

# SCHEDULE 40: Consolidated Statement of Operations: Expenses

## General Information

Schedule 40 consists of operating expenses reported by object and function. This is supported by Schedule 42, Additional Operating Information. Schedule 42 isolates specific expenses for services which were reported as part of a total in Schedule 40.

Expenses are grouped by object and by function as per *PS1201 Financial statement presentation*. Object expenses are presented in columns 1 through 7:

<b>Column 1</b>	<b>Salaries, wages, and employee benefits</b>
<b>Column 2</b>	<b>Interest on Long term debt</b>
<b>Column 3</b>	<b>Materials</b>
<b>Column 4</b>	<b>Contracted services</b>
<b>Column 5</b>	<b>Rents and financial expenses</b>
<b>Column 6</b>	<b>External transfers</b>
<b>Column 16</b>	<b>Amortization</b>
<b>Column 7</b>	<b>Total Expenses before adjustments</b>

The following additional columns contain information used for analytical purposes:

<b>Column 12</b>	<b>Inter-functional adjustments</b>
<b>Column 13</b>	<b>Allocation of program support</b>
<b>Column 11</b>	<b>Total expenses</b>

Please note that column 11, TOTAL expenses, equals the sum of columns 7, 12, and 13.

**NEW: Amortization expense in Column 16 is now pre-populated from Schedule 51A Schedule of Tangible Capital Assets.**

## Municipal Business Corporations

Please note that municipalities have the authority under Ontario Regulation 168/03 of the Municipal Act, 2001; to establish business corporations. These corporations should be fully consolidated and reported in the appropriate functional category if they are not deemed to be government business enterprises and if this treatment is consistent with the municipality's consolidated financial statements. If deemed to be government business enterprises, they will be reported in the same manner as Municipal Electric Utilities.

## Suggested order of completion for columns:

<b>Column 1</b>	<b>Salaries, wages and employee benefits</b>
<b>Column 2</b>	<b>Long-term debt charges (Interest)</b>
<b>Column 3</b>	<b>Materials</b>
<b>Column 4</b>	<b>Contracted services</b>
<b>Column 5</b>	<b>Rents and financial expenses</b>
<b>Column 6</b>	<b>External transfers</b>
<b>Column 16</b>	<b>Amortization</b>
<b>Column 12</b>	<b>Inter-functional adjustments</b>

## Column 13 Allocation of program support

### Description of Lines:

Schedule 40 uses the same functional categories as Schedule 12 with additional lines provided for greater detail on general government expenses and Provincial Offences Act expenses.

While in Schedule 12 - Statement of Operations: Revenue - revenue for general government is reported on a single line (line 0299), three lines are provided for reporting general government expenses in Schedule 40:

<b>0240</b>	<b>Governance</b>
<b>0250</b>	<b>Corporate management</b>
<b>0260</b>	<b>Program support</b>

Please see the instructions on Functional categories for a detailed description of general government sub functions.

Please note that the FIR includes a line for reporting expenses related to the Provincial Offences Act (line 0460) as part of the protection services function.

### Description of Columns:

#### Column 1 Salaries, wages and employee benefits

Salaries, wages and employee benefits include expenses incurred for the following purposes: full-time, part-time and temporary salaries and wages including, regular, overtime, shift premiums and other remuneration to employees.

Benefits include employer's contribution payments to Canada Pension Plan (CPP), Ontario Municipal Employee Retirement System (OMERS), Employer's Health Tax, Employment Insurance (EI), Workplace Safety and Insurance Board (WSIB) and any other insurance plans, such as supplementary health and dental.

Include clothing, moving, tuition, housing and other employee benefits and allowances paid.

**Include funded and unfunded post-employment benefits in the amount for salaries, wages and employee benefits for each sub function.**

#### Column 2 Interest on long-term debt

This column records interest incurred on long term liabilities and for leased tangible capital assets.

Exclude interest payments made by unconsolidated entities.

Exclude interest payments made from reserve funds.

For tile drainage/shoreline assistance, only interest on long-term debt is reported in Schedule 40. Corresponding revenue is reported in SLC 12 1850 04. Principal repayments are not reported in Schedule 40 and the corresponding revenue is not reported in Schedule 12. Note that the long-term receivable and long-term debt are reduced by the principal repayment in the year.

