



2019 Financial Information Return Instructions

**Ministry of Municipal Affairs and Housing
Municipal Finance Policy Branch**

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Attached:

- **Content Changes for FIR2019**
- **Functional Classification of Revenues and Expenses**
- **FIR Bulletin 1 - Tile drainage**
- **FIR Bulletin 2 - Development Charges Reserve Funds**
- **FIR Bulletin 3 - PSAB Changes**

FINANCIAL INFORMATION RETURN (FIR) SCHEDULES:

Revenue Schedules:

Schedule 10: Consolidated Statement of Operations: Revenue
Schedule 12: Grants & User fees and service charges

Taxation Schedules:

Schedule 20: Taxation Information
Schedule 22: Municipal and School Board Taxation
Schedule 24: Payments-in-Lieu of Taxation
Schedule 26: Taxation and Payments-in-Lieu Summary
Schedule 28: Upper-Tier Entitlements (Upper-Tier Only)
Schedule 72: Continuity of Taxes Receivable

Expense Schedules:

Schedule 40: Consolidated Statement of Operations: Expenses
Schedule 42: Additional Information

Tangible Capital Assets Schedule:

Schedule 51A: Consolidated Schedule of Tangible Capital Assets by Function
Schedule 51B: Consolidated Schedule of Tangible Capital Assets by Asset Class
Schedule 51C: Construction-in-progress by function

Net Financial Assets/Net debt Schedule:

Schedule 53: Consolidated Statement of Change in Net Financial Assets (Net Debt)
And Tangible Capital Asset Acquisition Financing/Donations

Cash Flow Schedule:

Schedule 54: Consolidated Statement of Cash Flows - Direct & Indirect method

Reserves and Reserve Funds Schedule:

Schedule 60: Continuity of Reserves and Reserve Funds
Schedule 61: Development Charges Reserve Funds
Schedule 62: Development Charge Rates

Financial Position:

Schedule 70: Consolidated Statement of Financial Position

Long term liabilities:

Schedule 74: Long Term Liabilities and Commitments

Other Information Schedules:

Schedule 76: Government Business Enterprises (GBE)
Schedule 77: Other Entities (DSSAB, Health Units, Homes for the aged, etc.)
Schedule 79: Community Improvement Plans (CIP)
Schedule 80: Statistical Information
Schedule 81: Annual Debt Repayment Limit (ARL)
Schedule 83: Notes

1. Introduction

Role of the Ministry of Municipal Affairs and Housing

The Ministry of Municipal Affairs and Housing is responsible for establishing requirements for municipal accounting, financial reporting, municipal auditing and other matters related to the financial health of municipalities as set out in Section 3 of the Municipal Affairs Act.

Section 294(1) of the Municipal Act specifically states that each municipality will annually report on its financial affairs, accounts and transactions. This takes the form of the annual Financial Information Return (FIR).

Purpose of the Financial Information Return

Information reported in the Financial Information Return is extracted and stored in the Ministry's database. The data is available to ministries, municipalities, other local government agencies and municipal associations for the following purposes:

- Developing provincial fiscal policy
- Developing municipal finance policy
- Monitoring local sector performance
- Examining the financial status of municipalities
- Municipal debt limit reports
- Forecasting and budgeting
- Financial and statistical data requests
- Municipal management tool/comparative tool
- Local economic profiles and information on local services and service levels for use by industry

Users

The Ministry of Municipal Affairs and Housing and other ministries are major users of the information collected in the Financial Information Return and use the information for policy development, evaluation and monitoring. Other users include the Local Planning Appeal Tribunal, municipalities, municipal associations, Statistics Canada, other provinces, the investment and banking communities, debenture holders, the academic community, consultants, and others interested in the municipal sector.

Because of the wide range of users and the provincial programs that make use of the data in the FIR, it is imperative that the Return be prepared accurately and completed promptly.

Intent

The information included in the Financial Information Return should reflect the audited financial statements of the municipality (PSAB Standards).

Whom to Contact for Assistance:

If your municipality does not have access to the internet or if you require advice or assistance regarding these instructions or the return, please call the FIR Co-ordinator at (416) 585-7618 in the Municipal Finance Policy Branch, email Fir.mah@ontario.ca or contact a Municipal Services Office of the Ministry of Municipal Affairs and Housing, listed below.

2. Municipal Services Offices - Ministry of Municipal Affairs and Housing

Municipal Service Office	Municipalities Served
<p>Central Municipal Services Office 777 Bay St, 12th Floor Toronto, ON M5G 2E5 (416) 585-6226 1-800-668-0230 Fax: (416) 585-6882</p>	<p>City of Toronto, City of Hamilton, Regional Municipalities of: Durham, Halton, Niagara, Peel, York, District Municipality of Muskoka, Simcoe</p>
<p>Eastern Municipal Services Office Rockwood House 8 Estate Lane Kingston, ON K7M 9A8 (613) 545-2100 1-800-267-9438 Fax: (613) 548-6822</p>	<p>City of Ottawa, City of Kawartha Lakes, Counties of Frontenac, Haliburton, Hastings, Lanark, Leeds and Grenville, Lennox and Addington, Northumberland, Peterborough, Prescott and Russell, Prince Edward, Renfrew, Stormont, Dundas and Glengarry</p>
<p>Municipal Services Office North (Sudbury) 159 Cedar Street, Suite 401 Sudbury, ON P3E 6A5 (705) 564-0120 1-800-461-1193 Fax: (705) 564-6863</p>	<p>City of Greater Sudbury, Districts of Algoma, Cochrane, Manitoulin, Nipissing, Parry Sound, Sudbury, Timiskaming</p>
<p>Municipal Services Office North (Thunder Bay) 435 James Street South, Suite 223 Thunder Bay, ON P7E 6S7 (807) 475 1651 1-800-465-5027 Fax: (807) 475-1196</p>	<p>Districts of Kenora, Rainy River, Thunder Bay</p>
<p>Western Municipal Services Office 659 Exeter Road, 2nd Floor London, ON N6E 1L3 (519) 873-4020 1-800-265-4736 Fax: (519) 873-4018</p>	<p>Municipality of Chatham-Kent, Region of Waterloo, Counties of Brant, Bruce, Dufferin Elgin, Essex, Grey, Haldimand, Huron, Lambton, Middlesex, Norfolk, Oxford, Perth, Wellington</p>

3. Preparation and Submission of the FIR

Deadline for Completion: June 1, 2020

Completion Requirements:

Data is entered in an Excel file which contains worksheets for each FIR schedule.

