | | | | - |
| | Other (Specify) | | | | | - |
| Total Appropriated | | | | - | - | - |
| ORGANIZED HAMLETS (add lines if required) | | | | | | |
| | Organized Hamlet of (Name) | | | | | - |
| | Organized Hamlet of (Name) | | | | | - |
| | Organized Hamlet of (Name) | | | | | - |
| | Organized Hamlet of (Name) | | | | | - |
| | Organized Hamlet of (Name) | | | | | - |
| | Organized Hamlet of (Name) | | | | | - |
| Total Organized Hamlets | | | | - | - | - |
| NET INVESTMENT IN TANGIBLE CAPITAL ASSETS | | | | | | |
| | Tangible capital assets (Schedule 6) | | | - | - | - |
| | Less: Related debt | | | | | - |
| Net Investment in Tangible Capital Assets | | | | - | - | - |
| Total Accumulated Surplus | | | | - | - | - |

Figure 10 – Consolidated Schedule of Accumulated Surplus

Schedule 9 – Schedule of Mill Rates and Assessments (Figure 11)

Schedule 9 provides details about the mill rates, as well as the taxable assessments and levies under each of the property classes.

| | | | | | | | |
|---|-----------------------|-------------|----------------------------|-------------------------|----------------------------|-------------------|------------|
| Municipality of _____ | | | | | | | |
| Schedule of Mill Rates and Assessments | | | | | | | |
| As at December 31, 2015 | | | | | | | Schedule 9 |
| | PROPERTY CLASS | | | | | | |
| | Agriculture | Residential | Residential Condominium | Seasonal Residential | Commercial & Industrial | Potash Mine(s) | Total |
| Taxable Assessment | | | | | | | - |
| Regional Park Assessment | | | | | | | |
| Total Assessment | | | | | | | - |
| Mill Rate Factor(s) | | | | | | | |
| Total Base/Minimum Tax (generated for each property class) | | | | | | | - |
| Total Municipal Tax Levy (include base and/or minimum tax and special levies) | | | | | | | - |
| | | | | | | | |
| | | | | | | | |
| MILL RATES: | MILLS | | | | | | |
| Average Municipal* | | | | | | | |
| Average School* | | | | | | | |
| Potash Mill Rate | | | | | | | |
| Uniform Municipal Mill Rate | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| * Average Mill Rates (multiply the total tax levy for each taxing authority by 1000 and divide by the total assessment for the taxing authority). | | | | | | | |

Figure 11 – Schedule of Mill Rates and Assessments

Municipal Financial Statement Preparation

Trial Balance

A useful tool to assist in the preparation of the financial statements is a Trial Balance.

Many account numbers and account descriptions will be common to municipalities but each municipality is likely to have unique additional accounts.

An Excel spreadsheet is commonly used as a template and should be set up to show the following information:

- Each account number is shown on a separate line with the year end account balance taken directly from the Trial Balance report produced from the municipal accounting software (Figure 13). The total of these account balances must equal zero.

| | A | B | C | D |
|-----|--|--|---------------|----------|
| 1 | Trial Balance Example | | | |
| 2 | Year End Close Working Paper | | | |
| 3 | Financial Statement Preparation | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | Account Number | Account Description | Account Class | Balance |
| 138 | 450-600-100 | GIL - Provincial | Revenue | (646) |
| 139 | 450-620-100 | GIL - Prov - Sask. Energy | Revenue | (33,290) |
| 140 | 450-650-100 | GIL - Prov - Sask Tel | Revenue | (608) |
| 141 | 450-710-100 | GIL - Local - Housing Author. | Revenue | (7,631) |
| 142 | 450-800-100 | GIL - Other - SPC Surcharge | Revenue | (36,963) |
| 143 | 470-100-100 | Interest Revenue | Revenue | (1,386) |
| 144 | 470-120-100 | Dividends Revenue | Revenue | (555) |
| 145 | 470-130-100 | Commission Revenue | Revenue | (20) |
| 146 | 480-150-100 | Donations | Revenue | (2,000) |
| 147 | 480-150-200 | Donations - Arena Complex | Revenue | (27,327) |
| 148 | 510-110-110 | GG - Council - Indemnity | Expenditure | 24,209 |
| 149 | 510-110-230 | GG - Salaries - Administrator | Expenditure | 53,016 |
| 150 | 510-110-330 | GG - Salaries - Assistant | Expenditure | 12,576 |
| 151 | 510-150-535 | GG - Benefits - Administration | Expenditure | 13,877 |
| 152 | 510-200-110 | GG - Cont. - Legal | Expenditure | 463 |
| 153 | 510-200-130 | GG - Cont. - Audit/Accounting | Expenditure | 2,231 |
| 154 | 510-200-150 | GG - Cont. - Assessment - SAMA | Expenditure | 8,360 |
| 155 | 510-200-170 | GG - Cont. - Advertising | Expenditure | 921 |
| 156 | 510-210-100 | GG - Council Travel | Expenditure | 1,170 |
| 157 | 510-210-170 | GG - Admin. - Training, Travel & Meals | Expenditure | 1,349 |