### **Column 3      Materials (and all other expenses not reported in other columns)**

This column is used to report materials purchased by a municipality for its own uses and/or disposal or resale. Materials purchased by the municipality which are subsequently provided to a third party are also included in this column.

Please note that the purchase of hydro services and utilities including cell phone service are reported in column 3 as materials.

Include all other expenses not reported in other columns as materials. For example, include expenses for insurance, travel, reimbursement of mileage, and photocopying.

### **Tax write-offs**

**All tax write-offs should be reported on Schedule 72.** The exception to reporting tax write-offs on Schedule 72, are amounts determined to be property class shortfalls. These amounts are reported as corporate management - materials in SLC 40 0250 03. Please refer to the instructions for Schedule 72 line 4420: net impact of 5 % capping limit program.

Please note that any increase in the allowance for uncollectible taxes is reported as corporate management - materials in SLC 40 0250 03. If, for any reason, a tax-write cannot be reported on Schedule 72, please report it as corporate management - materials in SLC 40 0250 03 (this should be an exception).

### **Column 4      Contracted services**

When a municipality is responsible for providing a service and contracts out service delivery; in part or in whole, to an arms length service provider, use column 4 to report payments to the service provider.

The arm's length service provider may be a private contractor, another municipality or another level of government.

If services are provided in part by an arms length service provider and in part by municipal staff, column 4 is used to report services provided by the contractor. Services provided by municipal staff are not reported in column 4 but are reported using other object categories of expenses.

If a municipality is invoiced by a Consolidated Municipal Service Manager (CMSM) for services, the amount invoiced is reported as contracted services.

If a CMSM decides to meet its service responsibilities (e.g. ambulance and child care) through a

purchase of service agreement with an arms length service provider, the CMSM reports the purchased service as a contracted service.

If a municipality is legislated to provide a service and the service is provided through a legislated body, such as a conservation authority, the payment is reported as an External transfer in column 6.

For contracts which extend beyond the current fiscal year, report only that portion of the contract that relates to the current fiscal year.

Examples of services that may be provided by way of a contract with an arms length service provider:

Communications planning and research activities

Consulting: Information technology consulting and professional services (services related to electronic data processing, telecommunications or office automation)

Consulting: Management consulting and professional services (services related to planning, organizing, directing and controlling activities to assist managers in analysing management problems and recommending solutions)

Consulting: Technical consulting and professional services (services related to accounting, actuarial sciences, architecture, appraisal, community planning, employment/placement, engineering, health science, surveys)

Data processing services

Fence viewing

Legal services

Medical and other professional services provided by the municipality but contracted with providers such as doctors, dentists, veterinarians, and nursing services.

Research and development services, e.g. research services provided by a university

Solid waste: collection, disposal

Snow removal services

Weed cutting

MPAC Services

**Property assessment services provided by MPAC should be reported on line 0250 (corporate management).**

## **Column 5      Rents and financial expenses**

Rents and financial expenses paid to external parties are recorded in column 5. Include the rental of buildings, land, machinery, equipment, and engineering structures.

Where a contracted service reported in column 4 (Contracted services) includes a separate and easily identifiable rental component, report the rental component in this column.

Financial expenses include short-term borrowing costs, bank and credit card service charges, annual payments associated with financing leases not deemed to be capital tangible lease and

any other financial costs from external sources. Include losses on disposal of tangible capital assets.

Do not include interest paid on long term liabilities since interest should be reported in column 2 (Long term debt charges - Interest).

Do not include interdepartmental rents and financial expenses in column 5 since these are captured in column 10 (Inter-functional adjustments).

## **Column 6 External transfers**

### **Include transfers to:**

- **Charitable organizations, colleges, cultural or recreation organizations, hospitals, universities**
- **Conservation authorities**
- **Individuals, i.e. social assistance**
- **Unconsolidated local boards**

**Please report the amount of transient accommodation tax revenue transferred to tourism organization(s). Please use line 1820 to record this transfer.**

Amounts billed by the Province for social housing are reported as external transfers.