Municipalities can net file their 2019 FIR by using the Smart FIR2019 template.

A list of submission requirements is shown on the FIR website for each reporting year.

4. Declaration of the Municipal Treasurer

The Declaration affirms that all schedules agree with the books and records of the municipality and its consolidated entities and that the schedules have been completed in accordance with the instructions.

All schedules should be prepared in conjunction with the audited financial statements. Any material deviation should be explained on Schedule 83.

The Declaration of the Municipal Treasurer is labelled Schedule 02 in the FIR.

Municipalities will be providing this electronically once you're ready to submit your return electronically (net file). Please see page 17 of the Smart FIR Municipal User Guide.

Smart FIR options – attaching files when submitting your return

With the new Smart FIR2019, you will be able to attach the financial statements when you are ready to submit. (Please refer to the Smart FIR Municipal User Guide)

Every municipality is also responsible for submitting their Financial Statements to the Ministry. Financial Statements, including a signed Auditor's Report can now be submitted electronically to: Fir.mah@ontario.ca

It is preferred that Municipalities submit a PDF (Portable Document Format) version of the Financial Statements, although other formats such as WordPerfect, Word or Excel would also be acceptable.

Municipalities that choose to submit their Financial Statements electronically are no longer required to send hard copies to their local Municipal Services Office. Those Municipalities unable to submit electronically should continue to mail a hard-copy of their Financial Statements to their local Municipal Support Office. The addresses of the Municipal Support Offices are shown in section 2 of this Introduction.

Please note that the Ministry no longer requires a report from the Municipal Auditor on the FIR since the FIR is not audited. **Nevertheless, the information provided in all schedules should be derived and be able to trace back from the audited financial statements.**

Municipalities retain the option to involve their auditor in the preparation of the FIR if they so desire.

On the Declaration, Schedule 02, Municipalities should enter the name and details of a contact person for the information contained in the FIR. Also, the date the schedules are completed should be entered (note that the date is automatically displayed but can be overwritten).

5. Recommended Order for Completion of Schedules

It is recommended that municipalities complete the FIR schedules in the order given below. Within each schedule, the sections should be completed sequentially, unless otherwise noted.

Tax schedules should be completed first. Please note that while all municipalities complete Schedules 20, 22, 24, 26, only upper-tiers complete Schedule 28. Only lower-tiers and single-tiers complete Schedule 72, Continuity of Taxes Receivable.

Certain schedules (10, 70) are completed after others because they contain data points which are automatically updated from other schedules.

Suggested Order	Schedule
1	Schedule 20: Taxation Information
2	Schedule 22: Municipal and School Board Taxation
3	Schedule 24: Payments-in-Lieu of Taxation
4	Schedule 26: Taxation and Payments-in-Lieu Summary
5	Schedule 28: Upper-Tier Entitlements (Upper-Tiers only)
6	Schedule 72: Continuity of Taxes Receivable
7	Schedule 12: Grants & User fees and service charges
8	Schedule 10: Consolidated Statement of Operations: Revenue Schedule 10 cannot be completed until the above schedules are completed since many data points are automatically carried-forward from other schedules. The continuity section of schedule 10 should be completed after Schedule 40 is completed since data is carried-forward from Schedule 40.
9	Schedule 40: Consolidated Statement of Operations: Expenses Columns in Schedule 40 can be completed sequentially.
10	Schedule 51: Consolidated Schedule of Tangible Capital Assets Schedule 53: Consolidated Statement of Change in Net Financial Assets (Net Debt) And Tangible Capital Asset Acquisition Financing/Donations

11	Schedule 54: Consolidated Statement of Cash Flows – Choose either the Direct or Indirect Method.
12	Schedule 60: Continuity of Reserves and Reserve Funds Schedule 61: Development Charges Reserve Funds Schedule 62: Development Charge Rates
13	Schedule 74: Long Term Liabilities and Commitments
14	Schedule 70: Consolidated Statement of Financial Position
15	Schedule 76: Government Business Enterprises Schedule 77: Other Entities (DDSABs, Health Units, Homes for the aged, etc)
16	Schedule 80: Statistical Information Schedule 81: Annual Debt Repayment Limit Schedule 83: Notes

6. Consolidation

Subject to the exceptions noted below, all local boards of the municipality and all entities established by the municipality are to be consolidated. All joint local boards are to be proportionally consolidated **if the boards are controlled by the municipality per PS 1300 or if a government partnership exists whereby the municipality has shared control over the board per PS3060.** (Please refer to the section on proportional consolidation)

Please note that PSAB section 1300.07 indicates that an organization is to be consolidated if it is controlled by the municipality. (Section 1300.7: “The government reporting entity should comprise the organizations that are controlled by the government.”) **In addition, PS 3060.29 indicates that government partnerships should be proportionately consolidated. (Section 3060.29: “Government financial statements should recognize the government’s interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.”)**

Municipalities have the authority under Ontario Regulation **599/06** of the Municipal Act, 2001 to establish business corporations. For FIR purposes, these corporations will be fully consolidated and reported in the appropriate functional category if they are not deemed to be government business enterprises. If deemed to be government business enterprises, they will be reported in the same manner as Municipal Electric Utilities.