Figure 13

- Columns are used to represent each line in statements 1 - Statement of Financial Position (Figure 14) and 2 - Statement of Operations (Figure 15).

| F | G | H | I | J | K | L | M | N | O | P | Q | R | S |
|--|------------------|------------------|-----------------|----------------------|------------------------------|---------------------|----------|------------------|----------------|-------------------------------|-------------|---|---|
| Statement of Financial Position (Balance Sheet) | | | | | | | | | | | | | |
| Financial Assets | | | | | Financial Liabilities | | | | | Non - Financial Assets | | | |
| Cash & Temporary Investments | Taxes Receivable | Other Receivable | Land for Resale | Long Term Investment | Accounts Payable | Accrued Liabilities | Deposits | Deferred Revenue | Long Term Debt | Tangible Capital Assets | Prepayments | | |

Figure 14

| Y | Z | AA | AB | AC | AD | AE | AF | AG | AH | AI | AJ | AK |
|---|----------------|--------------------|-------------------|----------------|----------------------------|---------------------|-------------------------|-------------------------------|--------------------|------------|---------|----|
| Statement of Operations (Income Statement) | | | | | | | | | | | | |
| Revenues | | | | | Functional Expenses | | | | | | | |
| Taxes | Fees & Charges | Conditional Grants | Investment Income | Capital Grants | General Government | Protective Services | Transportation Services | Enviro/Public Health Services | Plan & Development | Recreation | Utility | |

Figure 15

The totals provide cross-reference figures for the final statements and schedules. For example the Revenues column totals should match the corresponding line figures in Statement 2 and revenue line totals in Schedules 4 and 5 – Segment Disclosure by Function.

Financial Statement Preparation

The financial statement spreadsheet is designed to minimize data entry which helps the user carry the information from the schedules to the statements. This saves time and helps avoid data entry errors.

As much of the information is brought forward from the supporting notes and schedules the manual will identify which schedules should be completed initially to provide the most information into the actual Financial Statements. A summation of notes and schedules used to prepare each Financial Statement will be provided as a cross-reference as well as to help identify any additional information that should be entered directly into one of the four Financial Statements.

This manual describes and uses this Financial Statement format and is available on the Government Relations [website](#).

Important notes ❖ containing cross-reference balancing information is provided for each statement to ensure all statement balances cross total with other statements and schedules.

Supporting Schedules

Schedule 1 – Schedule of Taxes and Other Unconditional Revenue

- Enter the required information for the current year actual, prior year actual and the current year budget
 - o note that these revenues are not attributed to any specific functional area.

Schedule 2 – Schedule of Operating and Capital Revenue by Function

- Enter the required information for the current year actual, prior year actual and the current year budget
 - o this schedule identifies revenues by functional area and include:
 - Fees and charges
 - Gains or losses on the sale of tangible capital assets
 - Land sales
 - Investment income
 - Conditional grants
 - o note that the actual revenue categories may vary by functional area

Schedule 3 – Expenses by Function

- Enter the required information for the current year actual, prior year actual and the current year budget
 - o the schedule identifies expenses by functional area and although many lines are similar there may be some variations in expense categories between functions

Schedule 4 (current year) and Schedule 5 (prior year comparatives) – Schedule of Segment Disclosure by Function

- The information is pulled from schedules 1, 2 and 3.
- ❖ Important note: the Total Revenues must equal the Total Operating and Capital Revenue by Function on the final page of Schedule 2 and the Total Expenses must equal the Total Expenses by Function on the final page of Schedule 3.

