FRAM

Financial Reporting and Accounting Manual

A Regulation pursuant to the Municipal Government Act Sections 451and 520

Department of Municipal Affairs and Housing

2023

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Section 1 - Introduction

1(1) Authority

(a) This manual is a regulation prescribed pursuant to Sections 451 and 520 of the *Municipal Government Act* as the system for accounting to be used by municipalities and villages in the Province of Nova Scotia.

1(2) Purpose of this Manual

This manual provides:

(a) the system for accounting that is to be used by municipalities and villages;

(b) the information that is to be provided by municipalities and villages to the Minister;

(c) the minimum requirements for expense and hospitality policies that each municipality and village must have pursuant to 3(3)(b)(ii) and 3(3)(c)(ii) of the Manual a regulation prescribed pursuant to Section 520 of the *Municipal Government Act*;

(d) the manner in which municipal and village accounts are to be audited and that the reports provided by municipal auditors are a regulation prescribed pursuant to Section 451 of the *Municipal Government Act*; and

(e) the information required for calculating standard expenditures and uniform assessment as required by Sections 12 and 14 of the *Municipal Grants Act*.

1(3) Additions and Revisions

(a) Accounting is not static. As a result, periodic review and amendments to this manual will be required. All additions and revisions to this manual will be issued and identified as "manual revisions."

1(4) Application

(a) The Chartered Professional Accountants of Canada (CPA Canada) Public Sector Accounting (PSA) Handbook established by the Public Sector Accounting Board should be reviewed as the authoritative source of guidance on accounting and financial reporting for municipalities and villages.

(b) This manual also contains specific accounting and auditing policies that have been developed for application by Nova Scotia municipalities (including villages and service commissions) and their committees, boards, authorities or other such entities.

(c) The Minister of the Department of Municipal Affairs and Housing may designate a municipality or village to be exempt from certain of the accounting policies contained in this manual if, in the Minister's opinion, the application of certain policies is inappropriate considering emergency financial or operational situations confronting the municipality or village.

(d) Should exemptions be granted by the Minister, these exemptions are to be disclosed in the Notes to the Financial Statements.

1(5) Format of this Manual

(a) This manual contains five sections corresponding to:

- (i) Introduction;
- (ii) System for Accounting and Reporting;
- (iii) Specific Accounting System and Policies for Nova Scotia municipalities and villages;
- (iv) Specific Financial Reporting Requirements; and
- (v) Nova Scotia Municipal Audit Requirements.

(b) This manual also contains four appendices:

- (i) Appendix A: Line Item Dictionary;
- (ii) Appendix B: Financial Information Return Template;
- (iii) Appendix C: Statement of Estimates – Assessment Template; and
- (iv) Appendix D: Statement of Estimates – Budget Template.

Section 2 - System for Accounting and Reporting

2(1) System for Accounting

(a) Financial statements must be prepared in accordance with the Chartered Professional Accountants of Canada (CPA Canada) Public Sector Accounting Standards (PSAS) established by the Public-Sector Accounting Board (PSA Handbook). Where the PSA Handbook is silent, the financial statements must follow the Chartered Professional Accountants of Canada (CPA Canada) Handbook.

2(2) Municipal Year End

(a) The municipality, and committees, boards, authorities or other such entities in which the municipality has a 100% interest, are to have a year end of March 31 for financial reporting purposes.

2(3) Accounting and Reporting Capabilities

(a) The municipal accounting system must make it possible to:

(i) determine and demonstrate compliance with legal provisions;

(ii) maintain an adequate system of internal control; and

(iii) prepare financial statements that will determine fairly and fully disclose the financial operations of the municipality in conformity with this manual and generally accepted accounting principles.

(b) Where financial statements prepared in conformity with generally accepted accounting principles differ significantly from those required for legal compliance, the municipality must prepare the appropriate additional notes or schedules to clearly report its legal compliance, responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary[1].

[1] The aim of this principle is to emphasize that there is no acceptable substitute for "generally accepted accounting principles." However, since the application of such principles will not always produce the requirements of particular legislation, it may be necessary to meet the latter through specially designed statements and reports.

2(4) Minimum Standards for Financial and Statistical Reporting Requirements

(a) Section 451(1)(b) of the *Municipal Government Act* states that the Minister may prescribe the information to be provided by the municipalities and villages to the Minister and when it shall be provided.

(b) Municipalities and villages must submit the following reports on or before the following dates.

Report	Required Date for Submission
1. Auditor's Report and Audited Financial Statements with Management Representation Letter – see Sections 4(1) and 4(2)	September 30
2. Unaudited Non-Consolidated Financial Statements or Schedules of Funds and Fund Balances[2] – see Section 3(1)	September 30
3. Management and Internal Control Letter – see Section 4(3)	September 30
4. Auditor's Report and Audited Financial Statements for wholly-owned subsidiaries – see Sections 4(1) and 4(2)	September 30
5. Financial Information Return – see Section 4(4)	September 30
6. Statements of Estimates (A and B) – see Section 4(5)	September 30
7. Requested Action Plans	90 days after request

(c) Section 19B(1) of the *Municipal Grants Act* states that no grant shall be paid pursuant to this Act until all information requested by the Minister has been provided by the municipality.

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[2] Unaudited financial statements or schedules must provide support to the data reported on the Financial Information Return. Examples are, but not limited to:

- Schedule of Operating Fund Financial Position
- Schedule of Operating Fund Operations – Revenues and Expenses
- Schedule of Financing and Transfers of General Operating Fund
- Schedule of Long-term Debt
- Schedule of Tangible Capital Assets and Amortization Schedule
- Schedule of Taxes and Sewer Receivables

Section 3 - Specific Accounting Systems and Policies for Nova Scotia Municipalities

Contents – *The following sections contain accounting policies which are specific to Nova Scotia municipalities.*

3(1) Specific Accounting System for Nova Scotia Municipalities

3(1)(a) Fund Accounting – This section relates to the non-consolidated schedules

The accounting unit shall be the Fund, which is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

3(1)(a)(i) Reporting on Funds (Funds Required)

For the purposes of financial reporting by Nova Scotia municipalities and villages, the following funds **must** be reported:

(A) **General Operating Fund** – It is the intent that the designation of funds relating to the operations side of activities (as distinct from the capital side) be standardized as the "General Operating Fund'.

(B) **General Capital Fund** – The fund contains all capital transactions, which are distinct from operating transactions. The intent is to have the designation of Capital Funds parallel that of corresponding General Operating Fund.

(C) **Reserve Funds** – Both an operating and capital reserve are required. Additionally, a municipal council or village commission should segregate funding into a “Reserve” Fund where there is a statutory requirement, or a desire by council or commission to segregate certain monies for future use. Refer to the following section for more information and requirements on reserve funds: Capital Reserve Fund see 3(1)(a)(ii); Special Purpose Tax Reserve Fund see 3(1)(a)(iii); and Operating Reserve Fund see 3(1)(a)(iv).

(D) **Trust Fund or "Specific Purpose" Trust Fund** – In the case of transactions that arise from a formal or informal trust agreement pursuant to which a municipality is accountable to third parties for the use and disposition of trust assets and for the funds derived from those trust activities. Trust assets are not beneficially owned by the municipality, they should be reported separately in the municipality’s financial statements and they should not be consolidated. A municipality must establish those funds as required by law and sound financial administration.

3(1)(a)(ii) Capital Reserve Fund

(A) **Requirement for a Capital Reserve Fund** – Municipalities and villages are required to have a capital reserve fund. There must be a separate accounting of assets in the capital reserve fund from the general operating funds and capital funds.

(B) **Funds Required to be Placed in the Capital Reserve** – Sections 99, 147 and 444 of the *Municipal Government Act* requires the following to be placed in the capital reserve fund:

- funds received from the sale of property;
- the proceeds of insurance resulting from loss or damage of property that is not used for replacement, repair or reconstruction of the property;
- any surplus remaining from the sale of debentures that is not used for the purpose for which the debentures were issued;
- the surplus remaining in a sinking fund when the debentures for which it was established are repaid;
- any capital grant not expended in the year in which it was paid;
- proceeds received from the winding up of a municipal enterprise as defined in the *Finance Act*;
- the current fiscal year's accrual for landfill closure and post-closure expenses;
- amounts transferred to the fund by the council; and
- balance in tax sale surplus account twenty years after the tax sale.

