



DISTRICT OF NORTH VANCOUVER

Guide to
Financial Statements

Purpose

This guide is intended to assist the reader by providing examples and explanations of the typical information contained in the District's annual audited consolidated financial statements. It will be of interest to District residents, 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 the District with long-term strategic planning. Financial statements are an important tool for District 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 Community Charter requires that every British Columbia municipality prepare annual audited financial statements, a copy of which must be submitted to the Inspector of Municipalities by May 15th of the following year. The financial statements must be prepared in accordance with the Canadian public sector accounting standards for local governments in Canada. Requirements for municipal financial reporting are standardized across Canada and are based on the Public Sector Accounting Handbook (PSAB).

Financial statements provide information on a municipality's financial position in terms of its assets and liabilities, its net financial assets (or net debt), its tangible capital assets and other non-financial assets, and its accumulated surplus (or deficit). Financial statements also provide a meaningful summary of the sources, allocation and consumption of resources, how the activities of the period have affected the municipality's net financial assets (or 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, Statement of Operations, Statement of Cash Flows, and Statement of Change in Net Financial Assets (or Net debt). Additional supplementary information is provided in Notes to the Financial Statements.

It is important to note that financial plans are also prepared in accordance with the Community Charter, do not follow PSAB standards. As a result, Note 16 to the Consolidated Financial Statements explains how the two reporting standards are different and provides a reconciliation between the two.

Introduction

The District's financial statements are presented along with explanatory notes and helpful tips. A checklist to assist the readers of a 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.

The District's financial statements are "Consolidated". This means that in addition to the direct operations of the District we must include all or a portion of any organization controlled by the District. This includes the North Vancouver District Municipal Public Library and for example, a share of the North Vancouver Recreation & Culture Commission which is jointly administered with the City of North Vancouver. A complete description of the entities that are included can be found in the Notes to the Consolidated Financial Statements.

Under PSAB there are four mandatory financial statements:

The **Consolidated Statement of Financial Position** summarizes:

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

The **Consolidated Statement of Operations** summarizes:

- revenues - taxes, user fees, grants from other governments, investment income;
- expenses - cost of each service, e.g. protective, transportation, sewer; and
- annual surplus (deficit) - net results (revenue less expenses) for the fiscal year or reporting period.

The **Consolidated Statement of Cash Flows** summarizes:

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

The **Consolidated Statement of Change in Net Financial Assets (Net Debt)** summarizes:

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

In addition, the Notes to the Consolidated Financial Statements contain important information and explanations which complement disclosure required by legislation and regulation. The notes highlight various aspects of the financial statements and provide background information and insight on the impacts of specific values in the financial statements. In fact, many users review the notes before examining the main statements.

The Notes to Consolidated Financial Statements include useful information which support the Financial Statements. For example:

- Significant accounting policies – describe the accounting methods chosen when there are options or significant elements of the Financial Statements worthy of explanations.
- Cash, Cash Equivalents and Investments – the composition of the portfolio and the rate of return for the year.
- Restricted Revenues – primarily Development Cost Charges (DCCs) paid by developers to fund future infrastructure improvements resulting from growth.
- Debt – the purpose, amount outstanding and future repayment obligations.
- Post-employment benefit obligations – the future pay-out commitments associated with employee terminations and retirements.
- Tangible capital assets – on a historical basis, the value of assets owned, amount consumed and remaining life.
- Accumulated surplus – reserves held for specific purposes (e.g. risk management, asset replacement, new assets, lands and housing), capital projects in process, and equity in capital assets.
- Taxation – the amounts collected on behalf of other jurisdictions which are not available to pay for municipal services.
- Segmented information – a detailed description of all the external agencies that partner with the District in the delivery of municipal services.

The complete package of the District's Consolidated Financial Statements and notes can be found within our Annual Report at DNV.org/annual-report.