Notwithstanding the instructions above, the following types of local boards **are not** to be consolidated in the FIR:

- **Children's Aid Societies**
- **Conservation Authorities**
- **Harbour Commissions**
- **Humane Societies**
- **Municipal Hospitals**
- **Provincial Area Library Boards**
- **School Boards**

Gas and Telephone Utilities *

If gas and telephone utilities are deemed to be government business enterprises, then they are to be consolidated in the same manner as a municipal electric utility. They are to be consolidated using the modified equity method. If deemed to be a local board or a department of a municipality then they are fully consolidated. Please contact the FIR Co-ordinator by e-mail at Fir.mah@ontario.ca for further information.

Further, the following funds are not consolidated because they **are not deemed to be assets or revenues of the municipality.**

- **Ontario Home Renewal Plan (OHRP) funds**
- **Pension funds**
- **Trust funds, including perpetual care funds for cemeteries**

Please note that in past years sinking funds were not reported in Schedule 70 of municipality's FIR because they were deemed to be a method of retiring debt and were not considered a source of revenue or an asset of the municipality.

Municipalities will report **sinking funds** in Schedule 70 of the FIR. Please do not report the annual revenue of sinking funds on Schedule 10 and the payment of principal and interest on Schedule 40.

7. Accounting and Reporting Requirements

Enter all amounts to the nearest dollar.

Full Accrual Basis of Accounting

Accrual basis of accounting recognizes the financial effects of transactions in the period(s) in which they occur irrespective of when the cash has been received or paid. It requires that tangible capital assets be reported on the balance sheet (Statement of Financial Position) at historical cost and expensed (amortized) in the annual results of operations over their estimated useful lives.

Reporting of Loans from Reserve Funds in the Financial Information Return (FIR)

Loans from reserve funds are not included in the totals for schedules 70 and 74.

Section 2500.08 of the PSA Handbook requires that financial transactions in individual funds are to be combined and any inter-fund balances and transactions eliminated.

Reporting of Capital Grants

Capital grants are reported directly in the consolidated statement of operations on Schedule 12 columns 5 & 6.

Reporting of Provincial Gasoline Tax Revenue

Provincial gasoline tax revenues are reported in the consolidated statement of operations: revenue, as a **Conditional grant for Transit services** if the gasoline tax revenues were utilized during the Year. Report Provincial Gas Tax revenue on Schedule 12 under the transit sub-function, except for deferred revenue earned which should be reported in Schedule 60.

Reserve Funds established to retain provincial gasoline tax revenues are reported as deferred revenue on Schedule 60 (Schedule 60 lines 0860 & 5690 column 1).

Reporting of Federal Gasoline Tax Revenue

Federal gasoline tax revenues are reported in the consolidated statement of operations: revenue, on Schedule 12 column 6 as a conditional grant if the gasoline tax revenues were utilized during the year, except for deferred revenue earned which should be reported in Schedule 60. The Federal grants are to be used for the following services: Roadways, Transit, Water, Wastewater, Solid waste, Community energy systems.

Reserve Funds established to retain Federal gasoline tax revenues are reported as deferred revenue on Schedule 60 (Schedule 60 lines 0862 & 5691 column 1). Reserves, Reserve Funds, and Deferred Revenue

Reserves and reserve funds are comprised of funds set aside for specific purposes by Council and funds set aside for specific purposes by legislation, regulation or agreement. For financial reporting purposes, reserve funds set aside by legislation, regulation or agreement are reported as deferred revenue, a liability, on the Consolidated Statement of Financial Position. Other reserve funds and reserves are balances within the accumulated surplus.

Reserve Fund:

Monies set aside for a specific purpose as required by provincial legislation, a municipal by-law, or agreement.

Obligatory Reserve Fund:

Monies set aside and legally restricted by provincial legislation, a municipal by-law, or agreement. The funds are raised for a specific purpose and cannot be used for any other purpose. The main Obligatory Reserve Funds are the Development Charges Reserve Funds that are regulated by the *Development Charges Act, 1997*.

Discretionary Reserve Fund:

Monies set aside for a specific purpose by Council and legislated by municipal by-law. If council should decide to spend the money for purposes other than what it was originally intended for, then a new by-law must be passed under section 417(4) of the Municipal Act.

Reserve:

Monies set aside by approval of Council and not restricted by legislation. Reserves can be related to projects that are of a nature prescribed and managed by approval of Council. Reserves make no reference to any specific asset and do not require the physical segregation of money or assets.

Generally, all revenues should be recorded in the statement of operations with the exception of deferred revenue (obligatory reserve funds).

Schedule 60: Continuity of Reserves and Reserve Funds, is provided to record allocation of surplus to reserves and reserve funds.

Deferred revenue is reported as revenue in Schedule 60, column 1 (Obligatory reserve funds and deferred revenue) and as a liability in Schedule 70, SLC 70 2410 01.

Netting of Revenues and Expenses

Generally, there is **no** netting of revenue against expenses with the following exceptions:

- **Insurance recoveries**
- **Retail sales tax refunds**

In all other circumstances, transactions are to be reported on a gross basis. The issue of debt instruments by upper-tier municipalities on behalf of lower-tier governments and

lower-tier agencies, boards and commissions, and for school boards are to be reported on the appropriate receivable line in Schedule 70 and as part of the upper-tier debt in Schedule 70. Debt charges pertaining to these debt instruments are however not to be reported on the upper-tier municipality's schedule 10 and 40.

Transactions Involving Other Municipalities

Generally, all transactions involving other municipalities are to be reported on a gross basis. For example, where a municipality provides firefighting services to a neighbouring municipality, the expenditure would be shown gross on Schedule 40, Consolidated Statement of Operations: expenses, and the amounts recovered would be reported in Schedule 12, Grants, User fees and service charges, column 3 (Other municipalities).

There has been some confusion with respect to the reporting of water/wastewater revenues and expenditures between lower and upper-tier municipalities. As a general rule, you should determine which municipality has the statutory responsibility to provide the service in question; the reporting method follows accordingly.