(C) **Transitional Guidance for Landfill Closure and Post-closure Reserves** – Upon transition to PS 3280 Asset Retirement Obligations (AROs) [3], if the ARO related to landfill or post-closure costs exceeds that of the dedicated landfill reserve, the shortfall must be funded over time to ensure the total retirement obligation will be fully reserved. The length

[3] Asset retirement obligations are legal obligations that result from a past transaction or event associated with the retirement of a tangible capital asset. Please refer to PS 3280 Asset Retirement Obligations and FRAM section 3(4)(e) for additional guidance on AROs. Please note, landfill closure and post-closure costs now fall under PS 3280, however these costs will still be ***required*** to be reserved per section 99 of the *Municipal Government Act*.

of time available for a municipality or village to reserve for this initial shortfall is dependent upon the remining useful life of the landfill.

(D) **Funds Recommended to be placed in the Capital Reserve** – It is strongly recommended that municipalities and villages build reserves to contribute to the funding of future asset retirement obligations (AROs). It is recommended the annual amount reserved be tied to amortization expense of the ARO asset, and any related accretion expense on the liability, if discounting is applied.

If assets are fully amortized at transition, it is recommended the amount reserved be equivalent to the annual amortization expense that would have been taken if the full ARO liability had been recorded as an asset. Municipalities and villages should also consider the future cost increases of retirement activities in establishing a capital reserve.

If assets are partially amortized at transition, a municipality or village may choose to allocate available existing capital reserves (or portions of those reserves) towards reserving for these ARO liabilities. In circumstances where the municipality or village deems the initial liability to be larger than what could reasonably be reserved upon implementation, the initial liability is recommended to be reserved over time to ensure the total initial liability will be fully reserved. The length of time available for a municipality to reserve for this initial shortfall is dependent upon the remaining useful life of the asset.

(E) **Capital Sub-reserve - Landfill Closure and Post-Closure Cost Reserve** – Landfill closure and post-closure cost reserve funds must be separated from the balance of the capital reserve funds on the financial statements of the municipality. Interest earned by the "capital reserve fund - landfill closure/post closure costs" must remain in that fund.

(F) **Interest Earned by Capital Reserve Fund** – Interest earned by the capital reserve fund (other than the portion relating to landfill closure and post- closure costs) must also remain in that fund unless there is a special resolution of council which allows the interest to be taken into the general operating fund.

(G) **Withdraws from Capital Reserve Fund** – A withdrawal from the capital reserve fund may be used only for:

- capital expenditures for which the municipality may borrow;
- repayment of the principal portion of capital debt;
- landfill closure and post-closure costs that have been approved as conforming to the "Nova Scotia Standards and Guidelines Manual for Landfill" issued by the Department of the Environment; and
- settlement of expenditures related to asset retirement obligations.

Funds authorized to be withdrawn and used to acquire physical assets are to be transferred directly to the capital fund into which the purchased assets are to be placed.

Funds relating to landfill closure and post-closure costs are to be disbursed directly from the landfill reserve.

(H) **Borrowing from Capital Reserve Fund** – The council may borrow from a capital reserve fund, by resolution, if the resolution prescribes the terms of repayment, including interest, at a rate not less than the interest rate that the municipality would pay to borrow the funds for a similar term from another source. Funds borrowed from the capital reserve fund can only be used to acquire physical assets for the municipality or physical assets of an organization that is 100% controlled by the municipality or a group of municipalities.

(I) **Canada Community-Building Fund (CCBF)** – The monies received as part of the Canada Community-Building Fund are to be recorded in the Capital Reserve Fund. As the monies are spent, they are to be transferred to the Capital Fund. Any unspent monies are to remain in the Capital Reserve Fund.

3(1)(a)(iii) Special Purpose Tax Reserve Fund

(A) **Requirements** – There must be a separate accounting of reserve fund assets from the general operating funds and capital funds. The special purpose tax reserve fund is one of the three separate types of reserve funds, the other two being the capital reserve fund and the operating reserve fund. (See Sections 3(1)(a)(ii) and 3(1)(a)(iv).

Where the council has raised revenue through more than one special purpose tax, the accounts are to be segregated from each other on the books of the municipality. This can be done either by establishing a separate fund for each special purpose tax or by establishing separate accounts for each special purpose tax within the overall special purpose tax reserve fund.

(B) **Definition** – The special purpose tax reserve fund is restricted as to the source of its funds to special purpose tax revenue raised by council for a specific purpose.

(C) **Withdrawals** – The council may withdraw money from the special purpose tax reserve fund for an expenditure for the purpose for which the account was established.

(D) **Surplus** – Council may, if the balance in a specific special purpose tax reserve account exceeds the funds required for the purpose for which the special purpose tax reserve account was established, return the surplus to the contributors, or may withdraw the funds from the special purpose tax reserve account for any purpose for which the municipality may expend funds if the council complies with the requirements of Section 83(4) of the *Municipal Government Act*.

(E) **Borrowing From** – The Council may borrow from the special purpose tax reserve fund by resolution if the resolution prescribes the terms of repayment, including interest, at a rate not less than the interest rate that the municipality would pay to borrow the funds for a similar term from another source. The borrowing from the special purpose tax reserve fund must be repaid by the time that the special purpose tax reserve fund will require the funds.

3(1)(a)(iv) Operating Reserve Fund

(A) **Requirement for an Operating Reserve Fund** – There must be a separate accounting of reserve fund assets from the general operating funds and capital funds.

(B) **Withdrawals** – A resolution of council is required before any money may be withdrawn from the operating reserve fund. The resolution of council approving a budget that includes a withdrawal from the operating reserve fund is sufficient. Sums withdrawn may be used for any purpose for which council has authority to expend money.

(C) **Interest Earned** – Interest earned by the operating reserve fund must remain in that fund unless there is a special resolution of council that allows the interest to be taken into the general operating fund.

(D) **Operating Fund Surplus to be Transferred** – If the municipality's operating fund statement of operations results in a surplus, the surplus shall be transferred to the operating reserve.

3(1)(b) Due To/From Accounts (Inter-Fund Transfers)

(i) A due to/from transfer outstanding at year end must be either repaid in the next year or included in the next year's estimates of the general operating fund that received the benefit.

(ii) **Exceptions** will be permitted in two instances.

(A) To finance an approved capital project until it is completed. Having received approval from Municipal Affairs and Housing for a temporary borrowing resolution (TBR) to finance the project during construction, a capital fund may borrow from the general operating fund if the money is available. However, upon completion of the project, the inter-fund account must be replaced with temporary borrowings or permanent funding.

(B) To finance an approved borrowing from a Reserve Fund for a capital project. Reserve funds can lend out their equity to finance certain capital projects of the municipality.

(iii) If the reserve fund's assets are tied up in long-term investments that could not be cashed without suffering a substantial loss, the reserve fund may borrow from a general operating fund, an amount not to exceed the lower of the cost of the project or the unallocated equity remaining in the reserve fund. As the reserve fund investments mature, they must be transferred to the general operating fund to liquidate the inter-fund account.

(iv) When a project is financed through a general operating fund, it is imperative that the principal debt and interest repayments claimed in the general operating fund be transferred to the reserve fund.

(v) Capital expenditures paid out of operations; repayment of long-term debt; and depreciation do not involve due to/from account transactions.

3(2) Specific Revenue and Receivables Accounting Policies

3(2)(a) Area Rates

(i) **Definition** – Area rates are levies imposed by the council of a municipality to provide for an expenditure in an area or for the benefit of an area. Council authorizes the levying and collecting by an area rate or area rates of so much on the dollar on the assessed value of one or more of the taxable commercial, residential or resource property and occupancy assessments in the area, or by levying a uniform charge on each taxable property assessment or each dwelling unit in the area.

(ii) **Capital Loan to Registered Fire or Emergency Service** – In those circumstances where a municipality makes a capital loan to a registered fire or emergency service organization, where the loan is to be repaid over a specific period through an area rate charge, the capital loan is to be segregated on the appropriate Statement of Financial Position of the unit and is to be reduced by the current year's debt repayment.

The term of the loan is not to exceed the appropriate useful life guidelines set out in Section 3(4)(c)(vi).

(iii) **Financial Statement Presentation** – Although each area rate is separately accounted for in the records of the municipality, for financial statement presentation purposes area rate revenues must be included with general section revenues classified by source, and area expenditures must be included with general section expenditures classified by function. The current change in the general operating fund balance will then include the excess or deficiency of funds raised through area rates to the extent that it relates to operations. This is necessary in order to recognize that the revenues and expenditures relating to such operations are those of the municipality.

