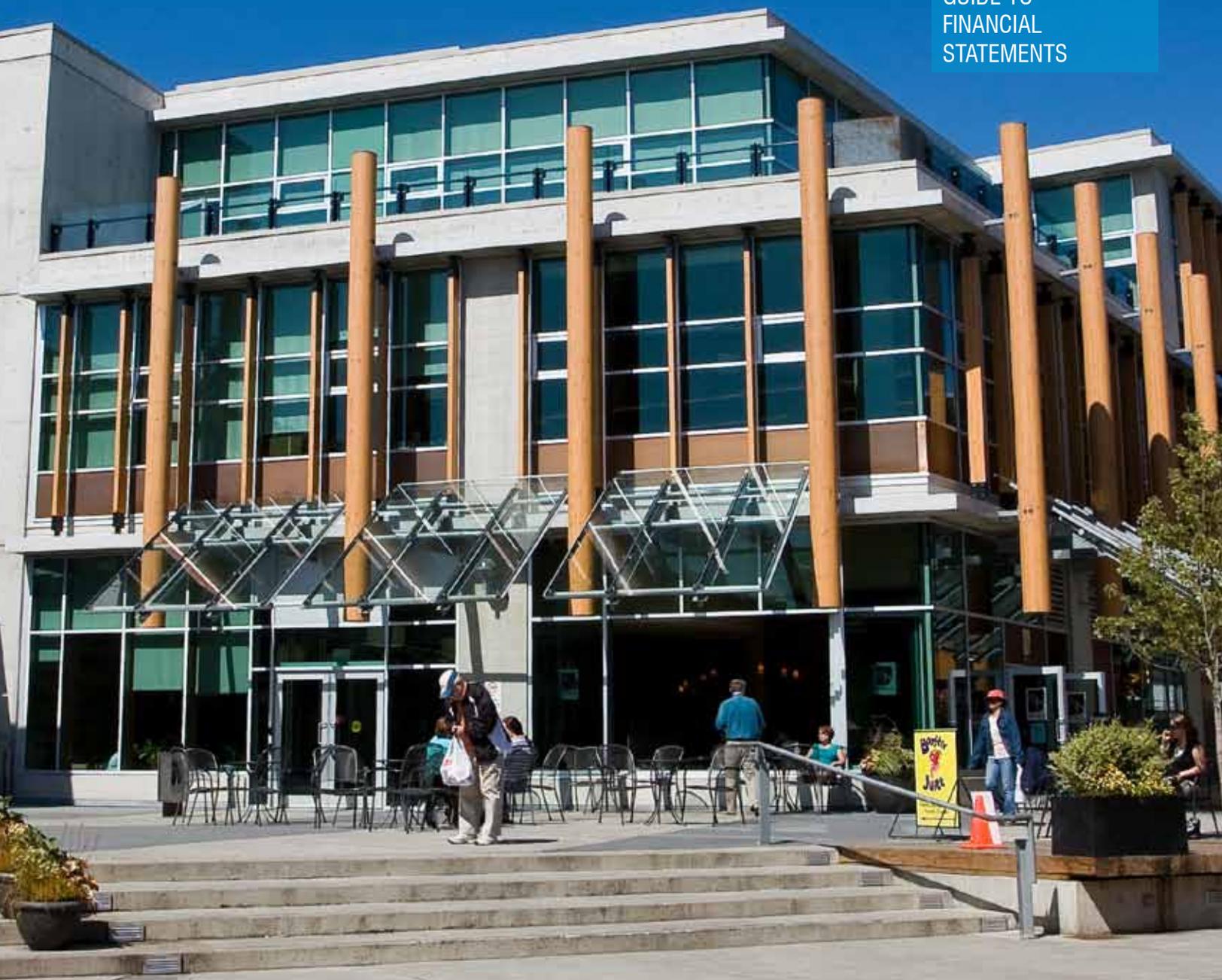


DISTRICT OF
NORTH VANCOUVER

GUIDE TO
FINANCIAL
STATEMENTS



NORTH VANCOUVER
DISTRICT

Our goal at North Vancouver District is to make information sharing and reporting convenient, accessible and relevant to our residents. The information contained in this “Guide to Financial Statements” will provide you with the tools to navigate the District’s Financial Statements. To view a complete copy of the District’s annual report, please visit www.dnv.org.

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Purpose

This guide is intended to provide 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 generally accepted accounting principles for local governments in Canada.

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

Financial statements provide information on a municipality's financial position in terms of its assets and liabilities, its net financial assets (or net debt), its accumulated surplus (or deficit), and its tangible capital assets and other non-financial assets. Financial statements also provide a meaningful summary of the sources, allocation and consumption of municipal economic resources, how the activities of the period have affected the municipality's net 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 prepared in accordance with the Community Charter, not PSAB. As a result, Note 17 to the Consolidated Financial Statements explains how the two reporting standards are different and provides a reconciliation between the two.

Introduction

The four required municipal 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.

In British Columbia financial statements must be prepared by municipalities on an annual basis in accordance with provisions set out in the Community Charter.

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 Municipal Public Library and for example, a share of the North Vancouver Recreation 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.