Where a particular function is a statutory responsibility of the upper-tier municipality, then all amounts raised for the function by a lower-tier through upper-tier tax rates, or as amounts added to tax bills, are to be treated as amounts raised for upper-tier purposes and reported on Schedule 22, Municipal and School Board Taxation. In the case where revenues are raised through user fees or service charges, the lower-tier reports the revenue in Schedule 12, Grants & user fees and service charges, column 4 (User fees and service charges). The upper-tier reports the revenue in Schedule 12, column 3 (Other municipalities).

Consolidated Municipal Service Managers (CMSMs) and District Social Services Administration Boards (DSSABs)

If the municipality designated as a Consolidated Municipal Service Manager is an upper-tier which provides CMSM services to its lower-tiers only, the upper-tier consolidates the operations of the CMSM in its FIR.

If the cost of CMSM services is included in the upper-tier tax rate, the lower-tiers do not report expenditures for CMSM services in Schedule 40. Note that Upper-Tier tax rates are reported in Schedules 22 and 24. If the upper-tier recovers some or all of its costs through an invoice, the payment to the upper-tier is reported in Schedule 40 as contracted services (column 4).

Where the CMSM consists of a county and a single-tier or two upper-tiers, reporting will reflect the nature of the consolidation agreement between the parties.

If the municipality designated as a CMSM has a purchase of service agreement with the

other party, the CMSM reports CMSM operations in its FIR. The municipality (i.e. county or single-tier) which purchases services will report expenditures for CMSM services as contracted services in Schedule 40.

If the Consolidated Municipal Service Manager is organized as a joint local board, the operations of the CMSM are proportionally consolidated among the municipalities which are a party to the consolidation agreement.

District Social Services Administration Boards (DSSABs)

District Social Services Administration Boards are not fully or proportionally consolidated.

Schedule 77 captures the financial position and operations of the District Social Services Administration Board.

Proportional Consolidation

Joint local boards and home for the aged are proportionally consolidated if the entities are controlled by the municipality per PS 1300 or if a government partnership exists whereby the municipality has shared control over the entity per PS 3060.

Proportional consolidation is a method of accounting and reporting whereby a municipality's pro rata share of each of the assets, liabilities, revenues and expenses that are subject to joint control is combined on a line-by-line basis with similar items in the municipality's Financial Information Return. This method of accounting differs from full consolidation in that only the municipality's share of assets, liabilities, revenues and expenses is reported.

Transactions

Material transactions between the municipality and its consolidated local entities must be eliminated on consolidation.

Where proportional consolidation of a local board is applicable, the municipality is to reflect its proportional share of the gross revenues and the gross expenses of the local board.

In addition, exclude all programs which receive one hundred per cent financing from the Province. In these cases, the municipality acts simply as a conduit for flowing provincial funds.

8. Social Housing Consolidation Issues

Please refer to the MAH Social Housing Treatment Document posted on the FIR website for further information.

Local Housing Corporations

Local Housing Corporations (LHC) should be fully consolidated in the FIR of the municipal service manager. The Ministry of Municipal Affairs and Housing commissioned KPMG to report on the transfer of social housing to Local Housing Corporations in November 2000. The KPMG report, entitled, Financial Reporting Guidance: Social Housing Transfer to Local Housing Corporations concluded:

LHCs are Government Not-For-Profit Organizations for financial reporting purposes. Accordingly, they should apply the CPA Canada Public Sector Accounting Handbook accounting guidelines for government not-for-profit organizations in maintaining their accounts and preparing their financial statements. The service manager in preparing their own financial statements should consolidate the LHC line by line on a uniform basis of accounting after eliminating inter-governmental unit transactions and balances. Mortgages transferred to Local Housing Corporations (LHCs) should be reported in the financial statements of the LHCs. The municipal service manager will, therefore, reflect LHC debt obligations through the consolidation of the LHC in the FIR.

Ontario Housing Corporation debentures which were not transferred to Local Housing Corporations should not be reflected as debt of municipalities in the FIR. As the debentures are not assignable, the Ontario Housing Corporation will continue to hold the debentures.

Municipal Non-Profit Housing Corporations

Municipal Non-Profit Housing Corporations should be fully consolidated in the FIR if the municipality acts as the service manager, effectively controlling the strategic financial and operating policies, and the municipality controls a majority of the appointments to the Board of Directors of the Municipal Non-Profit Corporation.

The November 2000 report by KPMG indicated that municipal financial statement preparers will need to examine the structure of any existing municipal non-profit housing corporations that are part of the municipal reporting entity to determine whether they are accountable to the service manager and are owned or controlled by it. It is expected, given that the service manager will have authority over the municipal non-profit's strategic financial and operating policies, either directly or through its control of the members appointed to serve as directors, that many of these organizations would be part of the reporting entity of their respective service manager and as such be consolidated with it.

Private Non-Profits and Co-operative Housing Corporations

The financial activities of Private Non-Profits and Co-operative Housing Corporations should not be consolidated in the Financial Information Return.

The November 2000 KPMG report also did not make a recommendation regarding Private Non-Profits. In most cases, these bodies are not deemed to be local boards, i.e. part of the Municipal Service Manager, and municipalities do not control or hold ownership in the organizations. It should be pointed out; however, that municipalities do provide funding to these organizations.

9. Municipal Electric Utilities & Municipal Business Corporations (Ontario Reg 599/06)

The Energy Competition Act, 1998, requires municipalities choosing to continue providing hydro-electric services beyond November 7, 2000, to do so through an entity incorporated under the Ontario Business Corporations Act.

In the Financial Information Return, municipalities are to account for their ownership interests in municipal electric utilities as government business enterprises, regardless of the method used to report municipal electric utilities in the annual Financial Statements.

To provide for consistent financial reporting in the FIR, municipalities are to account for ownership using the modified equity method. (Please see the CPA PSA Handbook, Government Reporting Entity, paragraph PSAB 1300.35). The modified equity method reports the net assets of the municipal electric utility as a one-line investment in the Financial Information Return.