3(2)(b) Special Assessments

(i) **Definition** – Special assessments are charges imposed by a municipal government through a by-law levied against certain properties to defray part or all of the cost of a specific improvement or service that is presumed to be of specific benefit to such properties. The charges fixed by or determined under the by-law may be based on assessment, frontage, lot levies, or such other plan or method as the by-law may provide. ***Special assessments would include infrastructure charges sometimes called off-site development charges.***

(ii) **Special Assessments for Capital Improvements** – Special assessments levied against certain properties related to capital improvements should be recorded as deferred revenue and taken into revenue as the capital expenditures related to the special assessment are incurred by the municipality.

(iii) **Financial Statement Presentation** – A municipality's "surplus/(deficit)" will include the excess or deficiency of funds raised through special assessments to the extent that it relates to operations. This is necessary in order to recognize that the revenues and expenditures relating to such operations are those of the municipality.

3(2)(c) Tax Sale Surplus

(i) **Definition** – Tax sale surplus represents excess funds at tax sales over and above the original amounts that were owing to the municipality at the time a particular property was sold.

(ii) **Length Held** – This surplus is to be held for twenty years, and if the excess proceeds are not claimed at the end of that time, they are to be transferred to the Capital Reserve Fund.

(iii) **Financial Statement Presentation** –

(A) Tax sale surplus is to be shown as a liability on the consolidated financial statements.

(B) The amount of tax sale surplus that will be transferred to the Capital Reserve Fund in the next year is to be disclosed in the notes to the financial statements.

(C) Supplementary disclosure of the breakdown of the tax sale surplus may be desirable.

3(2)(d) Receivables

3(2)(d)(i) Taxes Receivable

(A) **Recording of Taxes and Rates Receivable** – Taxes and rates receivable represent that uncollected portion of taxes and levies as determined by municipal council for purposes of general operations funding or specific user-pay services. These should be recorded net of valuation allowances.

(B) **Interest Earned** – Interest accrued on past-due taxes and rates or other uncollected amounts shall be recorded by the municipality.

(C) **Recording Reduction to Taxes Receivables** –

(I) Taxation revenue that is reduced or written off due to changes in the assessment base should be reported under one of the following methods. Where the amount reduced, or written off has been levied in the:

- Current reporting year – The amount would normally be included as part of the total taxation revenue of the year, the amount reduced or written off should be subtracted from the total taxation revenue for the current year.

- Prior Period - If taxes levied in prior period or periods, the reduction or write-off should be subtracted from the valuation allowance for taxes and rates or unresolved assessment appeals.

(II) All other taxation revenue that is reduced or written off as a result of a decision of council should be subtracted from the valuation allowance for taxes and rates.

3(2)(d)(ii) Grants and Other Receivables

Accrual Methodology – Full accrual accounting is to be applied in the determination of revenues outstanding, including cost-shared programs. These receivables must be distinguished from taxes and rates receivable and are determined at the realizable amount.

3(3) Specific Expenditures, Liabilities and Debt Accounting Policies

3(3)(a) Inclusion of Interest in the Municipality's Estimated Requirements

The PSA Handbook indicates that all amounts owing at the end of a fiscal period must be recorded. Therefore, interest costs must be accrued, rather than recognized on a cash basis. It is also recommended that municipalities budget for interest on an accrual basis.

3(3)(b) Expense Policy

(i) **Definition** – The expense policy as required by Section 23(3) and 408AA of the *Municipal Government Act* and Section 20(3) of the *Halifax Regional Municipal Charter*, must provide provisions and guidelines for expenditures incurred by council members and employees for which reimbursement was provided by a municipality or village for conducting municipal or village business. Included in the definition of employee reimbursement is employee advances. An employee advance is an authorized amount that may be claimed in lieu of actual expenditures for a specific item.

(ii) **Requirement for a Policy** – As required by Sections 23(7) and 408AA of the *Municipal Government Act* and Section 20(7) of the *Halifax Regional Municipal Charter*, each municipality and village must adopt a written expense policy. For municipalities: by the January 31st immediately following a regular election council shall review the expense policy; either re-adopt or adopt an amended policy. For villages: at each annual meeting, the village commission shall review the expense policy; either re-adopt or adopt an amended policy.

(iii) **Required Policy Content** – Municipalities and villages' expense policies must:

(A) apply to all employees in the municipality or village, as well as apply to every reportable individual[4];

(B) outline individual responsibility;

(C) establish the expenditures that may be eligible for reimbursement, including any restrictions;

(D) prohibit the municipality or village from reimbursing expense claims for alcohol purchases by an individual;

(E) prohibit the municipality or village from reimbursing travel expenses for individuals who are not a reportable individual or an employee of the municipality or village;

(F) identify any preapproval process (i.e., out-of-province travel);

(G) identify the persons who have signing authority to authorize the reimbursement of an expense;

(H) prohibit a person from authorizing his/her own expense claim;

(I) include a clause that employees will only be reimbursed for costs they have incurred (for example prohibits claiming per diem for meals provided at meetings/conferences and/or when group meals are covered by one individual);

(J) set out rules respecting the use of employee advances including repayment terms;

(K) where applicable, set out rules respecting the use of corporate credit cards which include but not limit to:

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[4] For the purposes of a reportable municipal expense, reportable individual refers to an individual who holds one of the following positions:

- For a municipality – mayor or warden, councillor, and chief administration officer, including an employee of municipality delegated any of the responsibilities or powers of the chief administrative officer pursuant to MGA clause 29(b)
- For a village – village commissioner or village clerk

(I) prohibit the use of travel advances if individual has a corporate credit card;

(II) prohibit the use of corporate credit cards for cash advances and personal expenses;

(III) prohibit reimbursement for interest incurred on a corporate credit card

(L) require claimants to submit business reason for expense along with detailed/itemized receipts to support expenditures. Any exceptions where detailed receipts are not required, should be outlined in the policy (for example, per diem meals);

(M) prohibit expenses being submitted on behalf of others;

(N) require all travel related expenses to be reported on an expense claim and prohibit the use of petty cash for travel and professional development reimbursement;

(O) where applicable, include mileage and per diem rates in policy;

(P) where applicable, set out rules respecting claiming mileage;

(Q) require submission of expense within pre-determined timeframe;

(R) include a clause that any fraudulent irregularity, misuse or misappropriation of municipal or village funds, may include, without limitations, disciplinary action, not excluding termination; and

(S) include a clause referring to the municipality or village's documented policy or process relating to the reporting suspicious activity and potential misuse of funds.

(iv) **Reporting Requirements** – As required by Sections 65D and 423A of the *Municipal Government Act* and Section 79D of the *Halifax Regional Municipality Charter*, each municipality and village must:

(A) Prepare and post an expense report for each reportable individual within 90 days of the end of each fiscal quarter on their reportable reimbursements[5].

(B) Post the quarterly expense reports on a publicly available website.

(C) Prepare an annual summary report to be filled with the Minister by September 30th of each year.

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[5] For the purpose of a reportable municipal and village expenses, reportable reimbursements for both quarterly and annual reports shall include the following expense categories:

- Travel and travel related expenses, including accommodation, incidentals and transportation:
- Meals; and
- Professional development and training

(D) Ensure the annual a summary report compiles with Section 4(4)(b)(i).

(v) **Financial Statement Presentation** – A municipality and village must include Remuneration and Expenses for Elected Officials and CAO/Clerk Schedule in the notes to the Audited Financial Statements. See 4(1)(b)(ii)(A) for specific note/schedule requirements.

(vi) **Additional Audit and Review Requirements**

(A) Annually the municipality or village's Audit Committee must review the annual summary of Remuneration and Expenses for reportable individuals.

(B) It is recommended that a municipality or village conduct a special purpose engagement on internal controls within a four-year timeframe.

3(3)(c) Hospitality Policy

(i) **Definition** – A hospitality policy, as required by Sections 23(3) and 408AA of the *Municipal Government Act* and Section 20(3) of the *Halifax Regional Municipality Charter*, must provide provisions and guidelines for expenditures incurred while hosting individuals from outside of a municipality or village for conducting business activities which would include receptions, ceremonies, conferences, or other group events.

(ii) **Requirement for Policy** – Each municipality and village must adopt a hospitality policy as required by Sections 23(3) and 408AA of the *Municipal Government Act* and Section 20(3) of the *Halifax Regional Municipality Charter*. For municipalities: by the January 31st immediately following a regular election council shall review the hospitality policy; either re-adopt or adopt an amended policy as required by Section 23(7) of the *Municipal Government Act* and Section 20(7) of *HRM Charter*. For villages: at each annual meeting, the village commission shall review the hospitality policy; either re-adopt or adopt an amended policy.