Schedule 6 – Schedule of Tangible Capital Assets by Object

- The information required for this schedule can be taken from the TCA Register using the filter function to display the totals for each class.
 - o note that it may be easier to complete this schedule using a printed copy then transfer the information into the electronic copy.
- Enter the cost and amortization information taken from the TCA Register.
- Enter the prior year totals only. This can be taken directly from the prior year Financial Statements
- ❖ Important note: the current year Opening Asset Cost Total must equal the prior year Closing Asset Cost. The same applies to the Accumulated Amortization section.
 - o the total of the asset class must equal the summation of the General Ledger accounts for that asset class. For example total vehicles must equal the summation of all the vehicle asset accounts.

Schedule 7 – Schedule of Tangible Capital Assets by Function

- The same process used for Schedule 6 can be applied to this schedule
 - o print Schedule 7
 - o use the TCA Register to manually fill in the current year totals
 - o transfer the information to the electronic version
 - o enter the prior year totals
 - o verify the totals

Schedule 8 – Schedule of Accumulated Surplus

- Enter the prior year information from the prior year Audited Financial Statements.
- The current year will automatically be calculated.
 - o the investment in TCA will pull from the information entered in Schedule 6.

- ❖ Important note: the current and prior year Total Accumulated Surplus must equal the Accumulated Surplus (Deficit) as shown at the end of Statements 1 and 2.

Schedule 9 – Schedule of Mill Rates and Assessments

- Enter the required information.

Schedule 10 – Schedule of Council Remuneration

- Enter the required information.

Notes to the Financial Statements

Note 1 – Significant accounting policies.

- the information in Note 1 should not vary year-to-year.
- if any changes have been made then Note 14, Change in accounting policies will also need to be completed.

Enter the required information for the following notes:

- Note 2 – Cash and Temporary Investments
- Note 3 – Taxes Receivable - Municipal
- Note 4 – Other Accounts Receivable
- Note 5 – Land For Resale
- Note 9 – Deferred Revenue
- Note 12 – Long-term debt
- Note 13 – Lease obligations
- Note 14 – Other non-financial assets
- Note 15 – Contingent liabilities
- Note 16 – Pension plan
- Note 18 – Trusts administered by the municipality

Replace the [\$] with the actual figures in the following notes:

- Note 6 – Long-term investments
- Note 7 – Debt Charges Recoverable
- Note 8 – Bank Indebtedness

Note 10 – Accrued landfill costs – enter the required information and replace the [\$] with the actual figures.

Note 11 – Liability for Contaminated Sites – enter the required information and replace [\$] with the actual figures.

Note 17 – Comparative figures – this note will not change year-to-year.

- ❖ Important note: Not every municipality will utilize each Note. Only enter information in the notes that pertain to your municipality. You are also permitted to add additional note disclosure as it may be required.

Summary of input required for each main Financial Statement

Statement 1 – Statement of Financial Position

- Information is pulled directly from:
 - o Standard Notes 2 thru 14
 - o Schedules 6 and 7
 - Additional (directly entered) information includes;
 - o Items in the Liabilities section; accounts payable, accrued liabilities, deposits and other liabilities.
 - o Non-financial assets including prepayments and deferred charges, inventory and supply values.
- ❖ Important note: the Accumulated Surplus must equal the Total Accumulated Surplus on Statement 1 and Schedule 8.

Statement 2 – Statement of Operations

- Information is pulled directly from Schedules 1 and 3 to 5.
 - Additional information is the Accumulated Surplus at the beginning of the prior, comparative year. For example, for the 2015 reporting year the 2014 opening (or 2013 closing) accumulated surplus would need to be manually entered.
- ❖ Important note: the Surplus (Deficit) of Revenues over Expenses must equal the Net Surplus (Deficit) on Schedule 4.
- ❖ Important note: the Accumulated Surplus (Deficit), End of Year must equal the Accumulated Surplus on Statement 1 and Schedule 8.