Reporting Municipal Electric Utilities & Municipal Business Corporations in the FIR

The annual net income (deficit) for the municipal electric utility is reported in Schedule 10 on SLC 10 6020 01 (Net Income for Business Government Enterprise for year).

Please note, Government Business Enterprise Equity at the end of the year in SLC 10 6090 01 will equal Government Business Enterprise Equity at the beginning of the year, plus Net Income for Government Business Enterprise for the year, plus any adjustments. This can be expressed as: $SLC\ 10\ 6090\ 01 = 10\ 6010\ 01 + 10\ 6020\ 01 + 10\ 6060\ 01$

Government Business Enterprise Equity from SLC 10 6090 01 is carried forward to SLC 70 5080 01 in the Accumulated Surplus (Deficit) section. Government Business Enterprise Equity or net assets are also reported by the municipality in the "other financial assets" section on SLC 70 0820 01.

For further information please refer to Accounting for Electric Utilities by Municipalities in Ontario, dated April 2000.

10. Tangible Capital Assets

Please follow the same accounting and financial reporting standards contained in the PSA Handbook: PS 3150 for tangible capital assets that are utilized to produce the annual financial statements. PS 3150 provides the standards for recognizing tangible capital assets, the measurement of these assets and the requirement to amortize tangible capital assets. The cost of tangible capital assets less their accumulated amortization is reported under non-financial assets on the Consolidated Statement of Financial Position (Schedule 70 of the FIR). In addition, tangible capital assets are reported on Schedule 51 of the FIR.

11. Treatment of Solid Waste Landfill Closure and Post-Closure

Account for a solid waste landfill closure and post-closure liability as per PS 3270 in the PSA Handbook.

In Schedule 70, Consolidated Financial Position, report the liability in SLC 70 2799 01 (Solid waste landfill closure and post-closure).

12. Capital Leases

Capital leases can be categorized as lease purchase agreements which are deemed leased tangible capital assets.

For further details, please refer to PSAB guideline PSG-2, Leased Tangible Capital Assets, and to PSG-5, Sale-leaseback transactions.

For information on financing leases beyond the life of Council, please see Ontario Regulation 46/94.

Lease Purchase Agreement (Tangible Capital Lease)

A leased tangible capital asset is defined as a lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of a tangible capital asset to the lessee. A leased tangible capital asset is a non-financial asset that has physical substance and a useful life extending beyond an accounting period, and is held under lease for use, on a continuing basis, in the production or supply of goods and services. Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are, in substance, transferred to the government without necessarily transferring legal ownership.

A leased tangible capital asset is reported in the following schedules:

Schedule 74, Long Term Liabilities and Commitments

Report the leased tangible capital asset in the section - Debt burden of the municipality: Analysed by debt instrument, in SLC 74 1240 01 (Lease purchase agreements /Tangible capital assets).

Schedule 51, Statement of Tangible Capital Assets

Report the value of leased tangible capital assets under the appropriate function and sub-function.

Schedule 40, Consolidated Statement of Operations: Expenses

Annual lease payments for the tangible capital asset are allocated between repayments of the liability, interest expense and any related executory costs.

The annual interest payments are functionalised in Schedule 40 in column 2 (Long Term Debt Charges - Interest).

Sale-Leaseback Transaction

A Sale-Leaseback Transaction involves the sale of property by a government and the leasing of the same property, or a portion thereof, back to the government. The transaction may be affected through a series of concurrent sale transactions involving more than one external party or organization within the government reporting entity, with the end result being that the government retains the use of the property, or a portion thereof.

In substance a sale-leaseback transaction that results in a Leased Tangible Capital Asset is a financing arrangement as the government still retains substantially all the benefits and risks incidental to ownership of the property. When this is the case, follow the procedures for leased tangible capital assets.

13. Inter-functional Adjustments

Beginning with the FIR2002, separate columns are provided in Schedule 40 for the reporting of Inter-Functional Adjustments and the Allocation of General Government:

Column 12 Inter-functional adjustments

Column 13 Allocation of program support

By providing two separate columns it is possible to identify the amounts reported for each purpose.

Interdepartmental Transfers

The inter-functional adjustments column in Schedule 40, column 12 is used to report the transfer of expenses between departments (sub-functions).

As an example, an interdepartmental transfer may be made if the waterworks department provides hydrant service for fire protection purposes and initially reports the expenditure. The waterworks department should allocate the expenditure for hydrant services to fire services using column 12 (inter-functional adjustments). On the line for the waterworks system, a negative amount is entered in column 12 or added to the existing balance in the column. An equal positive amount should be added to the balance in column 12 on the line for fire services.

Municipalities should report inter-functional adjustments if all the following conditions are met:

- A service is provided by one sub-function to one or more other sub-functions
- Expenditures incurred in providing the service to another sub-function can be easily identified
- A consistent method is used to determine the amount to be transferred between sub-functions
- The method used to determine the amount to be transferred is easily explainable

Column Total for Inter-Functional Adjustments

The column total for inter-functional adjustments in SLC 40 9910 12 will always be zero because each interdepartmental transfer entered as a negative amount in column 12 for one sub-function has a corresponding positive interdepartmental transfer entered for another sub-function.

14. Allocation of Indirect Costs (reported on the line for Program Support)

Municipalities are required to allocate indirect costs reported on the line for Program Support in Schedule 40 to other sub-functions, including Governance and Corporate Management. In contrast, the line for Corporate Management is used to report indirect costs that would be difficult to allocate to sub-functions. Expenses reported as Corporate Management are not allocated to other sub-functions. Please see the chapter entitled “Functional Classifications” for definitions of Program Support and Corporate Management. Please note that the line for Program Support is not intended for “adjustments”.

Column 13, Allocation of Program Support, records the amount to be allocated in SLC

40 0260 13 as a negative value. The amounts allocated to other sub-functions are recorded as positive amounts in column 13: SLC 40 xxxx 13.