(iii) **Required Policy Content** – As required by Sections 23(5) and 408AA of the *Municipal Government Act* and Section 20(5) of the *Halifax Regional Municipality Charter*, municipalities and villages' hospitality policies must:

(A) Apply to every reportable individual and employee in the municipality or village;

(B) Establish the approval process for authorizing hospitality expenses;

(C) Prohibit a person from authorizing his/her own claim;

(D) Require hospitality expenditures be preauthorized (any exceptions require submission of detail reasoning why prior approval was not sought, prior to reimbursement);

(E) Establish the scope and applicability of the policy (circumstances when hospitality may be offered), and identify any restrictions;

(F) Establish the expenditures, including alcohol purchases, that qualify as a hospitality expenses;

(G) Require that hospitality claims include name, and position of guest(s); as well as the business objective for the expenditure; and

(H) Require detailed/itemized receipts to support hospitality claims.

(iv) **Reporting Requirements** – As required by Section 65D and Section 423A of the *Municipal Government Act* and Section 79D of the *Halifax Regional Municipality Charter*, each municipality or village must:

(A) Prepare and post a hospitality expense report within 90 days of the end of each fiscal quarter;

(B) Post the quarterly hospitality expense reports on a publicly available website;

(C) Prepare an annual summary schedule to be filed with the Minister by September 30th of each year, and

(D) Ensure the annual summary report complies with the financial reporting requirements outlined in Section 4(4)(b)(ii).

(v) **Additional Review Requirements** – Annually the municipality or village's Audit Committee must review the Hospitality Annual Summary Schedule.

3(3)(d) Long-Term Commitments

Where a municipality enters a lease, lease-purchase or other commitment to pay money over a period extending beyond the end of the current fiscal year, the commitment must be disclosed in the notes to the financial statements.

3(3)(e) Temporary Borrowings – Capital Projects

(i) **Approved Requirement** – Projects that will be funded with debt financing require temporary borrowing approval by the Minister of Municipal Affairs and Housing.

(ii) **Submission Requirement** – Temporary borrowing requests should be submitted prior to commencing the project and must be submitted prior to project completion.

(iii) **Approval Terms** – Temporary borrowings are approved for a period of one year. A temporary borrowing approval is required annually until the loan is fully repaid.

(iv) **Project Construction Exceeds One Year Timeframe** – If the project construction exceeds the one-year temporary borrowing expiry date, a renewal must be submitted for approval by the Minister of Municipal Affairs and Housing prior to expiry. If the municipality intends to secure permanent financing through the Department of Finance and Treasury Board, the temporary borrowing may be renewed at 100% of its original amount. If the municipality intends to secure permanent financing through another financial institution, the temporary borrowing will be reduced by a minimum amount of 10% annually of its original value.

(v) **Repayment** – Temporary borrowings are to be repaid when the project is completed and permanent funding is put in place. For projects funded through the Department of Finance and Treasury Board, if the temporary borrowing approval expires after a project is complete but prior to permanent funding being put in place, the temporary borrowing approval is required to be renewed.

(vi) **When Project Is Completed** – A project is completed at the point of takeover by the municipality. Upon completion of a project, permanent funding must be put in place within one year.

(vii) **For projects funded through financial institutions other than the Department of Finance and Treasury Board** – Permanent funding secured through financial institutions other than the Department of Finance and Treasury Board must not exceed a borrowing term of 10 years, inclusive of the project construction period. The temporary borrowing approval is required annually until the loan is fully repaid. The borrowing approval will be reduced by a minimum amount of 10% annually of its original value.

(viii) **Interest Incurred** – Interest incurred during construction on significant identifiable capital projects may be capitalized in the year incurred.

3(3)(f) Long-Term Debt

(i) **Definition** – The debt is to include permanent debt financing put in place by the municipality, debt assumed from other committees, boards, authorities or other such entities, and capital lease debt.

(ii) **Accounting Treatment** – The cash that is received on the issuance of debt will be recognized in the capital fund where it is to be spent.

(iii) **Funds in Excess of Costs** – Any amounts received on a debenture borrowing in excess of the cost of the capital project are to be transferred to the Capital Reserve Fund.

(iv) **Debt Terms** – The term of the debt put in place for specific capital acquisitions is never to exceed the useful life guidelines for those assets as set out in Section 3(4)(c)(vi).

(v) **Financial Statement Presentation** – A note to the financial statements is to disclose the next five years' debt repayment and the extent to which another municipal government or the provincial government will assume responsibility for, or pay grants equivalent to, the debt service of such debt.

Please note: It is important that it is not assumed that the useful economic life of an asset bears any direct relationship to the terms of the long-term debt put in place to finance those assets. Long-term debt issued by a municipality beyond a period of ten years is a function of the marketplace.

3(4) Specific Accounting Policies for Assets Including Tangible Capital Assets

3(4)(a) Property Acquired at Tax Sale

(i) **Accounting Treatment** –

(A) Property acquired by the municipality at tax sale is to be reflected separately in the general capital fund at its cost to the municipality at the expiration of the redemption period.

(B) The taxes receivable will be reduced in the general operating fund in the year of acquisition and the purchase price will be reflected in the Statement of Financial Position of the general operating fund as "Redeemable Property Acquired at Tax Sale." The minimum purchase price to the municipality is the amount of taxes outstanding plus interest and expenses. Once the redemption period is expired, the redeemable property acquired at tax sale is eliminated with a charge to capital expenditure out of operations, and the asset is recorded in the capital fund.

(C) The proceeds from the sale of property acquired at tax sale are to be deposited into (or transferred to) the general capital reserve fund and the gain or loss should be reported as revenue or expense in the general capital fund.

3(4)(b) Asset Valuation Allowance

(i) **Taxes and Rates Valuation Allowance Definition** – A valuation allowance shall include an estimate of future losses on taxes, rates and interest outstanding at year end. In most cases, taxes on real property are recoverable through the tax sale process.

(ii) **Taxes and Rates Valuation Allowance Calculation (Estimation)** –

(A) Allowance is an Estimation –

(I) The allowance required is an estimate. The actual loss eventually sustained may be more or less than the estimate.

(II) The variation will depend not only on the pessimism or optimism of the estimator but also on events that have yet to occur and that cannot be foretold. The impossibility of making an exact forecast does not, however, relieve management of the responsibility of making a careful estimate of the allowance required.

(B) Allowance Calculation –

(I) The actual calculation may be based on a formula that ages the balance outstanding and applies various percentages based on past collection experience, in addition to a review of large individual accounts to determine the total valuation allowance.

(II) No formula can be set out that, by itself, provides a means by which the amount of an allowance can be determined. The nature of the outstanding accounts, collection policies, the efficiency of the collection department and the general business conditions at the time are all factors which must be considered.

(III) The amount of the allowance at the end of a financial period should be calculated by reference to the accounts outstanding at the end of the financial period, after taking into consideration all circumstances known at the date of review.

(iii) **Impact of Unresolved Assessment Appeals**

(A) A valuation allowance shall be provided for unresolved assessment appeals in an amount as estimated based on experience and current facts, to reflect the probable result of such appeals to the extent not provided elsewhere. The estimate should include an amount for interest that will be payable on successful assessment appeals. (Section 114 of the *Municipal Government Act* deals with interest payable.)

(B) A valuation allowance shall be calculated based on outstanding receivables at March 31 each year. Any additional amount required to fully fund the allowance or the amount by which the allowance is to be reduced shall be included in the statement of operations for the year ending March 31st.

(iv) **Budget Recording Requirements** – an estimate of the amount required at year end should be included in the municipality's budget at the start of the year.

(v) **Tax Sales Requirement** – Each municipal council is required to carry out a tax sale to collect outstanding taxes due to the municipality. This can be accomplished by a tax sale policy adopted by council and by following the minimum tax sale procedures in Section 134 of the *Municipal Government Act*. The legislation requires municipalities to put properties up for sale if taxes are in arrears for the preceding three fiscal years, with the exceptions noted in Section 134 of the *Municipal Government Act*.

(vi) **Required Approval for Write-Off of Taxes and Rates** – When taxes and rates are determined to be uncollectible, after considering all avenues of collection, and by resolution, council approves the write-off, the amounts to be written off are to be charged directly against the valuation allowance.

(vii) **Grants and Other Receivables Valuation Allowances** – A valuation allowance shall be provided for all other receivables that are outstanding at year end. The amount of the valuation for other outstanding receivables shall be management's best estimate based on facts.

(viii) **Financial Statement Presentation** – Any amount required to increase or decrease the valuation allowance should be included in the statement of operations for the year ending March 31st. The amount of the valuation is to be included on the asset side of the Statement of Financial Position as a deduction from appropriate receivables. Full disclosure of the effect of this accounting change is required in the notes to the financial statements.