There are four main components to the financial statements of the District:

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

- 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** is a required statement that reports on:

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

The **Consolidated Statement of Cash Flows** is a required statement that:

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

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

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

1. Accounting policies – describe the accounting methods chosen when there are options or significant elements of the Financial Statements worthy of explanations.
2. Investments – the composition of the portfolio and the rate of return for the year.
3. Restricted Revenues – primarily Development Cost Charges (DCCs) paid by developers to fund future infrastructure and utility work resulting from growth.
4. Post-employment benefit obligations – the future pay-out commitments associated with employee terminations and retirements.
5. Long-term debt – the purpose, the amount outstanding and the future repayment obligations.
6. Tangible capital assets – on an historical basis, the value of assets owned, the amount consumed and the remaining life.
7. Accumulated surplus – the nature, composition and amount of the reserves held for risk management, future asset replacement and capital work in process.
8. Taxation – the amounts collected on behalf of other jurisdictions which are not available to pay for municipal services.
9. 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 2012 Annual Report at <http://www.dnv.org/annualreport2012>

Consolidated Statement of Financial Position

Year Ended December 31

	2012	2011
Financial assets		
Cash	\$ 99,997	\$ 4,480,968
Taxes receivable	3,298,409	3,126,037
Accounts receivable	3,389,147	3,429,648
Due from governments (Note 2)	2,967,414	3,347,846
Investments (Note 3)	152,154,714	136,108,247
MFA debt reserve deposit	428,735	460,086
Inventories held for resale	116,380	124,560
	<u>162,454,796</u>	<u>151,077,392</u>
Liabilities		
Accounts payable and accrued liabilities	9,654,776	10,181,958
Due to governments (Note 4)	10,215,135	10,327,844
Restricted revenues (Note 5)	15,888,222	15,017,810
Deferred revenues (Note 6)	18,267,468	17,238,051
Capital lease obligations (Note 7)	18,294	36,153
Long-term debt (Note 8)	18,715,190	22,085,688
Post-employment benefits (Note 9)	8,991,634	8,355,992
Deposits and other liabilities	8,826,185	7,886,516
	<u>90,576,904</u>	<u>91,130,012</u>
Net financial assets	71,877,892	59,947,380
Non-financial assets		
Prepaid expenses	892,837	774,369
Inventories held for consumption	888,399	895,590
Tangible capital assets (Note 10)	467,734,602	464,450,090
Other assets	291,329	375,231
	<u>469,807,167</u>	<u>466,495,280</u>
Accumulated surplus (Note 11)	<u>\$ 541,685,059</u>	<u>\$ 526,442,660</u>
Commitments and contingencies (Note 14)		

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 paid for most of assets from available funds. A Net Debt position does not necessarily means that a municipality is in difficulty as long as a robust debt management plan is in place.

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, land for resale and investments are examples of items that will eventually be turned into cash.
2. Accounts payable and accrued liabilities and 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. 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. The amount recorded for tangible capital assets is the net historical book value, which is the total cost of all assets acquired over time (net of disposal and retirement) less the accumulated depreciation which represents their use. The replacement cost of these assets far exceeds the historical amount.
5. 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 or 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 remaining life owned by the District.

Consolidated Statement of Operations

Year Ended December 31

	2012 Budget	2012	2011
	(Unaudited - Note 17)		
Revenues			
Taxation (Note 12)	\$ 81,414,829	\$ 81,110,252	\$ 79,496,497
Sales, fees, and user charges			
Water	20,489,493	20,778,489	19,770,541
Sewer	16,491,174	16,551,585	14,537,334
Solid waste	8,187,169	7,786,159	7,379,804
Parks, recreation and culture	12,507,722	11,905,788	11,904,769
Other	10,853,599	15,938,301	14,237,888
Transfer from governments	2,080,329	3,020,618	7,948,523
Investment income	3,162,244	3,682,332	3,379,068
Land sales and other contributions	258,875	183,440	8,546,073
	<u>155,445,434</u>	<u>160,956,964</u>	<u>167,200,497</u>
Expenses (Note 13)			
General government	21,769,290	31,535,414	30,824,081
Protective services	37,666,491	36,477,706	35,934,498
Solid waste removal services	8,480,342	7,931,137	7,283,705
Social services	2,025,967	2,101,767	2,010,561
Development services	2,291,455	2,257,667	2,567,187
Transport and other services	6,676,892	7,935,339	6,675,514
Parks, recreation and cultural services	31,997,724	30,588,428	31,010,166
Water utility services	14,493,373	14,371,670	13,407,497
Sewer utility services	13,636,274	12,515,437	12,029,446
	<u>139,037,808</u>	<u>145,714,565</u>	<u>141,742,655</u>
Annual surplus	<u>\$ 16,407,626</u>	<u>15,242,399</u>	<u>25,457,842</u>
Accumulated surplus, beginning of year		<u>526,442,660</u>	<u>500,984,818</u>
Accumulated surplus, end of year		<u>\$ 541,685,059</u>	<u>\$ 526,442,660</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.