In contrast, the column for Inter-Functional Adjustments is used to record interdepartmental transfer between services other than general government. It is asked that municipalities not use SLC 40 0240 12 (Governance line, Inter-functional Adjustments column) or SLC 40 050 12 (Corporate Management line, Inter-functional Adjustments column) to record indirect costs to be allocated downwards in Schedule 40 to other sub-functions. Generally, any negative values entered on the governance and corporate management lines in column 12 would represent amounts to be allocated to other sub-functions.

When the Inter-Functional Adjustments column is used to record interdepartmental transfers and the allocation of indirect costs, neither type of transaction can be isolated. We do not know which entries represent interdepartmental transfers and which entries represent the allocation of indirect costs. This works against the objective of transparency in financial reporting.

Please note that the Inter-Functional Adjustments column does not contain a formula for summing expenses for salaries, wages and employee benefits; materials; and contracted services. It is a standalone column separate from those expense categories. Therefore, the content of expenses reported as Inter-Functional Adjustments for Governance in SLC 40 0240 12 and for Corporate Management in SLC 40 0250 12 is unknown.

In addition, there is no standardized method for allocating Inter-Functional Adjustments reported on the Governance and Corporate Management lines to sub-functions. Note that Inter-Functional Adjustments reported on the Program Support Line in SLC 40 0260 12 do form part of the total to be allocated to other sub-functions in SLC 40 0260 13.

To sum up, standardized reporting of indirect costs in Schedule 40 using line 0260 (Program Support) and column 13 (Allocation of Program Support) is essential for the comparability of FIR data and the MPMP efficiency measures based on that data.

Amount of Program Support Allocated to Other Sub-functions

The amount of Program Support to be allocated in SLC 40 0260 13 equals the sum of the following cells times -1:

Salaries, wages and employee benefits	SLC 40 xxxx 01
Materials	SLC 40 xxxx 03
Contracted services	SLC 40 xxxx 04
Rents and financial expenses	SLC 40 xxxx 05
Inter-functional adjustments	SLC 40 xxxx 12

The amount to be allocated is shown as a negative value in SLC 40 0260 13 while the amounts allocated to other sub-functions are shown as positive values. The total for column 13 will be zero since the sum of the amounts allocated to individual sub-functions is a positive number which is equal to the negative number in SLC 40 0260 13.

Allocation Methods for Municipalities of Different Sizes

Municipalities are asked to use a standardized method of allocation for Program Support, based on population. The municipality must indicate the allocation method used in SLC 94 0201 03.

Population	Method of Allocation	
100,000+	OMBI method	Required
Under 100,000	Percentage of Total Expenses	Required
	OR Modified Percentage of Total Expenses	Required

ALLOCATION METHOD: Percentage of Total Expenses

Summary of Method:

This method is used by municipalities with populations under 100,000. Expenses for each service listed in Schedule 40, i.e. sub-function, are expressed as a percentage of Total Expenses.

Only 5 object categories of expenses are used in determining Total Expenses: salaries, wages & employee benefits; materials; contracted services; rents and financial expenses; and inter-functional adjustments.

Expenses for each sub-function are divided by Total Expenses to determine a percentage of Total Expenses. The amount to be allocated equals the percentage of Total Expenses times the amount of Program Support in (SLC 40 0260 13) times (-1). Total Expenses for the columns used from Schedule 40 are expressed net of Program Support.

Steps:

- 1. The amount of Program Support to be allocated equals (SLC 40 0260 13) times (-1).**

Since Program Support is shown as a negative value in Schedule 40, it is necessary to multiply Program Support in (SLC 40 0260 13) by (-1) to convert it to a positive number.

2. Determine expenses for each sub-function.

For each sub-function, expenses equal:

Sum of:

Salaries, wages and employee benefits	SLC 40 xxxx 01
Materials	SLC 40 xxxx 03
Contracted services	SLC 40 xxxx 04
Rents and financial expenses	SLC 40 xxxx 05
Inter-functional adjustments	SLC 40 xxxx 12

3. Determine Total Expenses.

Sum:

Salaries, wages and employee benefits	SLC 40 9910 01 less SLC 40 0260 01
Materials	SLC 40 9910 03 less SLC 40 0260 03
Contracted services	SLC 40 9910 04 less SLC 40 0260 04
Rents and financial expenses	SLC 40 9910 05 less SLC 40 0260 05
Inter-functional adjustments	SLC 40 9910 12 less SLC 40 0260 12

Note that the amount of Program Support in each column (SLC 40 0260 xx) is subtracted from the column Total in line 9910.

4. Calculate expenses for each sub-function as a % of Total Expenses.

For each sub-function, divide expenses by Total Expenses and multiply by -1.
Convert to a percentage by multiplying by 100 or formatting as a percentage.

5. Determine the amount of Program Support allocated to each sub-function.

For each sub-function, multiply the amount of Program Support in (SLC 40 0260 01) by (-1) and multiply by the percentage of Total Expenses.

6. For each sub-function, enter the amount of Program Support as a positive value in column 13 (Allocation of Program Support). TIP: Copy Schedule 40 to a new workbook and add columns to calculate the percentage of total expenses. (See Table 1)

Table 1. Allocation Method: Percentage of Total Expenses

Calculating the amount of Program Support to be allocated to each sub-function.

Method: Copy Schedule 40 and add columns A, B, C. Note: dummy data is used in this example.