Statement 3 – Statement of Changes in Net Financial Assets

- Only the starting surplus or deficit is carried forward from Statement 2.
 - Capital expenses/expenditures must be manually entered from various sources including the TCA Register, Schedule 6 and 7.
 - Changes in other non-financial expenses/expenditures must also be entered manually. These values can be found by looking at detailed GL account information for the increase and decreases in the prepaid and supplies inventory accounts.
 - o Acquisitions would be represented by purchases made - these may be recorded in the asset accounts or in the expense accounts.
 - o Consumption or use would be identified by any year-end adjusting entries to account for any decreases or increases to the asset accounts.
 - Similar to Statement 2 the Net Financial Assets at the beginning of the prior, comparative year would need to be entered.
- ❖ Important note: the Net Financial Assets - End of Year must equal the Net Financial Assets shown on Statement 1.

Statement 4 – Statement of Cash Flows

- The operating surplus or deficit and amortization are carried forward from Schedule 4.
 - The Change in Assets/Liabilities section needs to be manually calculated. These are the changes between the current year and prior year which can be calculated using the figures on Statement 1. Remember this is the change in the account balance year-over-year. For an asset, an increase over the prior year would indicate a use of cash and would be recorded as a negative number on Statement 4. Conversely an increase in a liability would indicate a savings of cash or positive number.
 - The Capital section is straight forward in listing the total expenditure on capital assets and the total receipts (proceeds) on the sale of capital assets.
- ❖ Important note: the total of amortization and the net cash from (used for) capital will equal the change in Net Book Value (NBV) of the capital assets from one year to the next.

- Investing is calculated the same as the Change in Assets/Liabilities section. It is the change in the account balance year-over-year and can be an increase (credit, use of cash) or a decrease (debit, source of cash).
- The Financing section shows the debt issued and repaid separately.

- ❖ Important note: The total of this section will equal the combination of the Long Term Debt and Lease Obligations on Statement 1.

- ❖ Important note: The ending Cash and Temporary Investments – End of Year must equal the Cash and Temporary Investments on Statement 1.

Budget Preparation

The Municipalities Act requires municipalities prepare and adopt a budget on an annual basis and no council may authorize a tax levy without having adopted the annual operating and capital budget for that year.

Setting the municipal budget should be done as soon as possible in order to provide staff with the guidance needed to achieve the municipality's goals for the year. Ideally this process should be completed prior to the beginning of the new fiscal year.

The budget process has two components: The routine maintenance and operations of the municipality (the operating budget) and capital planning (the capital budget).

Developing a budget is beneficial because a budget:

- identifies priorities as determined by council;
- is a tool to communicate those priorities to the public and to staff; and
- assists with determining whether existing financial resources are sufficient to meet municipal spending needs.

It is important to note that municipalities may choose to develop their own format and that this is not a prescribed form. Locally developed budget forms should parallel the financial statement format used by the municipality. This will ensure line-by-line comparison of actual versus budgeted figures.

The budget format used in this manual is a modified Cash Budget. This means that the previous method of a balanced budget (prior to 2009) is used to start the process and an additional section is added to transition the budget to an Accrual Budget.

The purpose of the combination of the cash basis budget and the accrual basis budget is to help the municipality identify the cash needed for the coming year. The differentiating factor that needs to be considered is the accrual method accounts for the amortization of TCAs whereas the cash basis accounts for the purchase of the TCA. This means the municipality would need to provide 100 per cent of the funds required to purchase assets in that year.

Using only an accrual basis budget as described below would enable the municipality to build reserves for asset replacements as amortization is essentially funded each year. Although an accrual based budget is not required to be balanced it would not be prudent to budget a loss year after year without considering the long-term impact this could have on the municipality.

A generic budget spreadsheet can be downloaded from the Saskatchewan Government Relations [website](#).

Completing the Budget

Used to help complete the next fiscal budget the form enables the user to input the current year's budget and the current year actual to date. Unless it is using Zero Based Budgeting the municipality is likely to compile the next budget based largely on the current budget and current year actual results. It may also be useful to have the prior year actual results available for additional historical comparatives.

Zero-based budgeting is an approach to planning and decision-making which reverses the working process of traditional budgeting. In traditional incremental budgeting, departmental managers justify only variances versus past years which is based on the assumption that the "baseline" is automatically approved. In zero-based budgeting every line item of the budget must be approved rather than only changes. During the review process no reference is made to the previous level of expenditure. Zero-based budgeting requires the budget request be re-evaluated thoroughly starting from the zero-base. This process depends on whether the total budget or specific line items are increasing or decreasing.