1. Sales, fees and user charges – “Other” includes primarily building licences, permits, inspections and other development related activities. “Land Sales and other contributions” is comprised of property transactions and miscellaneous recoveries and contributed assets and donations.
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. 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.
4. Protective Services – includes the policing contract with the RCMP and related support services, fire services, emergency services and bylaw enforcement.

Annual Surplus and Accumulated Surplus

Under normal conditions, an annual surplus will be expected on the Consolidated Statement of Operations. This is due to the fact that the Consolidated Statement of Operations does not reflect the 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 Change in Net Financial Assets

Year Ended December 31

	2012 Budget	2012	2011
	(Unaudited - Note 17)		
Annual surplus	\$ 16,407,626	\$ 15,242,399	\$ 25,457,842
Contributed tangible capital assets (Note 10b)	-	(644,015)	(757,337)
Acquisition of tangible capital assets	(22,532,731)	(21,193,130)	(25,304,573)
Depreciation of tangible capital assets	-	15,792,725	15,374,361
Loss (gain) on disposal of tangible capital assets	-	603,831	(7,162,571)
Proceeds on disposal of tangible capital assets	-	2,156,077	3,101,179
	<u>(22,532,731)</u>	<u>(3,284,512)</u>	<u>(14,748,941)</u>
Acquisition of other assets	-	(34,769)	(240,628)
Acquisition of inventories held for consumption	-	(888,399)	(895,590)
Acquisition of prepaid expenses	-	(892,837)	(774,369)
Amortization of other assets	-	118,671	136,426
Use of inventories held for consumption	-	895,590	983,519
Use of prepaid expenses	-	774,369	510,493
	<u>-</u>	<u>(27,375)</u>	<u>(280,149)</u>
Change in net financial assets	<u>\$ (6,125,105)</u>	11,930,512	10,428,752
Net financial assets, beginning of year		<u>59,947,380</u>	<u>49,518,628</u>
Net financial assets, end of year		<u>\$ 71,877,892</u>	<u>\$ 59,947,380</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 tangible capital assets and inventories of supplies. It reports on the disposal of tangible capital assets and the use of inventory.

1. Acquisition of tangible capital assets is the amount spent on tangible capital assets in the current year. Funding sources could include annual surplus, reserves, long-term debt or government transfers. Assets can also be contributed by developers as part of a development project.
2. 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. An increase in the Net Financial Assets position is typically due to the collection of a tax levy 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?
- How does the District manage its debt and what is its debt position relative to its revenue generating power?
- Are the municipality's financial assets liquid and current?
- What portion, if any, of the District's financial assets are restricted?

Consolidated Statement of Cash Flows

Year Ended December 31

	2012	2011
Operating transactions		
Annual surplus	\$ 15,242,399	\$ 25,457,842
Non-cash items:		
Depreciation	15,792,725	15,374,361
Loss (gain) on disposal of tangible capital assets	603,831	(7,162,571)
Amortization of other assets	118,671	136,426
Contributed tangible capital assets	(644,015)	(757,337)
Changes in non-cash assets and liabilities	2,977,294	3,725,019
Cash provided by operating transactions	<u>34,090,905</u>	<u>36,773,740</u>
Capital transactions		
Proceeds on disposal of tangible capital assets	2,156,077	3,101,179
Acquisition of tangible capital assets	(21,193,130)	(25,304,573)
Cash applied to capital transactions	<u>(19,037,053)</u>	<u>(22,203,394)</u>
Investing transactions		
Proceeds from portfolio investments	357,817,549	251,337,180
Portfolio investments acquired	(373,864,015)	(258,175,019)
Cash used by investing transactions	<u>(16,046,466)</u>	<u>(6,837,839)</u>
Financing transactions		
Capital lease obligations	(17,859)	16,100
Debt repayment	(3,370,498)	(5,440,457)
Cash applied to financing transactions	<u>(3,388,357)</u>	<u>(5,424,357)</u>
Increase (decrease) in cash	(4,380,971)	2,308,150
Cash, beginning of year	<u>4,480,968</u>	<u>2,172,818</u>
Cash, end of year	<u>\$ 99,997</u>	<u>\$ 4,480,968</u>
Supplemental Cash Flow information:		
Non-cash land transactions	<u>\$ 3,225,410</u>	<u>\$ 4,369,169</u>

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows identifies where cash came from, shows how cash was used, and provides details on changes to cash and cash equivalents since the last reporting period.

1. The Consolidated Statement of Cash Flow begins with the net results of the District's operations. This operational result 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.

On the other hand, 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.

2. The Capital, Investing and Financing categories provide a summary of the transactions that took place.

The Capital transactions section provides information on 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.

The Investing transactions section identifies the value of the investment portfolio that matured and the value of the investment portfolio that was reinvested during the reporting period.

The Financing transactions section identifies funds received from long-term debt financing as well as the amount of long-term debt principal repaid during the reporting period.

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

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 restricted surplus not fully supported by financial assets;
 - a high level of short-term debt indicating working capital position is 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;
 - a restricted surplus 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 rehabilitating 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?
- Have the municipality's financial statements been sufficiently communicated to the residents and businesses in the municipality?

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).

Construction 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.

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 accounting period, 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 and worth.

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