3(4)(c) Tangible Capital Assets

(i) **Definition** – Local governments acquire tangible capital assets that have economic lives extending beyond the accounting period. Such assets are available for use, may require operating and maintenance expenditures and may need to be replaced in the future. They include assets such as equipment, buildings, land, roads, sewage collection systems and water distribution systems.

(ii) **Accounting Treatment** –

(A) In accordance with Public Sector Accounting Standards (PSAS), as of April 1, 2009, tangible capital assets are capitalized at the time of acquisition and their costs are allocated to future accounting periods through an annual amortization expense.

(B) Only items that will provide a benefit to the municipality in excess of one year are to be capitalized.

(C) The cost of a tangible capital asset includes not only its purchase price or construction cost but also related charges necessary to place the asset in its intended location and condition for use. Such related charges may include freight and transportation charges, engineering costs, site preparation expenditures, professional fees, salaries and benefits related to the construction costs of the asset and interest costs incurred during construction.

(D) Municipal governments may receive contributions of tangible capital assets (e.g., acquire assets by donation). Contributed assets or assets acquired at nominal values should be recorded at fair value at the time of acquisition.

(E) Amortization of Tangible Capital Assets should be expensed in the capital fund.

(iii) **Repair Expenditures** – Repairs to existing capital items are not to be capitalized unless the change is so significant as to enhance the service potential of the asset. Service potential is enhanced when the output capacity is significantly increased, the useful life of the asset is extended or the quality of the output is significantly improved.

(iv) **Disposal Proceeds** – The proceeds on disposal of any physical asset other than the trade-in of one asset for another are to be transferred to the Capital Reserve Fund.

(v) **Documentation Requirement** – Tangible Capital assets of a municipality are to be maintained in a ledger that will describe:

- Capital item;
- Cost;
- Year acquired; and
- Accumulated Amortization

(vi) **Useful Life Range** – The municipality is to use the following useful life maximum guidelines, unless disposed of earlier:

Asset Type	Useful Life Ranges
Land	Indefinite
Land Improvements	20 – 25 Years
Municipal Buildings	40 Years
Buildings – Plants	20 – 25 Years
Electronic Data Equipment	3 – 5 Years
Software	1 – 5 Years
Small Equipment	5 Years
Machinery and Equipment, Fire Trucks and Transit Buses	10 – 15 Years
Vehicles	5 Years

Asset Type	Useful Life Ranges
Ferries	30 Years
Wharves	25 Years
Streets, Roads and Curbs	25 – 30 Years
Traffic and Crosswalk Street Lights	25 – 30 Years
LED Street Lights	10 – 15 Years
Sidewalks	20 – 25 Years
Sewer Lines	50 Years
Lagoons	50 Years
Fibre Optic Lines	5 – 20 Years
Wind Turbines	20 – 25 Years
Solar Panels	20 – 35 Years
Landfill[6]	10 – 50 Years
Work in Progress[7]	Not Applicable

***Note 1**: It is important not to assume that the useful economic life of an asset bears any direct relationship to the terms of the long-term debt put in place to finance those assets, except that the term of the debt is not to exceed the useful life of the asset. Long-term debt issued by a municipality beyond a period of ten years is a function of the marketplace.*

***Note 2**: For tangible capital assets for the Water Utility, please refer to the NS Utility and Review Board's Accounting and Reporting Handbook Section 3035, 3036, 3040 and 3042.*

(vii) As municipalities implement PS 3280 Asset Retirement Obligations, they may identify the need to revise the estimated useful life of the underlying asset to be consistent with the remaining time to the asset's retirement, particularly for fully amortized assets still in use. Municipalities should ensure that the revised useful lives remain consistent with the useful

[6] Section PS 3270 Solid Waste Landfill Closure and Post-Closure Liability was withdrawn, please refer to Section PS 3280.

[7] Work in Progress is not amortized until the asset is complete at which time it will move into a category listed above.

life range prescribed in section 3(4)(c)(vi) and include details of any changes to the useful life in the notes to the financial statements.

For example, upon implementation of the ARO standard, a building was 20 years old, and had 20 years remaining useful life, as per the maximum useful life range in section 3(4)(c)(vi). As a result of ARO implementation, the useful life of the asset was revaluated to be 100 years, an additional 80 years. The remaining useful life of the building could only be revised to 40 years – the maximum allowable under section 3(4)(c)(vi). As a result, the new total useful life would then be 60 years (rather than the projected 80 years). Since the building had already been used for 20 years, the remaining useful life would be 40 years (the FRAM maximum). The preceding example is for illustrative purposes only. Consultation with municipal auditors is recommended to discuss any changes to useful life and obtain advice with respect to the future economic benefits.

3(4)(d) Capital Contributions to Non-Municipal Tangible Capital Assets

(i) **Definition** – Situations arise when a municipality either agrees to cost share in a capital project in which it does not acquire title (such as paving streets or roads) or must incur significant costs in the short term for which an asset has not been acquired such as costs incurred for tree removal (Section 63 of the *Municipal Government Act*) and contributions to hospitals (Section 66(4)(db) of the *Municipal Government Act*).

(ii) **Accounting Treatment** – These costs are not to be set up as tangible capital assets of the municipality. These costs may be treated in one of two ways:

(A) If the costs are paid for out of operations in the current year, they must be expensed against the appropriate expenditure account by fund and function.

(B) If the costs are to be funded out of the issuance of long-term debt, the full amount of the contribution must be expensed and a corresponding long-term debt liability will be reported in the operating fund.

3(4)(e) Asset Retirement Obligations (AROs)

(i) **Definition** – An Asset Retirement Obligation (ARO) refers to a legal obligation associated with the retirement of a physical tangible capital asset. This obligation can come from various legal sources (e.g., legislation or regulation, lease, past transactions/events, or contractual agreements, etc.). Examples of AROs include, but are not limited to: asbestos, lead, decommissioning costs, landfill closure and post-closure care, etc.

(ii) **Accounting Treatment** – In accordance with PS 3280, an ARO is recognized when there is a legal obligation to incur retirement costs in relation to a tangible capital asset.

(A) Measurement of an ARO liability should be the best estimate of the amount required to retire a tangible capital asset at the financial statement date. Uncertainty about the timing and amount of settlement of an ARO does not remove that obligation but will affect the measurement of the liability.

(B) AROs must be allocated on the same basis as the underlying asset. The obligation and timing of settlement of a retirement obligation as well as the schedule of amortization should be consistent with the underlying component.

(C) AROs must be amortized in a systematic and rational manner. An ARO's useful life will be consistent with the maximum estimated useful live guidelines prescribed in section 3(4)(c)(vi), per section 3(4)(c)(vii). ARO amortization should be expensed in the Capital Fund.

(D) When tangible capital assets have been fully amortized, but are still in productive use, the ARO's accumulated amortization is recognized to accumulated surplus/(deficit) upon implementation. New AROs that arise after implementation are expensed.

(E) The present value technique is often the best way to estimate a future asset retirement liability. It is recommended discounting be considered if:

(I) there is information to support a reasonably certain[8] retirement date in relation to the individual asset with an attached ARO. (i.e., planned demolition, or prescribed in legislation or contracts); and

(II) where the impact of discounting results in a significant change to the ARO estimate when not using a present value technique.

(III) Any assumptions, and discount rates must be disclosed in the notes to the financial statements.

(F) When using discounting, an accretion expense will be recorded, and expensed in the Capital Fund.

(G) When considering AROs on Regional School Assets, please refer to section 3(4)(f).

3(4)(f) Regional School Assets

(i) School assets that are owned by the municipality, but that are being used by and under the control of the education entity for such period as they are required by that education entity

[8] Reasonably certain is defined to be likely, where the probability of the occurrence can be assessed at greater than 70% chance of occurring.

for school purposes are not considered municipal assets. Refer to the PSA Conceptual Framework for Financial Reporting in the Public Sector 8.08, 8.12, 8.13.

(ii) A municipality is not responsible for recording an asset retirement obligation until ownership of the school assets reverts back to the municipality.

(iii) If ownership of the school asset reverts back to the municipality and the municipality plans to use the building on a continuous basis for other municipal purposes, the building and land would be considered a contributed asset and treated as a tangible capital asset.

(iv) If ownership of the school asset reverts back to the municipality and the municipality plans to sell the building, it would be considered and reported as inventory held for resale.

(v) If the property is disposed of, the municipality's portion of the proceeds on the disposal of the school physical assets will go into the Capital Reserve Fund.

3(5) Other Accounting Policies

3(5)(a) Inclusion of "Deficit" in the Municipality's Estimate (Operating Budget)

(i) Section 72(4) of the *Municipal Government Act* notes that "The council shall include in its estimates the deficit from the preceding year."