To complete the budget:

- All known or anticipated revenues and expenditures are entered into the appropriate section of the budget spreadsheet. This is the same process used previously under the **Cash Basis** method of accounting.
- Fees and charges have an additional column to identify the functional area. This filtered column will be useful when transferring the budget figures to Schedule 2 in preparation of the annual financial statements. See Figure 16.
- Each functional area expenditure section has a line for TCA expenditures. This would be the total cost of any anticipated TCA purchases.
- The final portion of the Cash Budget section of the budget spreadsheet is for any debt repaid or issued and for any transfers to or from Reserves. This would include any appropriated reserves or transfers from the operating fund to cover an anticipated cash deficit.

| | | | | | | | |
|----|--------------------------------------|--|--|-------------------|--|--|--|
| 42 | FEES AND CHARGES (Schedule 02) | | | | | | |
| 43 | | | | Functional Area ▾ | | | |
| 44 | Sales of Gravel | | | | | | |
| 45 | Supplies | | | | | | |
| 46 | | | | | | | |
| 47 | Rentals | | | | | | |
| 48 | | | | | | | |
| 49 | Policing and Fire Fees | | | | | | |
| 50 | | | | | | | |
| 51 | Recreation Fees: | | | | | | |
| 52 | Recreation Centre Fees: Skating Rink | | | | | | |
| 53 | Curling Rink | | | | | | |
| 54 | Swimming Pool | | | | | | |
| 55 | Golf Fees | | | | | | |
| 56 | Baseball diamonds | | | | | | |
| 57 | Sports fields | | | | | | |

Figure 16

The final section of the spreadsheet is used to calculate the anticipated **Accrual Based** surplus or deficit as shown in Figure 17.

- Any amounts entered for TCA expenditures, debt or transfers from reserves will be carried to the accrual section and be reversed. As these are considered Investing or financing activities they are not relevant to the current year's anticipated budgeted surplus or deficit.
- Additional information that must be entered is:
 - o the annual amortization by functional area. These figures are available from the TCA Register;
 - o expected gains or losses incurred on the disposal of TCAs;
 - o expected changes to supplies inventories; and
 - o expected changes to prepaid expenses.

| | | | | | | |
|-----|---|--|--|---|---|---|
| 632 | Accrual Budget | | | | | |
| 633 | | | | | | |
| 634 | TOTAL CASH SURPLUS/(DEFICIT) (Must be greater than zero) | | | - | - | - |
| 635 | | | | | | |
| 636 | Long Term Debt | | | | | |
| 637 | Less: Long Term Debt Issue | | | - | - | - |
| 638 | Add: Long Term Debt repayment | | | - | - | - |
| 639 | | | | | | |
| 640 | | | | | | |
| 641 | Municipal Reserves | | | | | |
| 642 | Less: Operating Fund Usage | | | - | - | - |
| 643 | Appropriated Fund Usage | | | - | - | - |
| 644 | | | | | | |

Figure 17

Accrual Based Budget

Municipalities using an accrual based budget may still choose to try to present a balanced budget. This option enables a municipality to fund TCA amortization. Some municipalities currently set aside money in a reserve fund for eventual capital replacement however; funding amortization is essentially accomplishing the same thing.

Municipalities wishing to prepare only an accrual based budget will need to make the following modifications to the budget spreadsheet:

- remove the capital proceeds lines from the revenues;
- insert a gain/loss on disposal in each functional area;
- change the capital expenditure line to amortization;
- add change in inventories/supplies;
- remove debt issued and repaid; and
- remove transfers from/to.

A-1 – Reporting entity control

Governments carry out their policies and deliver services through various forms of organizations. Some organizations, such as departments or ministries are integral to the operations of government in performing its executive function. They are subject to direct cabinet, ministerial, council and budgetary objectives.

Other organizations, such as boards, commissions and corporations of the government have broad financial powers and operational authority delegated to their management. They typically have more discretion in establishing their systems and practices and are not bound by all of the directives and guidelines that apply to ministries, departments or funds.

These organizations may prepare separate financial statements which constitute important accountability documents by their management. However, only summary financial statements that report on the government as a whole and present aggregated information for all such government organizations can provide an understandable overview of the full nature and extent of the financial affairs and resources for which the government is responsible.

According to Section PS 1300.07 of the PSAB Handbook the government reporting entity should comprise the organizations that are controlled by the government.