Consolidated Statement of Financial Position

Year Ended December 31

	2021	2020
Financial assets		
Cash and cash equivalents (Note 2)	\$ 116,497,600	\$ 159,717,708
Taxes receivable	6,392,488	6,110,364
Accounts receivable	7,117,593	5,816,075
Due from governments (Note 3)	2,583,312	2,925,700
Investments (Note 4)	216,695,355	204,786,080
MFA debt reserve deposit (Note 13(f))	605,651	595,522
Inventories held for resale	159,213	191,231
	<u>350,051,212</u>	<u>380,142,680</u>
Liabilities		
Accounts payable and accrued liabilities	29,375,682	28,750,909
Due to governments (Note 5)	23,657,367	57,424,891
Restricted revenue (Note 6)	29,915,741	30,977,981
Deferred revenue (Note 7)	25,500,909	24,589,179
Debt (Note 8)	30,503,882	32,760,765
Post-employment benefits (Note 9)	10,695,683	10,800,096
Deposits and other liabilities	28,780,549	30,672,227
	<u>178,429,813</u>	<u>215,976,048</u>
Net financial assets	171,621,399	164,166,632
Non-financial assets		
Prepaid expenses	1,402,071	1,600,315
Inventories held for consumption	1,645,680	1,396,906
Tangible capital assets (Note 10)	775,280,912	733,439,086
Other assets	36,772	55,157
	<u>778,365,435</u>	<u>736,491,464</u>
Accumulated surplus (Note 11)	<u>\$ 949,986,834</u>	<u>\$ 900,658,096</u>
Commitments and contingencies (Note 13)		

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position reports on a municipality's assets, liabilities and accumulated surplus. A review of this statement should be in the context of a long-term view of the municipality's financial health, and not focus solely on how much money is currently in the bank. A reader should consider whether the municipality has the necessary assets to provide future services, and whether there are sufficient future revenues to cover existing liabilities.

A Net Financial Assets position means that the municipality has sufficient funds available to pay for its liabilities, invest in the community's public assets (such as water, sanitary, recreational facilities) and manage risks. A Net Debt position does not necessarily mean that a municipality is in difficulty as long as a robust debt management plan is in place. Examples highlighted on previous page:

1. Financial assets - are comprised of cash or items that will eventually be turned into cash. The District has a cash management program that actively seeks to minimize cash in the bank and invest to earn a better rate of return. Accounts receivable, Inventories held for resale and investments are examples of items that will eventually be turned into cash.
2. Accounts payable and accrued liabilities - amounts due to other governments are generally payable within one year. Restricted and deferred revenues have conditions that must be met before they can be reported as revenue and are typically associated with a specific expense yet to be incurred.
3. Debt - the District uses long-term debt as appropriate to acquire tangible capital assets. Long-term debt is recorded separately from other debts due to its materiality and unique statutory requirements.
4. Tangible capital assets (public assets) - are recorded for tangible capital assets at historical costs over the years. Net book value represents the remaining estimated life of those assets. While net book value is \$775.3 million, the total historical costs is \$1.2 Billion. The current replacement cost is approximately \$2.5 Billion. PSAB do not report on replacement costs.
5. Accumulated surplus - the accumulated surplus is the primary indicator of the financial resources the District has available to provide future services. It consists of both cash and non-cash components and is comprised of reserves and equity (i.e. ownership):
 - Held for operating purposes (working capital) and to mitigate potential risks such as property assessment and tax appeal losses, insurance, or emergency services.
 - Held for specific purposes to support the replacement of existing assets or to acquire new assets. Certain reserves are statutory in nature and their use is restricted to specific purposes.
 - Equity in tangible capital assets – represents the value of tangible capital assets remaining life.