Transfers to organizations should be reported as contracted services instead of external transfers if there is a formal agreement that the organization will provide services to the municipality.

Where land ambulance has not been devolved and a municipality receives a bill from the province for land ambulance services, the expenditure is reported as an external transfer.

Tax write-offs that do not meet the reporting requirements of Schedule 72, should not be reported in the column for external transfers; they should be reported in the column for materials in SLC 40 0250 03. These expenses will be backed out of the efficiency measure formula for operating costs.

The Treasurers Group of the Ontario Municipal CAO's Benchmarking Association MBN Canada (OMBI) asks that municipalities review any external transfers reported as program support in SLC 40 0260 06. External transfers related to program areas should not be reported on any line for general government. If external transfers are not related to a specific program, they should be reported on the line for corporate management in SLC 40 0250 06.

## **Column 16 Amortization**

**This column records the annual amortization expense for tangible capital assets.**

***Amortization amounts are automatically populated from schedule 51A column 8. Amortization expense on schedule 40 column 16 may be adjusted based on the municipality's functional costing.***

*Schedule 40 line 0260 column 16 - no amount should be entered for amortization under program support.*

## **Column 7      Total Expenses before adjustments**

The subtotal is equal to the sum of columns one through six plus column 16.

## **Column 12      Inter-functional adjustments**

For a complete discussion of the allocation of program support, please see section 14, Allocation of Indirect Costs, in the Introduction to the FIR instructions.

Column 12 is used only to record transfers between sub-functions below general government. A separate column, column 13, is provided for the allocation of program support to other sub-functions.

Municipalities should not use SLC 40 0240 12 (governance line, inter-functional adjustments column) or SLC 40 0250 12 (corporate management line, interfunctional 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 interfunctional adjustments column is used to record both inter departmental 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 interfunctional adjustments column does not contain a formula for summing expenses for salaries, wages and employee benefits; materials; and contracted services. It is a stand-alone 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 interfunctional adjustments reported on the governance and corporate management lines to sub-functions. Note that interfunctional 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.

## **Using column 12**

The department or sub-function which provides a service reports a negative value in column 12. The department which receives the service reports a positive value in column 12.

## **Total in column 12**

The total in SLC 40 9910 12 will always be zero because each negative amount entered in column 12 as an interdepartmental transfer has a corresponding positive amount.

## Column 13 Allocation of program support

The program support line in Schedule 40, line 0260, is used to report indirect costs that can be easily allocated to other sub-functions. In comparison, the corporate management line, line 0250, is used to record indirect costs that are not easily allocated to other sub-functions. Please see the chapter on Functional Categories for a discussion of the differences between these two lines.

Municipalities report the amount of program support to be allocated to other sub-functions in column 13.

Please see section 14 on the Allocation of Indirect Costs in the Introduction to the FIR instructions for further details.

### Determining the amount of Program Support to be allocated to other functions

The following object categories of expenses are automatically summed and entered as a negative value in SLC 40 0260 13:

<b>Column 1</b>	<b>Salaries, wages and employee benefits</b>
<b>Column 3</b>	<b>Materials</b>
<b>Column 4</b>	<b>Contracted services</b>
<b>Column 5</b>	<b>Rents and financial expenses</b>
<b>Column 12</b>	<b>Inter-functional adjustments</b>

Program support is allocated to other sub-functions and entered as positive values in column 13. The column total for column 13 is always zero since the sum of the amounts allocated to other functions is a positive value which equals the amount in SLC 40 0260 13, a negative value.

The method of allocating program support to other sub-functions depends on the population of the municipality. Municipalities with populations of 100,000 or more are required to use the Ontario Municipal CAO's Benchmarking Initiative (OMBI or MBN Canada) method of allocation.

Municipalities with populations under 100,000 are required to allocate program support using the percentage of total expenses method. Municipalities with populations under 100,000 may also use the modified percentage of total expenses method.

### Column 11 Total expenses after Adjustments

Total expenses are equal to the sum of:

<b>Column 7</b>	<b>Total Expenses before adjustments</b>
	<b>+</b>
<b>Column 12</b>	<b>Inter functional adjustments</b>
	<b>+</b>

**Column 13      Allocation of program support**