

Overview of Contents for Financial Statements

Management's Responsibility for the Financial Statements

- Explains that the financial statements are the responsibility of management, that they maintain a system of internal controls that is monitored and evaluated by management. It also explains the process that was followed in regards to meeting with the external auditors to review and approve the financial statements.

Independent Auditor's Report

Outlines the Auditor's responsibilities, the scope of the examination and the Auditor's opinion on the financial statements. There are three types of Audit opinions:

1. Unqualified opinion – or clean opinion – financial statements present fairly in all material respects the financial position and results of the entity
2. Qualified opinion – the financial statements contain material misstatements or omissions
3. Adverse opinion – the financial statements do not fairly present the financial position, results of operations, and changes in financial position, as per generally accepted accounting principles. The reason for the adverse opinion is provided.

Statement of Financial Position

- Required statement
- Reports on:
 - Assets – what the municipality owns or controls
 - Liabilities – what the municipality owes
 - Accumulated surplus – what remains after the assets have been used to meet the liabilities
- When reviewing this statement
 - Focus should not just be on cash
 - Consider municipality's financial health for the long-term
 - Necessary assets to provide future services
 - Sufficient future revenues to cover existing liabilities

The accumulated surplus is the primary indicator of the financial resources the municipality has available to provide future services. It consists of both cash and non-cash components. The notes to the financial statements should identify what portions of the accumulated surplus are:

- unrestricted (including cash, accounts receivable and other non-cash financial assets);
- restricted (cash that can only be used for a pre-determined purpose); and
- equity in tangible capital assets.

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Statement of Operations

- Required statement
- Reports on:
 - Revenues
 - Expenses
 - Results for a fiscal year or reporting period
- The Statement of Operations provides detailed information on what transactions have impacted the accumulated surplus from the beginning of the year to the end of the year. Non-cash items such as amortization expense and contributed assets are included.

Statement of Changes in Net Financial Assets

- Required statement
- 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
- Acquisition of tangible capital assets is the amount spent on tangible capital assets in the current year. Funding sources could include cash reserves, property taxes, long-term debt or government transfers.
- An increase in the net debt position is most likely the result of the municipality funding capital acquisitions with debt or with financial assets accumulated in a previous year.
- A net debt position is not in itself an indicator the municipality is in financial difficulty.

To assess the impact of a net debt position on the financial health of a municipality, consider:

- Is there a debt management plan in place?
- What is the term of the debt?
- What portion of the municipality's debt limit does the net debt represent?
- Are the municipality's financial assets liquid and current?
- What portion, if any, of the municipality's financial assets are restricted?
- What portion of the net debt is funded by the annual tax levy? By user fees?
- Will projected future revenues be sufficient to pay the net debt?

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Statement of Cash Flow

- Required statement
- 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.
- The Statement of Cash Flow provides detailed information on significant cash transactions that are not included in the Statement of Operations.

Notes and Schedules

- Provide additional detailed information for the reader
- Typical notes to financial statements include information on:
 - accounting policies;
 - cash and investments;
 - deferred revenue;
 - employee benefit obligations;
 - debt and debt limit information;
 - tangible capital assets; and
 - accumulated surplus.