The question then is how one decides when to include or exclude an organization from a government's financial statements.

Section PS 1300.14 of the PSAB Handbook.

.14 There are a variety of ways to govern the financial and operating policies of an organization. For example:

- (a) a government may establish an organization's fundamental purpose and eliminate or significantly limit the ability of the organization to make future decisions by predetermining the financial and operating policies of the organization;
- (b) a government may direct the financial and operating policies of an organization on an ongoing basis; or
- (c) a government may veto, overrule or modify the financial and operating policies established by an organization

Indicators of control are outlined in PS 1300.18 and 19.

.18 There are certain indicators that provide more persuasive evidence of control:

- (a) government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization;
- (b) government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses;
- (c) government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization; and
- (d) government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations.

.19 Other indicators that may provide evidence of control exist when the government has the power to:

- (a) provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members;
- (b) appoint or remove the CEO or other key personnel;

- (c) establish or amend the mission or mandate of the organization;
- (d) approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis;
- (e) establish borrowing or investment limits or restrict the organization's investments;
- (f) restrict the revenue-generating capacity of the organization, notably the sources of revenue; and
- (g) establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources.

“Golden share” refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder’s ownership interest or representation on the governing body.

When applying Section PS 1300.14, the more indicators that are responded to with a positive statement, the greater the likelihood that the board, commission or corporation should be consolidated with the financial statements of the municipality.

A-2 – Revenue recognition

Own source revenues

These revenues are considered operational and are recognized as revenue when earned. Any revenue earned but not received at year end would need to be accrued and/or set up as an Accounts Receivable. The following sections referenced from the PSAB handbook provide specific detail to assist in the understanding of revenue recognition as it relates to taxes, fees and charges.

1201.081 - Revenues, including gains, should be recognized in the period in which the transactions or events occurred that gave rise to the revenues. Gains are generally recognized when realized in the statement of operations. Items not practicably measurable until cash is received would be accounted for at that time.

3510.08 - Taxes should be recognized as assets and revenue when:

- (a) they meet the definition of an asset set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000;
- (b) they are authorized as described in paragraph PS 3510.17; and
- (c) the taxable event occurs. [APRIL 2012]

3510.17 - A tax is considered authorized by a legislature or council for revenue recognition purposes when the effective date of the tax has passed and the earlier of the following has occurred:

- (a) the related legislation, regulations or by-laws have been approved by the legislature or council; or
- (b) the ability to assess and collect tax has been provided through legislative convention. [APRIL 2012]

Government Transfers

Government transfers are detailed in the PSAB handbook in section 3410. As indicated in PS3410.16 a transfer without eligibility criteria or stipulations should be recognized as revenue by a recipient government when the transfer is authorized. Per PS3410.17 a transfer with eligibility criteria but without stipulations should be recognized as revenue by a recipient government when the transfer is authorized and all eligibility criteria have been met. Further conditions apply for transfers with stipulations (PS3410.19). For specific circumstances the CPA handbook should be referenced.

The decision tree shown in Figure 16 has been prepared to illustrate the transferring and recipient government accounting set out in Section PS 3410. The decision tree is illustrative only and matters of principle relating to particular situations should be decided in the context of the Section.