Consolidated Statement of Operations

Year Ended December 31

	2021 Budget (Note 16)	2021	2020
Revenue			
Taxation (Note 12)	\$ 116,282,087	\$ 115,856,623	\$ 104,703,219
Sales, fees, and user charges			
Water	30,966,991	30,459,002	28,980,942
Sewer	27,572,494	26,675,847	24,497,227
Solid waste	7,863,134	7,823,465	7,867,638
Parks, recreation and culture	14,734,702	11,079,377	7,844,239
Other	23,304,682	34,973,377	28,901,903
Transfer from governments			
Federal Government	-	25,652	-
Provincial Government	2,666,294	12,103,509	8,446,059
Regional Government	1,215,443	1,645,887	770,191
Investment income	3,300,844	3,453,234	5,931,940
Land sales and other contributions	3,193,112	7,028,983	15,231,172
	<u>231,099,783</u>	<u>251,124,956</u>	<u>233,174,530</u>
Expenses (Note 15)			
General government	25,638,424	45,092,402	41,765,248
Protective services	53,631,849	53,306,772	49,232,455
Solid waste removal services	7,710,863	7,226,706	7,858,789
Social services	4,339,213	3,534,428	3,002,340
Development services	5,187,991	4,393,316	4,607,849
Transport and other services	9,997,818	11,572,650	10,327,086
Parks, recreation and cultural services	44,044,131	37,894,989	33,943,741
Water utility services	21,920,399	19,789,391	19,758,812
Sewer utility services	19,437,373	18,985,564	18,209,762
	<u>191,908,061</u>	<u>201,796,218</u>	<u>188,706,082</u>
Annual surplus	<u>\$ 39,191,722</u>	<u>49,328,738</u>	<u>44,468,448</u>
Accumulated surplus, beginning of year		<u>900,658,096</u>	<u>856,189,648</u>
Accumulated surplus, end of year (Note 11)		<u>\$ 949,986,834</u>	<u>\$ 900,658,096</u>

Consolidated Statement of Operations

The Consolidated Statement of Operations reports on revenues, expenses and the results of operations for a fiscal year (surplus or deficit). The Statement of Operations provides summary 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 depreciation expense and contributed assets (i.e. donated) are included. Examples highlighted on previous page:

Revenues

1. Sales, fees and user charges – “Other” includes primarily building licences, permits, inspections and other development related activities.
2. Transfer from Governments – includes the District's share of Provincial Traffic Fine revenues and various grants in support of capital projects completed during the year. Some of these grants are one-time items which may cause this account to fluctuate widely from year to year.
3. Land Sales and other contributions - is comprised of property transactions and miscellaneous recoveries and contributed assets and donations.

Expenses

4. General Government – includes corporate and administrative services, risk management contingencies and depreciation. Depreciation represents the portion of capital assets that is consumed in the delivery of municipal services during the year. It is the most significant charge to this account. Depreciation is about \$21.5 million and it is not budgeted for. Always back out depreciation when comparing actual results with the budget.
5. Protective Services – includes the policing contract with the RCMP and related support services, fire services, emergency services and bylaw enforcement.
6. Annual Surplus and Accumulated Surplus - under normal conditions, an annual surplus will be expected on the Consolidated Statement of Operations. This annual surplus is what funds the purchase and construction of assets being replaced or new assets that support community services. The Consolidated Statement of Operations does not reflect transactions associated with the acquisition of tangible capital assets during the year. In order to gain a full understanding of the result of operations, the reader needs to refer to the Consolidated Statement of Change in Financial Assets which shows how the surplus was utilized to fund capital replacement and acquisition.

Consolidated Statement of Cash Flows

Year Ended December 31

	2021	2020
Operating transactions		
Annual surplus	\$ 49,328,738	\$ 44,468,448
Non-cash items:		
Depreciation	21,522,413	20,933,021
Loss on disposal of tangible capital assets	889,111	315,402
Amortization of other assets	18,385	44,419
Contributed tangible capital assets	(10,326,729)	(12,279,481)
Changes in operating assets and liabilities (Note 18)	<u>(36,559,247)</u>	<u>40,808,051</u>
Cash provided by operating transactions	24,872,671	94,289,860
Capital transactions		
Proceeds on sale of tangible capital assets	-	80,507
Cash used to acquire tangible capital assets	<u>(53,926,621)</u>	<u>(40,399,269)</u>
Cash applied to capital transactions	(53,926,621)	(40,318,762)
Investing transactions		
Net change in investments	<u>(11,909,275)</u>	<u>45,412,672</u>
Cash provided by (applied to) investing transactions	(11,909,275)	45,412,672
Financing transactions		
Debt repayment	<u>(2,256,883)</u>	<u>(2,176,108)</u>
Cash applied to financing transactions	(2,256,883)	(2,176,108)
Increase (decrease) in cash and cash equivalents	(43,220,108)	97,207,662
Cash and cash equivalents, beginning of year	<u>159,717,708</u>	<u>62,510,046</u>
Cash and cash equivalents, end of year	<u>\$ 116,497,600</u>	<u>\$ 159,717,708</u>