3(5)(b) Operating Surplus

(i) **Transfer Surplus** – A municipality must transfer the operating surplus after financing and regular transfers into a Reserve Fund at year end.

(ii) **Deficit Budget** – If the municipality has a surplus from a prior year, Council may budget for a deficit in a subsequent year if they intend to utilize the surplus of a prior year.

3(5)(c) Audit Committee Policy

(i) **Definition** – A municipality or village is required to establish an audit committee. An audit committee acts as an advisory board carrying out critical review functions on behalf of council.

(ii) **Requirement for Policy** – Per Section 5(3)(a)(iii), each municipality and village must adopt an audit committee policy or audit committee terms of reference. For municipalities: by the January 31st immediately following a regular election, council or the village commission shall review the audit committee policy; either re-adopt or adopt an amended policy. For Villages: at each annual meeting, the village commission shall review the audit committee policy or audit committee terms of reference; either re-adopt or adopt an amended policy or terms of reference.

(iii) **Required Policy Content** – Municipalities and villages' audit committee policy must:

(A) define the audit committee's purpose, role of the audit committee, responsibilities and functions. Refer to Section 5(3)(b) and 5(3)(e);

(B) outline the composition of the audit committee and the audit committee composition must comply with Section 5(3)(c);

(C) identify membership terms for independent members;

(D) establish meeting requirements and quorum, and the meeting requirements must comply with Section 5(3)(d);

(E) require terms of reference or engagement terms for every audit or special purpose engagement;

(F) outline the required training for audit committee members;

(G) the required audit committee training must comply with Section 5(3)(c)(v); and

(H) outline reporting requirements.

Section 4 - Specific Financial Reporting Requirements

Municipalities and villages are required to submit the following reports:

- Audited Financial Statements with Management Representation Letter;
- Municipal Registered Auditor's Report;
- Management and Internal Control Letter;
- Unaudited Non-Consolidated Financial Statements or Schedules of Funds and Fund Balances; and
- Auditor's Report and Audited Financial Statements for wholly-owned subsidiaries.

Additionally, municipalities are required to submit the following reports:

- Financial Information Return; and
- Statements of Estimates (A and B).

4(1) Audited Financial Statements and Schedules

4(1)(a) Municipal Audited Financial Statements

(i) **Standards** – Financial statements are intended to be prepared in accordance with the Chartered Professional Accountants of Canada (CPA Canada) Canadian Public Sector Accounting Standards (PSAS) established by the Public Sector Accounting Board and the specific accounting policies outlined in this manual. Where the PSAS are silent, the financial statements should follow the CPA Handbook.

(ii) **Ownership** – Financial statements are prepared and owned by the municipality. The format and contents of the municipality's financial statements are therefore the sole responsibility of the municipality.

4(1)(b) Audited Financial Statement's Schedules and Notes

(i) **Definition** – Supplementary Schedules to audited financial statements contain additional detailed information for the reader. Where possible, details should be broken out by fund. A municipality or village's schedules will vary depending on the complexity and size of the municipal operation.

Supplementary schedules and notes should include, but are not limited to:

- Significant accounting policies;
- Cash and investments;
- Receivables (Taxes receivable and Other);
- Payables;
- Deferred revenue;
- Retirement benefits;
- Employee benefit obligations;
- Long-term debt;
- Tangible capital assets;
- Asset retirement obligations;
- Commitments;
- Contingent liabilities;
- Loan guarantees
- Accumulated surplus; and
- Segment disclosure by objects.

Explanatory information or notes to financial statements contain information and explanations and highlight various aspects of the financial statements, provide background information, or insight on specific values in the financial statements.

(ii) **FRAM Required Additional Financial Statements' Schedules and Notes** – A municipality or village's financial statements are required to include schedules and notes required by PSA and CPA Canada standards, along with additional notes required by legislation or regulations.

As noted in Section 3; a municipality or village's financial statements must contain the following additional schedules and notes:

(A) **Note on the Summary of Remuneration and Expenses for Reportable Individuals**. A municipality must include a summary of remuneration and expenses for elected officials and CAO/Clerk in their audited financial statements' notes. A village must include Summary of Remuneration and Expenses for Village Commission and Clerk in the Audited Financial Statements' notes.

The note must contain, by reportable individual, a summary of their:

(I) Remuneration;

(II) Expenses, which would include travel, travel related (accommodation, incidental and transportation), meals expense; professional development and training expenses; and

(III) Total remuneration and expenses reimbursed.

(B) **Tax Sales Surplus** – If applicable, the amount of tax sale surplus that will be transferred to the Capital Reserve Fund in the next year is to be disclosed in the notes to the financial statements.

(C) **Debt Repayment Note** – A note to the financial statements must disclose the next five years' debt repayment and the extent to which another municipal government or the provincial government will assume responsibility for, or pay grants equivalent to, the debt service of such debt.

4(1)(c) Audited Financial Statement's Filing Requirements

Each year audited financial statements must be filed by the municipality or village with the Minister of Municipal Affairs and Housing by Sept 30th, the timeline outlined in Section 2(4) of this manual.

4(2) Municipal Registered Auditor's Reports

4(2)(a) Requirement

The consolidated financial statements, and all other accounts, funds and supporting statements that require an audit as defined by legislation, shall be accompanied by an auditor's report.

4(2)(b) Report Format

(i) **Standard Format** – The auditor's report must be in accordance with CPA Canada Handbook requirements and in a form that is acceptable to Municipal Affairs and Housing and is in accordance with generally accepted auditing standards.

(ii) **Additional Information to be Included:**

(A) The auditor's report must include comments on any noncompliance to legislation noted; and

(B) The auditor's report must include comments regarding items noted in 5(1)(c), where applicable.

4(2)(c) Filing Requirements

Each year, the auditor's report shall be filed by the municipality or village with the Minister of Municipal Affairs and Housing by Sept 30th, the timeline outlined in Section 2(4) of this manual.

4(3) Management and Internal Control Letter

4(3)(a) Requirement

The municipal audit as defined by legislation, shall be accompanied by a management or internal control letter. The management or internal control letter must contain information which during the auditor's evaluation of internal control, related to financial reporting and any observed deficiencies detected during the financial statement audit.

4(3)(b) Format

The management or internal control letter must be in a form that is acceptable to Municipal Affairs and Housing.

4(3)(c) Information to be Included

The internal control letters must at a minimum:

(i) identify any material weakness or significant deficiencies as defined by Canadian Auditing standards in internal controls related to financial reporting noted during the audit;

(ii) describe the severity of the deficiencies or absence including potential impact/risk;

(iii) note any inefficiencies in administration that may have been observed during the financial statement audit;

(iv) describe any instances or possible instances of non-compliance with statutes or regulations noted;

(v) outline any other irregularities that were detected;

(vi) include management's responses on identified items; and

(vii) management's responses to include any follow up from the previous year's internal control letter.

4(3)(d) Filing Requirements

Each year, the management and internal control letter must be filed by the municipality or village with the Minister of Municipal Affairs and Housing by Sept 30th, the timeline outlined in Section 2(4) of this manual.

4(4) Financial Information Return

The Financial Information Return form must be submitted by municipalities.

4(4)(a) Information to be Reported on the Financial Information Return

The Financial Information Return must include:

(i) **certification** from the Treasurer;

(ii) actual **consolidated financial results** for the municipality with comparative financial results from the prior fiscal year, recorded in the following schedules:

- CR – Consolidated Schedule of Revenues;
- CE – Consolidated Schedule of Expenses;
- CO – Consolidated Statement of Operations;
- CFP – Consolidated Statement of Financial Position;
- CCF – Consolidated Statement of Cash Flow;
- CNF – Consolidated Statement of Change in Net Financial Assets; and
- CGL – Consolidated Statement of Remeasurement of Gains and Losses

(iii) actual **non-consolidated financial results** for the municipality, comparative financial results for the prior fiscal year;

- NFP – Non-consolidated Supplementary Schedule on Statement of Financial Position;
- NR – Non-consolidated Schedule of General Operating Fund Revenues;
- NE – Non-consolidated Schedule of General Operating Fund Expenses;
- NF – Non-consolidated Schedule of Financing and Transfers of the General Operating Fund;

- NO – Non-consolidated Statement of Operations (including budget for current year); and
- NCC – Non-consolidated Statement of Operations for the General Capital Fund.