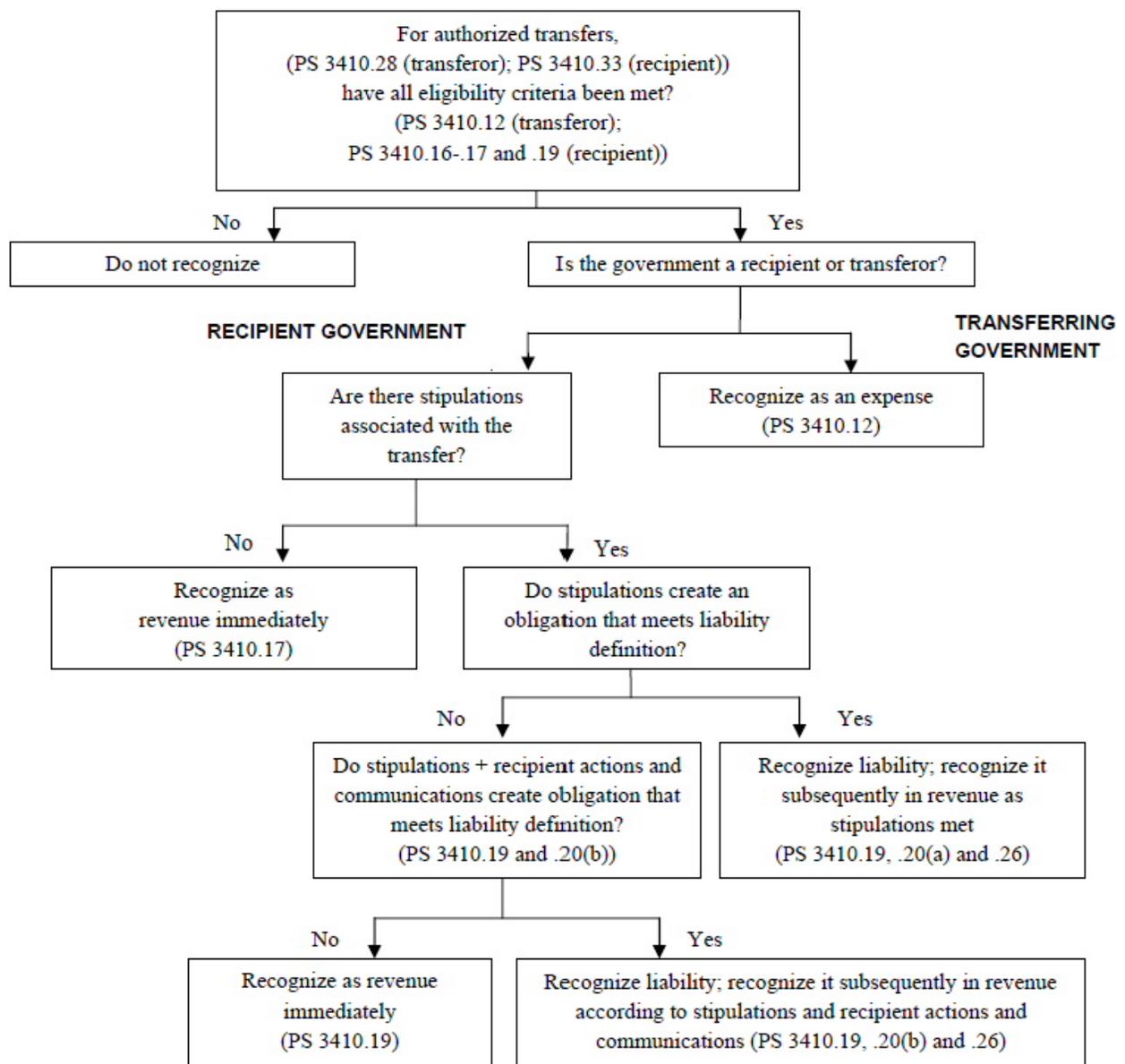


Figure 16

DEFERRAL METHOD

Certain funds received in a fiscal year should not be recognized as revenue. These are usually identified as restricted funds and are only recognized as revenue as the funds are spent. The following sections from the PSAB handbook provide guidance as to when funds should be deferred.

4210.28 Under the deferral method, restricted contributions for which the related restrictions remain unfulfilled are accumulated as deferred contributions. As a result, the organization's excess of revenue over expenses for the period represents the increase in resources that are not restricted to cover specific expenses of a future period. Organizations that choose to follow the restricted fund method would refer to paragraphs PS 4210.57-.77

Recognition of restricted contributions for the purchase of capital assets

- 4210.33 Restricted contributions for the purchase of capital assets that will be amortized should be deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets. [JAN. 2012]
- .34 Restricted contributions for the purchase of capital assets that will not be amortized should be recognized as direct increases in net assets. [JAN. 2012]
- .35 The deferral of contributions restricted for the purchase of capital assets that will be amortized provides a means to match such contributions with the benefits provided by the capital assets acquired. Such contributions will be recognized as revenue over the useful life of the acquired capital asset to reflect the fact that the contribution provides benefits in all the periods in which the organization has the use of the capital asset. When the acquired capital asset will not be subject to amortization because it has an unlimited useful life, it is not possible to match the contribution with the benefits provided since these benefits are unlimited. Therefore, contributions restricted for the purchase of capital assets that will not be amortized are recognized as direct increases in net assets.

