A Quick Guide to Municipal Financial Statements

MUNICIPAL AFFAIRS

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This is an interpretation only. For specific advice consult with an accounting professional or legal counsel.

Introduction

This guide has been prepared by Alberta Municipal Affairs and is intended to provide examples and explanations of the typical information contained in a municipality's annual audited financial statements. It will be of interest to municipal officials and other stakeholders who would like to interpret the information provided in the annual financial statements.

Financial statements are intended to report on financial condition as at December 31st each year, to ensure accountability and transparency, and to assist municipalities with long-term and strategic planning. Financial statements are an important tool for a municipal council and administration to use to report to the taxpayers on the municipal services provided with the resources at their disposal.

Legislative Requirements and Reporting Standards

The *Municipal Government Act* (MGA) requires that every Alberta municipality complete annual audited financial statements, a copy of which must be submitted to Municipal Affairs, by May 1 of each year. The financial statements must be prepared in accordance with generally accepted accounting principles for municipal governments in Canada.

Requirements for municipal financial reporting are standardized across Canada and are based on the *Public Sector Accounting Handbook*. As of 2009, municipal financial statements are to be prepared using the net financial assets (debt) model and must include reporting of tangible capital assets. This new approach provides a more complete picture of a municipality's financial condition.

Financial statements provide information on a municipality's financial position in terms of its assets and liabilities, its net debt, its accumulated surplus or deficit, and its tangible capital assets and other non-financial assets. Financial statements also provide a meaningful summary of the sources, allocation and consumption of municipal economic resources, how the activities of the period have affected the municipality's net debt, how municipal activities were financed, and how cash requirements were met. Each indicator gives the readers of the financial statements information about the status of the municipality's finances.

Financial statements must include a statement of financial position, a statement of operations, a statement of change in net debt and a statement of cash flow. Additional supplementary information is provided in schedules and notes to the financial statements.

The Quick Guide to Municipal Financial Statements

A sample of each of the four required municipal financial statements is presented along with explanatory notes and helpful tips. A checklist to assist the readers of the financial statement with analysis and evaluation of the financial statements can be found near the end of this guide. A glossary of terms is also included.

Financial statements must be prepared by municipalities on an annual basis in accordance with provisions set out in the *Municipal Government Act* and its associated Regulations.

There are four main components to the financial statements of a municipality:

The **Statement of Financial Position** is a required statement that reports on:

- assets – what the municipality owns or controls;
- liabilities – what the municipality owes; and
- accumulated surplus – what remains after the assets have been used to meet the liabilities.

The **Statement of Operations** is a required statement that reports on:

- revenues;
- expenses; and
- results for a fiscal year or reporting period.

The **Statement of Change in Net Financial Assets (Debt)** is a required statement that:

- explains the difference between the annual surplus or deficit and the change in net financial assets (debt);
- reports spending to acquire tangible capital assets and inventories of supplies; and
- reports disposal of tangible capital assets and the use of inventory.

The **Statement of Cash Flow** is a required statement that:

- identifies where cash came from;
- shows how cash was used; and
- provides details on changes in cash and cash equivalents since the previous reporting period.