



Meeting Date: June 18, 2025

Prepared By: Tiffany Farrell, Director of Corporate Services

Submitted by: Tiffany Farrell, Director of Corporate Services

Report No: CPS-32-2025

Subject: Financial Statements 2024

Recommendation:

THAT Report CPS-32-2025 re: Financial Statements 2024 be received for information.

Purpose:

To provide Council with information on the 2024 financial statements.

Background:

As per the Municipal Act, 2001, Section 294.1, Financial Statements must be issued, be audited, and be made publicly available. Financial statements are audited yearly by a professional accounting firm to ensure that they provide an accurate presentation of the Municipality's financial position. They are prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Once approved by Council, the financial statements are posted on the municipal website, and hard copies are available at the front desk of the municipal office.

Financial statements provide information on a municipality's financial activities and balances for the period. Financial statements also provide information on a municipality's financial position in terms of its assets and liabilities, its net financial resources (called net debt), accumulated surplus or deficit, and its tangible capital assets and other non-financial assets. Financial statements reflect the outcomes of activities that create revenue and incur expenses to determine whether the municipality operated in a surplus or a deficit for that period.

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 debt, how municipal activities were financed, and how cash requirements were met. Financial statements should include a statement of financial position (referred to as the balance sheet in the private sector), a statement of operations (referred to as the income statement in the private sector), a statement of change in net debt and a statement of cash flow. Additional supplementary information is provided in schedules and notes to the financial statements.

The municipality's audited financial statements are prepared on the full accrual basis of accounting. All revenues are recognized as becoming available and measurable. Expenditures are recognized as being incurred and measurable as a result of receipt of goods and services and the creation of a legal obligation to pay.

On April 3, 2024 Council approved the appointment of Scrimgeour & Company CPA Professional Corporation as the external auditors for the Municipality of Middlesex Centre for the fiscal year ends 2024-2028 in [Report CPS-22-2024 Auditor Appointment](#).

Analysis:

Process

The municipality's fiscal year ends on December 31 and is subject to an annual audit. Municipal staff work closely with the external auditor to provide all required documentation and support throughout the audit process. The audit typically takes place in May, and the draft audited financial statements are presented to Council for review and approval in June. The auditor assesses whether the financial statements fairly present the municipality's financial position and results of operations in accordance with Public Sector Accounting Standards (PSAS). The auditor's opinion is included in the published financial statements. As part of the audit process, the auditor also provides a management letter that outlines any issues identified and offers recommendations for improving internal controls and financial reporting practices.

Financial Statements vs. Budget

It is important to recognize that the audited financial statements will differ from the annual budget. The budget is prepared on the modified accrual basis which combines aspects of the accrual basis and cash basis of accounting. The basis for budgeting differs from the municipality's audited financial statements that are prepared on the full accrual basis of accounting under Public Sector Accounting Board (PSAB) guidelines. Middlesex Centre's budget is converted to full accrual- based accounting in the following way:

- The Operating Fund is reflected in the Statement of Operations (which is adjusted to reflect interest on debt only), amortization expense, gain or loss on disposal of tangible capital assets, post-employment benefits and asset retirement expenses (effective in 2023 as per PSAB 3280).

- The Capital Fund is reported through the Tangible Capital Asset accounts in the Statement of Financial Position as per PSAB 3150.
- Reserves and Reserve Funds are reflected in the Statement of Financial Position as “Accumulated Surplus”.

Table: Differences between the budget and financial statements

Description	Cash Accounting Treatment	Full Accrual Account Treatment
Tangible capital assets (TCA) and amortization of tangible capital assets	Tangible capital assets and amortization are not included in the budget. All capital expenditures are expensed in the year it occurred.	Tangible capital assets are included in the statement of Financial Position (Balance Sheet) at the net book value (NBV), (NBV = Historical cost less accumulated amortization). Annual amortization is expensed under the Statement of Operations (Income Statement).
Accumulated surplus / (deficit) from operations	The Statement of Financial Position does not contain the Accumulated Surplus/ (Deficit) from operations but includes only the Fund Balances such as operating fund, capital fund and reserve fund	Statement of Financial Position shows an accumulated surplus/(deficit) consisting of all fund balances at a consolidated level. Funds include reserves, boards, and TCA's.
Revenue recognition	Revenue is recognized when received.	Revenue is recognized when earned.
Revenue/ expenditures	Statement of Operations shows revenues/expenditures for capital, operating and reserves.	Revenue and expenditures shown on the Statement of Operations and capital expenditures are shown on the Statement of Financial Position as assets.

Overall, the amounts approved in the municipality’s annual budget will not directly align with the final audited financial statements. This is primarily because the budget is a planning tool prepared on a modified cash basis and often excludes certain accounting items such as amortization, accruals, and changes in liabilities or reserves. In contrast, the audited financial statements are prepared in accordance with PSAS, which follow an accrual-based accounting framework. As a result, timing differences, accounting adjustments, and year-end entries can create variances between budgeted figures and actual results.

It’s important for both Council and the public to understand that these differences do not reflect errors or mismanagement, but rather the use of different accounting methods for different purposes. Staff are available to explain these differences in more detail and can provide reconciliations or summary comparisons to help clarify how the budget relates to the audited financial results.

Financial Implications:

N/A

Strategic Plan:

This matter aligns with following strategic priorities:

- Responsive Municipal Government

This report responds directly to Objective 5.3 – Foster a culture of innovation, continuous improvement, and cost-effective services by sharing information and gathering input, by continuing our timely and effective communication to the public.

Attachments:

N/A