A-3 – Common TCA register questions and answers

| | |
|---|--|
| I can't see the tabs at the bottom of the spreadsheet. | Maximize the spreadsheet by clicking on the  (maximize icon) in the top right corner of the screen. |
| A new asset is not carrying forward to the Continuity schedule. | The macros were not enabled when the asset was added. There is no way to correct this. The data must be copied to a new spreadsheet. |
| #VALUE errors are showing up in the Continuity schedule totals. The following fixes can also be used for #REF and #NA errors. | This indicates that there is incomplete or incorrect data. A detail asset line will also be showing this error. Locate the line in the continuity schedule and correct/complete the data on the Asset Listing tab. <ul style="list-style-type: none"> - A replacement cost of \$1.00 can cause this error as it is not a logical value. A nominal value of \$1.00 should only be used as an historical value. - Only asset classes provided in the drop down list in column D can be used. - On occasion there are 'phantom' entries in either the historical or replacement cost columns. The cell appears blank but is really not. Place the cursor in the blank cell and press the delete key. |
| The drop down lists/filters on the Continuity schedule are not working. | Not protecting the spreadsheet can cause the filters to not work properly. The data needs to be copied to a new spreadsheet. Never unprotect the spreadsheet. |
| An asset was added with the wrong year. | Column P can never be changed. Delete the line using the process described on the instruction tab and re-add the asset on the next available line. |
| When a new asset is added an error "cannot skip rows" is displayed. | A row has been deleted incorrectly. The data must be copied to a new spreadsheet ensuring that no blank lines are left in the data. |
| The amortization tab doesn't appear to be working correctly. | The amortization tab is used by the spreadsheet for various calculations and is not to be used by the municipalities for anything. |
| Negative NBV | Download a new file and copy data. |
| When I try to delete an asset ID it gives a "wrong year" error. | Change the year in the top left corner to match the year of the asset (in column P) being deleted. Repeat the procedure. |
| Compile error. | It is not clear what causes this error but it appears that a number of formulas are corrupt. The data must be copied to a new spreadsheet. |
| Changing the in service year. | Only those assets added in 2007 can have a different in service year. |
| Assets with the class 'Land' are amortizing. | Assets originally set up to amortize cannot be changed to 'Land'. The line must be deleted and re-added correctly on the next available line. Other depreciable classes can be changed and 'Land' can be changed to a depreciable class. |

A-4 – Municipal Debt Limit Calculation

Who establishes the debt limit for a municipality?

The debt limit for a rural municipality, town, village or resort village can be determined in one of two ways. *The Municipalities Act* provides the municipality with the option to calculate their debt limit by using prior year own source revenues as the basis, or a municipality can now apply to the SMB to have their debt limit established.

What is included in a municipality's "own source revenues"?

For purposes of reviewing borrowing applications, the SMB considers own source revenue to include those revenues which can be considered both controllable by the municipality and sustainable for long periods of time.

Examples include:

- Municipal property taxes (excludes any amounts associated with trailer license fees, penalties on tax arrears, special levies, and local improvement frontage levies)
- Fees and charges (excludes any development charges, donations, land sale revenue, capital asset proceeds, road maintenance agreements, custom work, etc.)

Sample Calculation:

| | |
|---|-------------|
| Total Revenues | Statement 2 |
| Less: Trailer License Fees | Schedule 1 |
| Less: Penalties on Tax Arrears | Schedule 1 |
| Less: Special Tax Levy | Schedule 1 |
| Less: Unconditional Grants | Schedule 1 |
| Less: Grants in Lieu of Taxes | Schedule 1 |
| | |
| Less: TCA sales - gain (add losses) | Statement 2 |
| Less: Land sales - gain (add losses) | Statement 2 |
| Less: Total Conditional Grants | Statement 2 |
| Less: Extraordinary and/or one-time revenues (road maintenance agreements, custom work, donations, etc.) | Schedule 2 |
| = Municipal Debt Limit | |

Please be reminded that *The Municipalities Act* requires a municipality to include the debt limit with the audited financial statements, regardless of whether there is any long-term debt.

If you have any further questions regarding borrowing or municipal debt limits, please contact the Saskatchewan Municipal Board at (306) 787-6221 or by email info@smb.gov.sk.ca.