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows identifies where cash came from, shows how cash was used, and provides information on major changes to cash and cash equivalents since the last reporting period. Examples highlighted on previous page:

1. Annual surplus - the Consolidated Statement of Cash Flow begins with the net results of the District's operations.
2. Depreciation - the annual surplus includes depreciation, which is a non-cash expense. To determine the change in the municipality's cash position, the depreciation amount is added back into the operations result.
3. Contributed tangible capital assets - the value of tangible capital assets contributed is reflected as non-cash revenue in the Consolidated Statement of Operations. To determine the change in the municipality's cash position, this amount is deducted from the operations result.
4. Capital, Investing and Financing transactions summarize the types of transactions that took place.
 - Capital transactions - the amount the municipality spent on tangible capital assets as well as the amount the municipality received from disposal of tangible capital assets during the reporting period.
 - Investing transactions - the value of the investment portfolio that matured and the value of the investment portfolio that was reinvested during the reporting period.
 - Financing transactions - funds received from debt financing as well as the amount of debt principal repaid during the reporting period.

The Consolidated Statement of Cash Flow provides information on significant cash transactions that are not included in the Consolidated Statement of Operations.

Consolidated Statement of Change in Net Financial Assets

Year Ended December 31

	2021 Budget	2021	2020
	(Note 16)		
Annual surplus	\$ 39,191,722	\$ 49,328,738	\$ 44,468,448
Contributed tangible capital assets (Note 10(a))	-	(10,326,729)	(12,279,481)
Acquisition of tangible capital assets	(88,852,303)	(53,926,621)	(40,399,269)
Depreciation of tangible capital assets	-	21,522,413	20,933,021
Loss on disposal of tangible capital assets	-	889,111	315,402
Proceeds on disposal of tangible capital assets	-	-	80,507
	<u>(88,852,303)</u>	<u>(41,841,826)</u>	<u>(31,349,820)</u>
Amortization of other assets	-	18,385	44,419
Acquisition of inventories held for consumption	-	(1,645,680)	(1,396,906)
Acquisition of prepaid expenses	-	(1,402,071)	(1,600,315)
Use of inventories held for consumption	-	1,396,906	1,204,643
Use of prepaid expenses	-	1,600,315	1,334,128
	<u>-</u>	<u>(32,145)</u>	<u>(414,031)</u>
Change in net financial assets	<u>\$ (49,660,581)</u>	7,454,767	12,704,597
Net financial assets, beginning of year		<u>164,166,632</u>	<u>151,462,035</u>
Net financial assets, end of year		<u>\$ 171,621,399</u>	<u>\$ 164,166,632</u>

Consolidated Statement of Change in Net Financial Assets

The Consolidated Statement of Change in Net Financial Assets explains the difference between the annual surplus or deficit and the change in net financial assets. It tracks what the District has spent to acquire and construct tangible capital assets including an inventories of supplies. It reports on the disposal of tangible capital assets and the use of inventory. Examples highlighted on previous page:

1. Acquisition of tangible capital assets - the amount spent on tangible capital assets in the current year. Funding sources could include annual surplus, reserves, debt or government transfers. Assets can also be contributed by developers as part of a development project.
2. (Gain) / loss on disposal of tangible capital assets - a gain is reported when a tangible capital asset is sold or disposed of and the proceeds are greater than the net book value of the asset. A loss is reported if the proceeds are less than the net book value of the asset or assets are retired before they are fully depreciated. These amounts are also reported on the Consolidated Statement of Operations, with a gain reported as revenue and a loss reported as an expense.
3. Change in net financial assets - an increase in net financial assets is typically due to the collection of revenue (e.g. property tax or utility fees) for capital projects that have been approved but not yet commenced or completed. 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 District is in financial difficulty. See the below for a checklist of questions to consider about the implications of a net debt position.

To assess the impact of a net financial asset or net debt position on the financial health of the District, consider:

- Does the District have asset management plans in place that address future funding requirements for asset replacement?