		Salaries, wages & employee benefits	Materials	Contracted services	Rents & Financial Expenses	Inter-functional Adjustments	Program Support	SUBTOTAL	% of Total Expenses	Amount of Program Support to be Allocated in SLC 40 xxxx 13
									From Col. A: SUBTOTAL / TOTAL Expenses Less Program Support	(Col. 13 times -1 times Col. B)
		(1)	(3)	(4)	(5)	(12)	(13)	Col. A	Col. B	Col. C.
Line 0240	Governance	500,000	100,000	0	100,000	0		700,000	2.62%	10,487
0250	Corp. Management	200,000	100,000	100,000	100,000	0		500,000	1.87%	7,491
0260	Program Support	100,000	100,000	100,000	100,000	0	-400,000	NA		
0299	Subtotal	800,000	300,000	200,000	300,000	0		NA		
0410	Fire	600,000	300,000	100,000	100,000	100,000		1,200,000	4.49%	17,978
0420	Police	800,000	300,000	100,000	100,000	0		1,300,000	4.87%	19,476
		!	!	!	!	!			!	!
9910	TOTAL	10,000,000	10,000,000	2,000,000	5,000,000	100,000		27,100,000		
	TOTAL Expenses Less Program Support	9,900,000	9,900,000	1,900,000	4,900,000	100,000		26,700,000		
Total									100.0%	400,000

The total amount of Program Support to be allocated to all other sub-functions equals (SLC 40 0260 13) times (-1). This amount will equal the Total in Column C, "Amount of Program Support to be Allocated in SLC 40 xxxx 13".

The three vertical dots indicate continuation of the worksheet, so that all sub-functions are listed.

Subtotals for service areas, such as the Subtotal for General Government, are not allocated Program Support since Program Support is allocated only to individual sub-functions. Subtotal lines end in xx99. In this example, the Subtotal for General Government is SLC 40 0299 xx.

ALLOCATION METHOD: Modified Percentage of Total Expenses

Summary of Method:

This method may be used by municipalities with populations under 100,000.

This method is used when a municipality has already allocated to sub-functions a substantial amount of indirect costs that would otherwise be reported as Program Support. Program Support is not allocated to these sub-functions in this method. In the Modified Percentage of Total Expenses method, Program Support will be allocated only to sub-functions which have not been directly allocated indirect costs.

Steps:

This method is similar to the Percentage of Total Expenses method:

1. The amount of Program Support to be allocated equals (SLC 40 0260 13) times (-1).

Since Program Support is shown as a negative value in Schedule 40, it is necessary to multiply Program Support in (SLC 40 0260 13) times (-1) to convert to a positive number.

2. Determine expenses for each sub-function which will be allocated Program Support.

For each sub-function, expenses equal:

Sum of:

Salaries, wages and employee benefits	SLC 40 xxxx 01
Materials	SLC 40 xxxx 03
Contracted services	SLC 40 xxxx 04
Rents and financial expenses	SLC 40 xxxx 05
Inter-functional adjustments	SLC 40 xxxx 12

3. Determine Modified Total Expenses.

In this method, Modified Total Expenses does not include sub-functions which have been directly allocated indirect costs which would otherwise be reported on the line for Program Support. As in the Percentage of Total Expenses method, Program Support is netted from expenses.

Modified Total Expenses equals:

Salaries, wages & Employee benefits	SLC 40 9910 01 less SLC 40 0260 01 less excluded sub-functions in SLC 40 xxxx 01
Materials	SLC 40 9910 03 less SLC 40 0260 03 less excluded sub-functions in SLC 40 xxxx 03
Contracted services	SLC 40 9910 04 less SLC 40 0260 04 less excluded sub-functions in SLC 40 xxxx 04
Rents & financial expenses	SLC 40 9910 05 less SLC 40 0260 05 less excluded sub-functions in SLC 40 xxxx 05
Inter-functional adjustments	SLC 40 9910 12 less SLC 40 0260 12 less excluded sub-functions in SLC 40 xxxx 12

4. Calculate sub-function expenses as a % of Modified Total Expenses.

For each sub-function, divide expenses by Modified Total Expenses and multiply by -1. Convert to a percentage by multiplying by 100 or formatting as a percentage.

5. Determine the amount of Program Support allocated to each sub-function.

For each sub-function, multiply the amount of Program Support in (SLC 40 0260 01) by (-1) and multiply by the percentage of Modified Total Expenses Less Program Support.

6. For each sub-function, enter the amount of Program Support as a positive value in column 13 (Allocation of Program Support).

ALLOCATION METHOD: OMBI (MBN Canada)

Summary of Method:

This method is used by municipalities with populations of 100,000 or more.

As for the other allocation methods, the amount of Program Support to be allocated equals (SLC 40 0260 13) times (-1).

The OMBI method of allocation divides Program Support expenses into 23 categories:

Accounts payable, accounts receivable, budgeting, compensation management, facilities and property management, fleet, health and safety, HR counselling, IT Application delivery & data management, Infrastructure tool access (Data and Voice), insurance/risk management administration, labour and employee relations, mailroom, payroll, printing and graphics, program accounting, program specific communication, program legal support, purchasing, records management, staffing.

Each Program Support category is assigned a type of unit or “driver” to measure consumption of Program Support services by each sub-function in Schedule 40. Consumption is the basis of allocating Program Support expenses for each category of Program Support.

For each sub-function and category of Program Support, the percentage of driver units consumed is determined. The percentage of driver units is multiplied by the total dollar amount assigned to the Program Support category.

For each sub-function, add the amount of Program Support to be allocated for all categories of Program Support. Record the total in Schedule 40, column 14 (Allocation of Program Support).

Excel workbook for OMBI method of allocating Program Support

The Ministry provides an Excel workbook on the FIR website to assist municipalities using the OMBI method of allocation. This workbook is not part of the FIR and should not be submitted to the Ministry.

Example: Driver Units for Printing and Graphics

In this example, expenses are allocated for **printing and graphics**, one of the 23 categories of Program Support.

The “**driver**” or **type of unit** specified for printing and graphics is the *number of impressions*. In this example, \$350,000 in printing and graphics expenses are to be allocated, representing salaries, wages and employee benefits; materials; contracted services; rents and financial expenses; and inter-functional adjustments. If the roadways sub-function consumes 10% of impressions, it is allocated 10% of printing and graphics expenses or \$35,000.