(iv) **supplementary schedules** provide detail information on required notes to the audited financial statements as per Section 4(1)(b) and other reporting requirements:

- RE – Reporting Entities;
- LTD – Long-term Debt;
- TCA – Tangible Capital Assets and Amortization;
- ARO – Asset Retirement Obligations;
- TR – Taxes and Sewer Receivable;
- RTPD – Remuneration, Travel and Professional Development Expense;
- HE – Hospitality Expense;
- SRFE – Safe Restart Funds Expenditure;
- SRFC – Safe Restart Reserve Funds – Restricted Cash; and
- MD – Municipal Debt.

(v) **statistical information** recorded in the following schedules:

- FNI – Schedule of Select Financial and Non-Financial Information; and
- ISC – Schedule of Financial Information for Statistics Canada.

(vi) **draft financial condition indicator** results recorded in the following schedules:

- FCI – Summary of Financial Condition Indicators; and
- FCII – Financial Condition Indicators Inputs.

The figures in the Financial Information Return must be expressed in dollars. Cents are to be omitted.

If any of the comparative figures are required to be revised in order to conform with changes in financial statement presentation, contact the department.

4(4)(b) Format for the Financial Information Return Submission

The Financial Information Return template is available for completion in the Municipal Reporting System (MRS). Appendix B provides an example of the template. The Financial Information Return shall be submitted via the MRS. The MRS can be accessed by authorized users only.

(i) **Summary of Remuneration and Expenses for Reportable Individuals Schedule** – A municipality must include a summary of remuneration and expenses for elected officials and CAO/Clerk note in their Financial Information Return. A village must include Summary of Remuneration and Expenses for Village Commission and Clerk in the Financial Information Return. The schedule must contain by reportable individual a summary of their:

(A) Remuneration;

(B) Travel and travel-related expenses, which would include accommodation, incidental and transportation;

(C) Meal expenses;

(D) Professional development and training expenses; and

(E) Total expenses reimbursed.

(ii) **Summary of Hospitality Expenses Schedule** – Each municipality and village must include a Summary of Hospitality Expenses Schedule in their Financial Information Return. The schedule must contain at a minimum total for the hospitality expenses.

(iii) **Other Schedules** – For the other schedules noted in 4(4)(a), a municipality and village shall submit the noted schedules containing the required information and in a format as directed in the Financial Information Return template provided annually to a municipality or village.

4(4)(c) Financial Information Return Certification

The municipality is responsible for the integrity, completeness, and accuracy of Financial Information Return prepared and submitted to the Minister. The Financial Information Return must be signed indicating the Treasurer of the municipality certifies that the Financial Information Return was prepared in accordance with relevant legislation, FRAM, and is consistent with the audited financial statements of the municipality.

4(4)(d) Filing Requirements

Each year, the Financial Information Return must be filed by the municipality or village with the Minister of Municipal Affairs and Housing by Sept 30th, the timeline outlined in Section 2(4) of this manual.

4(5) Statement of Estimates

In addition to submitting financial statement information, the Statement of Estimates are required to be submitted by municipalities pursuant to Section 451(1) of the *Municipal Government Act*.

The Statement of Estimate information must be submitted on two forms. The:

- Statement of Estimates - Assessment (SOE-A); and
- Statement of Estimates - Budget (SOE-B).

The figures in the Statement of Estimates must be expressed in dollars. Cents are to be omitted.

4(5)(a) Statement of Estimates – Assessment (SOE-A)

(i) **SOE-A Purpose** – This form is to be used to calculate the uniform assessment as defined in Section 14 of the *Municipal Grants Act.* The information from this form is also used for the purpose of calculating various grants payable to each municipality.

(ii) **SOE-A Schedules** –

- Tax_Rates – Tax Rate Information;
- UA – Draft Uniform Assessment Calculation;
- Fed – Federal Government and Federal Government Agencies Properties;
- Special – Properties Subject to Special Tax Agreements or Legislation;
- Shared – Properties Subject to *Municipal Grants Act* 14(2) Shared Revenue;
- D_Summary – Provincial Property Grant-in-Lieu Summary;
- D1 – Provincial Property Grant-in-Lieu General;
- D2 – Provincial Property Grant-in-Lieu Crown Land;
- D3 – Provincial Property Grant-in-Lieu Supported Institutions; and
- D4 – Provincial Property Grant-in-Lieu Fire Protection.

4(5)(b) Statement of Estimates – Budget Information (SOE-B)

(i) **SOE-B Purpose** – This form is to be used to calculate the standard expenditures as required by Section 12(1) and (2) of the *Municipal Grants Act*, and to submit the estimated requirements of the municipality required by Section 72 of the *Municipal Government Act* to the department.

(ii) **SOE-B Schedules** –

- NOE – Operating Fund Budget – Non-consolidated General Operating Fund Estimates
    - Questions regarding the existence of prior deficits and related funding requirements
- SE – Operating Fund Budget – Explanation of Variance in Standard Expenditures – Percentage Change

4(5)(c) Format for the Statement of Estimates Submission

The Statement of Estimates – A and B templates are available for completion in the Municipal Reporting System (MRS). The Statement of Estimates A and B shall be submitted via the MRS. The MRS can be accessed by authorized users only.

(i) Schedules Format – For the other schedules noted in 4(5)(a)(ii) and 4(5)(b)(ii), a municipality and village must submit the noted schedules containing the required information in a format as directed in the Statement of Estimates (SOE-A) and (SOE-B) templates provided annually to a municipality or village. See Appendix C and D for example of format. Appendix A provides a line item dictionary.

4(5)(d) Statement of Estimates Certification

The municipality is responsible for the integrity, completeness and accuracy of Statement of Estimates A and B prepared and submitted to the Minister. Both Statement of Estimates must be signed indicating the Treasurer of the municipality certifies that the Statement of Estimate is complete, accurate and was prepared in accordance with relevant legislation, FRAM and is consistent with the budget approved by council.

4(5)(e) Filing Requirements

Each year, the Statement of Estimates A and B must be filed by the municipality or village with the Minister of Municipal Affairs and Housing by Sept 30th, the timeline outlined in Section 2.4 of this manual.

Section 5 – Nova Scotia Municipal Audit Requirements

5(1) Municipal Audit Requirements

5(1)(a) Municipal Audit Standards

Audit Standards – The municipal audit shall be in accordance with CPA Canada Handbook requirements and in a form that is acceptable to Municipal Affairs and Housing and is in accordance with generally accepted auditing standards.

5(1)(b) Requirement to Use a Registered Municipal Auditor

Per sections 42(1) and 445(1) of the *Municipal Government Act*, council or village commission shall appoint a municipal auditor who is registered pursuant to that Act to be the auditor for the municipality or village. A person, firm or partnership shall not act as, or exercise or perform any of the duties of, a municipal auditor unless registered as a municipal auditor pursuant to the provisions of Section 457 of the *Municipal Government Act*. Refer to Section 5(1)(a) Municipal Audit Standards and 5(2) Municipal Auditor Appointment and Restrictions in the Manual for details.

5(1)(c) Additional Municipal Audit Requirements

In addition to adhering to Generally Accepted Auditing Standards as outlined in the CPA Handbook, the municipal auditor must ensure that the municipality has performed its duties in accordance with the act(s) and special legislation under which it is governed. Municipal Auditor verification and disclose should include, but not limited to, the following:

(i) Municipality received approval of the Minister of Municipal Affairs and Housing for:

(A) borrowings by a municipality other than borrowing for the purpose of providing for payment of part of the annual expenditures, a guarantee of a borrowing or a long-term commitment; and

(B) the issuance of debentures or other term debt;

(ii) the verification that all capital expenditures were incurred for the purpose for which the debenture issue or term debt was authorized;

(iii) the authority to raise funds for the purpose of paying those amounts (if any) reported on the respective capital fund balance sheets as "due to general operating funds";

(iv) the filing of claims or returns immediately upon receipt of all the applicable information with the appropriate department or government so as to avoid delay in receiving payment of grants, contributions or tax rebates (federal and provincial);

(v) the verification that all expenditures incurred (capital and operating) were spent on items for which the municipality or village had authority;

(vi) the approval of municipal council or village commission for commitments and expenditures incurred by the administration on behalf of the municipality or village;

(vii) the tax sale surplus account is appropriately funded as per the *Municipal Government Act* Section 146(4) which states “Except as provided in this Section, no part of the balance may be withdrawn from the tax sale surplus account during the period in which the land may be redeemed”; and

(viii) the amount of tax sale surplus that will be transferred to the Capital Reserve Fund in the next year is to be disclosed in the notes to the financial statements.

5(2) Municipal Auditor Appointment and Restrictions

5(2)(a) Requirements

Section 42(1) and 445(1) of the *Municipal Government Act* states that council or village commission shall appoint a municipal auditor who is registered pursuant to that Act to be the auditor for the municipality or village. A person, firm or partnership shall not act as, or exercise or perform any of the duties of, a municipal auditor unless registered as a municipal auditor pursuant to the provisions of Section 457 of the *Municipal Government Act*.