The District has seventeen asset management plan covering all assets.

- How does the District manage its debt and what is its debt position relative to its revenue generating power?

Debt is used strategically to support major asset renewals such as the rebuilding of recreation centres or a pool of assets beyond annual cash flow and reserve levels.

- Are the municipality's financial assets liquid and current?

The District's cash, cash equivalents and investments are sufficiently liquid to pay for its liabilities and approved capital projects.

Financial Statement Review Questions

This tool will assist the reader in obtaining a greater understanding of the strategic and structural elements that comprise a municipality's financial foundation.

- Are there long-range planning or budgetary issues the municipality needs to address? Financial indicators to consider may include:
 - a continued increase in the net debt
 - a surplus not fully supported by financial assets;
 - a high level of short-term debt indicating net financial assets are insufficient; or
 - a low net book value of tangible capital assets indicating useful life nearing an end.
 - Are there some "red flags" in the financial statements? Potential red flags may include:
 - a significant decrease in the District's combined cash and investment positions from the previous year;
 - liabilities that exceeds the amount of cash and cash equivalents
 - a significant decrease in the net financial assets from the previous year;
 - a significant increase in net debt from the previous year; or
 - the unrestricted portion of the accumulated surplus is in a deficit position.
- Have there been any extraordinary or unusual financial transactions that may have future implications for the municipality?
- What are the costs of providing specific services?
- What is the cash position and debt level?
- Are there adequate operating and capital funds for future projects, or will borrowing be required?
- Does the municipality have sufficient working capital?
- Is short term borrowing required before property tax revenues are received?
- What is the remaining useful life of the municipality's tangible capital assets?
- What are the financial and budgetary impacts of replacing or renewing tangible capital assets nearing the end of their life?
- Is there an unqualified audit report?
- Are there any items of concerns that need to be mitigated or addressed?

Glossary of Terms

Depreciation - the systematic allocation of the historical cost of a tangible capital asset over its useful life.

Accumulated Depreciation - the total depreciation pertaining to a tangible capital asset from the time the asset was placed into service until the date of the financial statement.

Consolidated Financial Statements - statements containing financial information for the municipality and its owned or controlled organizations (e.g. fire, utilities, library).

Capital Projects in Progress - tangible capital assets under construction at the end of the fiscal year that have not been put into service (e.g. engineered structures, buildings, land improvements).

Contributed Assets - assets that have been transferred or donated to the municipality and that will provide a future economic benefit.

Deferred Revenue - income received that will not be recorded as revenue until certain transactions or events take place.

Equity in Tangible Capital Assets - the net book value of recorded tangible capital assets less capital debt.

Expenditure - an outlay of cash (i.e. use of funds during the fiscal period).

Expense - a cash or non-cash cost (e.g. wages, materials, depreciation).

Financial Assets - current cash resources plus any items or holdings that are expected to be converted into cash in the future.

Gain or Loss on Sale - proceeds from the sale of a tangible capital asset that are greater than (gain) or less than (loss) the net book value of the asset.

Government Transfers - entitlements, transfers under cost-share agreements, and/or grants from other levels of government.

Net Book Value - the total cost of a tangible capital asset minus the accumulated depreciation and any write-down of the asset.

Net Financial Assets (Net debt) - an amount equal to the total financial assets less the total liabilities.

Restricted Surplus - the amount that results from excess revenues which have been internally designated for a specified future purpose, or externally restricted.

Tangible Capital Assets - non-financial assets having a physical substance that are held for use in the supply of goods and services, have economic lives beyond the fiscal year, are used on a continuing basis and are not for sale in the ordinary course of operations.

Unrestricted Surplus - the portion of the accumulated surplus that results from excess revenue and expenses available for any future use.

Working Capital - the excess of current assets minus current liabilities. Positive working capital indicates an ability to meet short term obligations.

Historical Cost - is defined as the aggregate paid to acquire ownership and use of an asset, including all payments necessary to obtain the asset in the location and condition required for it to provide services.

Replacement Cost - refers to the amount that a municipality would have to pay to replace an asset with the same effectiveness at the present time, according to its current worth.