Steps: OMBI Method (MBN Canada)

- 1. Total Program Support to be allocated equals (SLC 40 0260 13) times (-1).**
- 2. Divide Program Support in (SLC 40 0260 13) times (-1) among all Program Support categories.**

In the Excel workbook, enter expenses for each Program Support category in column “a” in the Total line.

- 3. For each Program Support category, determine the number of “driver” units consumed by each sub-function.**

This information is entered by hand in column “b” of the Excel workbook for every category of Program Support and every sub-function.

- 4. For each Program Support category, calculate the total number of driver units.**

In the Excel workbook, the total number of driver units in column “b” in summed and entered in line 9999 of column “b”.

- 5. For each sub-function and category of Program Support, calculate “driver” units as percentage of total “driver” units.**

The percentage is automatically calculated in the Excel workbook and entered in column “c”.

- 6. For each sub-function and category of Program Support, determine the amount of Program Support to be allocated.**

In this step, the percentage of driver units is multiplied by the amount of Program Support.

The amount allocated is automatically calculated in the Excel workbook in column “d” and equals Program Support in column “a” times the percentage of total “driver” units in column “c”.

7. For each sub-function, add the amounts of Program Support to be allocated for all categories of Program Support.

In the Excel workbook this is done automatically. For every sub-function, the amounts allocated for every Program Support category are summed. The total is automatically entered in the last tab of the workbook, titled “Total Program Support”.

8. Enter Total Program Support for each sub-function in Schedule 40 in column 13.

The municipality enters data from the Excel workbook in Schedule 40, by sub-function.

Program Support Categories and related “driver” units

Program Support service area (Please see the chapter on Functional Classifications for definitions)	Allocation “Driver” (type of units) used to track usage by each sub-function
Accounts payable	Number of invoices paid / Transactions processed
Accounts receivable	Number of transactions
Budgeting	Estimated time
Compensation management	Average head count (full-time, part-time, casual)
Facilities and property management	Floor space (on a facility by facility basis) or Average head count (full-time, part-time and casual) in each building
Fleet	Time and material
Health and Safety	Average headcount (full-time, part-time and casual)
HR Counselling	Average headcount (full-time, part-time and casual)
IT Application delivery & data management	Estimated time
Infrastructure tool access (Data and Voice)	Number of PC=s or Phone lines
Insurance/risk management administration	Insurance premiums or Claims
Labour and employee relations	Number of grievances or Average headcount of employees (full-time, part-time and casual)
Mailroom	Program cost
Payroll	Number of cheques / direct deposits

Printing and graphics	Number of impressions, including photocopies
Program accounting	Estimated time
Program specific communication	Estimated time
Program legal support	Estimated time
Purchasing	Volume of transactions
Records management	Number of records
Staffing	Number of job postings (both internal and external)
Stores & commodity management	Value of goods processed, or Number of stores requisitions processed
Training and development	Average headcount (full-time, part-time and casual)

15. Debt Burden of the Municipality

- A) Schedule 70: Consolidated Financial Position, reflects all outstanding debt issued by the municipality, predecessor municipalities and consolidated entities and all debt assumed from others including debt retirement funds and own sinking funds in SLC 70 2610 01, 70 2620 01 and 70 2630 01.

If long term debt has been specifically issued on behalf of a Government Business Enterprise, the amount is reported in SLC 70 2660 01. Long term debt issued on behalf of other municipalities, school boards and others (**includes tile drain loans**) and will be recovered from these organizations and others is reported in the appropriate line: SLC 70 0861 to 0868.

Debt retirement funds and sinking fund debt is to be reported in SLC 70 0863 and 0864 respectively.

- B) Schedule 74: Long Term Liabilities and Commitments, reflects the gross and net debt burden of the municipality.

To arrive at the net debt burden of the municipality, debt issued by the municipality, including debt issued on behalf of consolidated entities, is added to debt assumed by the municipality from others. From this amount is subtracted debt assumed by others, debt retirement funds and own sinking funds.

The debt burden includes all types of debentures, mortgages, and leasing agreements where there is an obligation or clear intention to acquire the asset at the end of the lease period. In addition, bank loans are considered as long-term liabilities if:

- (a) The loan is made for capital purposes, and

(b) The bank cannot demand payment before maturity of the loan. Municipalities may assume debt issued by other municipalities as a result of a municipal reorganization (annexation or amalgamation), debt issued on behalf of a joint project or board, or debt issued on behalf of other bodies, such as a public utilities commission.

Where debt is assumed by another municipality, it is reported by the municipality which assumed the debt and the municipality that issued the debt reflects the debt as debt assumed by others.

Given that Tile Drainage loans were issued in the name of the municipality, the obligations to repay the loans reside with the municipality. Tile Drainage loans are not loan guarantees – they are loans issued by Ministry of Agriculture, Food and Rural Affairs (OMAFRA). Municipalities are obliged to repay the monies to OMAFRA whether or not the farmers fulfil their repayment obligations to respective municipalities. Tile Drainage Loans should be included in the calculation of the debt burden of the municipality.

16. Coding of Data points (SLC Number)

In the FIR, each data point is identified by a unique SLC Number. The SLC Number identifies the Schedule, Line and Column where a data point is located. SLC means “Schedule-Line-Column”.

For example, SLC 10 9930 01 refers to Schedule 10, Line 9930, Column 1.

Each Schedule is identified with a 2-Digit Number, which is displayed in the top right-hand corner of each Schedule.

Each Line is identified with a 4-Digit Line ID, which is displayed in the left margin beside every line on every Schedule.

Each Column is identified with a 2-Digit Column Number, which is displayed in every column heading.

In the FIR, there are several cases where amounts are automatically carried-forward from one schedule to another. On these lines, the SLC Number where an amount is carried-forward from will be shown in the Line Description.

For example, Schedule 10, Line 0810 for Ontario conditional grants is automatically carried-forward from Schedule 12, Line 9910, Column 1. Thus SLC 12 9910 01 is displayed on this Line, identifying the source of the carry-forward amount.