5(2)(b) Eligibility Requirements

Section 457(1) and (2) of the *Municipal Government Act* defines the requirements for registration as a municipal auditor. The individual or firm must be:

(i) A person licensed as a public accountant pursuant to the *Public Accountants Act*.

(ii) A firm or partnership may be registered as a municipal auditor if a majority of the members of the firm or partnership are licensed as public accountants pursuant to the *Public Accountants Act*.

5(2)(c) Restrictions

Section 42(7) of the *Municipal Government Act* states that: “No person shall be appointed as auditor who, at any time during the fiscal year in which the auditor is appointed, is or has been:

(i) a council member;

(ii) a contractor[9] hired by the Municipality; or

(iii) an employee of the Municipality (exception: an auditor may be reappointed); or

(iv) in order for a registered municipal auditor to provide services in addition to those as a municipal auditor, it is recommended that council pass a resolution authorizing the appointment for the required service and that the registered municipal auditor supplement this resolution by an engagement letter confirming the terms of the appointment. Financial advice of an ongoing nature provided during the year by the auditor will not require a resolution of council.

5(3) Municipal Audit Committees

5(3)(a) General Requirements

(i) **Audit Committee Requirement** – Municipalities and villages in Nova Scotia have a significant degree of public accountability. All municipalities and villages must establish an audit committee. The duties of the audit committee can be performed by a separate committee or they may be delegated to an existing committee, such as the finance committee.

(ii) **Definition** – An audit committee acts as an advisory board carrying out critical review functions on behalf of council or village commission. The primary function of the audit committee is to assist council or village commission in fulfilling their oversight responsibilities related to quality and integrity of financial reporting along with ensuring the appropriate systems and controls for the proper recording of transactions and protection of assets are in place.

[9] **Please Note**: Clause 5(2)(c)(ii) has been interpreted by Municipal Affairs and Housing as enabling a registered municipal auditor to engage in management consulting functions and thereby provide additional services, such as water rate studies, amalgamation/annexation reviews and human resource advice. "Management consulting" includes investigating and identifying management and business problems related to the policy, organization, operational, financial, administrative, or technical aspects of organizations and recommending appropriate solutions.

(iii) **Policy Requirement** – The committee shall be constituted by a policy of council and village commission, which would provide the terms of reference of its responsibilities and functions. Please refer 3(5)(c) for required policy content.

(iv) **Authority and Access** – The audit committee should have unrestricted and complete authority to delve into any affair of the municipality or village, with full access to the management and municipal auditor.

(v) **Reporting Requirement** – The audit committee must maintain minutes of its meetings and submit written reports to council or council as a committee of the whole or village commission.

5(3)(b) Audit Committee Purpose

The objectives of an audit committee are to:

(i) help council or village commission meet its fundamental responsibilities of protecting the municipal assets and managing operations as efficiently as possible;

(ii) provide better communication between the auditor and council or village commission, and promote better understanding of the audit process;

(iii) enhance the external auditor's independent position;

(iv) increase the credibility and objectivity of the municipality's or village's financial reporting; and

(v) strengthen the role of council or village commission and committee members.

5(3)(c) Audit Committee Composition

(i) The audit committee must be composed of at least three members.

(ii) The audit committee membership may have elected members from the council or village commission; however, subject to 5(3)(c)(iii), an audit committee must include a minimum of one independent person who is not a member of council or village commission or an employee of the municipality/village. This person cannot be related to a member of council or village commission or to an employee of the municipality or village.

(iii) Where an audit committee does not include the person referred to in subsection (ii): the audit committee shall continue to meet and perform its duties and may exercise its powers; and the municipality shall advertise to recruit an independent person who is not a member of council or village commission or an employee of the municipality or village at least once every six months until the requirement is met.

(iv) Audit committee members should be financially literate[10]. It is recommended that at least one of the committee members should have a financial designation or relevant financial management expertise.

(v) Each audit committee member must complete training as prescribed by the department.

5(3)(d) Meeting Requirements

(i) An audit committee should convene whenever circumstances demand such a meeting; however, the committee must meet at least twice in each fiscal year.

(ii) It is recommended the audit committee meet at least four times, and the meeting should coincide with the stages of the audit. The following topics are recommended to be included on the audit committee's agendas:

(A) role and responsibilities of the auditor;

(B) review of the roles and responsibility of the audit committee;

(C) appointment of municipal auditor;

(D) quarterly financial information;

(E) audited Financial Statements and auditor's work;

(F) management or Internal Control letter and management's response;

(G) adequacy and effectiveness of internal controls;

(H) financial condition indicators; and

(I) financial risk management.

(iii) There is a requirement that audit committee meeting dates be specifically established and agendas developed to address its terms of reference and responsibilities.

(iv) There will on occasion, be a need for the auditor to meet with the audit committee, without any appointed officials present. This would be accommodated through a request by either the committee or the auditor to one another.

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[10] Financially literate means the member can read and understand a set of financial statements which present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by a municipal or village financial statement.

5(3)(e) Audit Committee Responsibilities and Functions

The functions of a municipal audit committee can be categorized as follows:

(i) **Financial Reporting Function** – Responsibilities Related to the Financial Reporting

The Committee shall:

(A) review the audited annual financial statements in depth with management and the external auditor; if satisfied that they present fairly the financial position and results of operations, recommend their acceptance to council or village commission;

(B) review with management any changes in accounting principles and practices followed by municipalities or village commissions;

(C) review any significant variance in comparison to prior year and/or budget; and

(D) review and discuss the financial condition indicators.

(ii) **External Audit Function** – Responsibilities Related to the Work of the Auditor

The Committee shall:

(A) discuss the extent, timing and completion of the audit including the level of materiality to be used;

(B) review estimated and final audit fee;

(C) discuss whether the terms of the letter of engagement were met;

(D) recommend to council or village commission the change of the municipal auditor if management questions the competence of the incumbent auditor and the committee confirms the view; the recommendation to appoint a new auditor would follow an adequate inquiry into the auditor's competence and reputation;

(E) review the problems and restrictions encountered by the auditor and degree of cooperation received; and

(F) promote cooperation between the management and the auditor.

(iii) **Accounting System and Internal Controls Function** – Responsibilities Related to Internal Controls

The Committee shall:

(A) obtain and review the management and internal control letter addressed to council or village commission;

(B) discuss with the auditor the annual evaluation of the internal control systems related to the financial reporting and the recommendations for improvements of accounting procedures and internal controls related to the financial reporting, together with management’s response;

(C) discuss management’s response to the recommendations and adequacy of management’s action plan;

(D) obtain reasonable assurance that the municipality or village has implemented appropriate systems of internal controls:

(I) Over the financial reporting and that these systems are operating effectively;

(II) Obtain assurance the municipality or village is in compliance with its policies and procedures and that these systems are operating effectively; and

(III) Identify, monitor, mitigate and report significant financial or operational risk exposures and that these systems are operating effectively; and

(E) receive and review any internal reports relating to accounting procedures and internal controls.

(iv) **Risk Management Function** – Responsibilities Related to Risk Management[11]

The Committee shall:

(A) understand the risks of the municipality or village;

(B) review the municipality or village risk management controls and policies;

(C) obtain reasonable assurance that management’s systems to eliminate or manage the risks are effective; and

(D) receive reports on the management of financial risks.

(v) **Alleged Wrongdoing Function** – Responsibilities Related to Questionable Activities

The Committee shall:

(A) enquire fully into any activities or transactions that may be illegal, questionable or unethical, and into the municipality's or village’s control procedures to ensure that such activities are being guarded against;

[11] These functions could be prepared by another sub-committee; however, the audit committee should be aware and understand the risks to the municipality or village.

(B) ensure management has implemented a policy and/or process to review and respond to complaints or allegations of wrongdoing or questionable acts by elected officials, or municipal/village employees; and

(C) review and advise council or village commission members with respect to complaints or allegations of wrongdoing.

(vi) **Statutory and Regulatory Compliance Function and Other Responsibilities**

The Committee shall:

(A) review the municipality or village's compliance with statutory and regulatory obligations within the Committee's area of responsibility (for example reporting compliance);

(B) review the overall reasonableness of expenses of the Clerk/CAO and of council members or village commission members and Village Clerk. Specifically, review the summary of remuneration and expenses schedule for reportable individuals for reasonableness;

(C) review the annual summary hospitality expense note; and

(D) review adequacy of staffing in relation to both number and competence for accounting and financial responsibilities.