

<b>Financial Management Guide</b>	Community Management Handbook Series	
	Effective Date	September 2002
	Revision Date	January 2020
	Page Number	Page 1 of 54

## Introduction

This is a reference manual to guide and explain relevant administrative and financial management procedures for use by community administrative officers (CAO's).

This manual covers the following topics: administrative, financial, budgeting and coding, and related appendices. Some sections reference policies contained in the *Northern Affairs Manual of Policies and Procedures* (NAMPP). Keep this manual in the office for easy reference.

The procedures outlined in this manual represent a means to achieving the objectives of accurate financial reporting and sound financial management. Audits determine whether the objectives have been achieved rather than whether specified procedures have been followed.

Other resources that complement this manual are the *Sage 50* (formerly known as Simply Accounting) *User's Guide* and the *Accounting Training Manual*.

When revisions to this manual are made, updates will be posted to the Manitoba government website <https://www.gov.mb.ca/inr/resources/community-docs.html> or available on the forms portal <https://residents.gov.mb.ca/forms.html> for communities to access and print required copies. Notification will be provided to the community by letter indicating reason for revisions.

<b>Financial Management Guide</b>	Community Management Handbook Series	
	Effective Date	September 2002
	Revision Date	January 2020
	Page Number	Page 2 of 54

## Contents

### Administrative

Community Administrative Officer Responsibilities	Page 4
Activities/Yearly Calendar Checklist	Page 5
New Fiscal Year Procedures	Page 8
Meeting Management	Page 9
Resolutions	Page 11
Bylaws	Page 12
Filing	Page 15
Receiving and Handling Mail	Page 17
Inventories	Page 17
Records Retention	Page 18

### Financial

Accounting System	Page 20
Financial Statements	Page 21
Revenue	Page 22
Expenditures	Page 23
Receipts	Page 24
Bank Deposits	Page 25
Payroll	Page 25
Reserves	Page 27
Accounting for Capital Projects	Page 29
Surplus	Page 30
Bad Debt Expense/Allowance for Doubtful Accounts	Page 31
Year-end and Other Entries	Page 32
GST	Page 34
Cash Flow	Page 35
Tangible Capital Assets	Page 36

### Budgeting and Coding

Introduction	Page 45
Preparing the Budget	Page 46
Account Contents – Revenues and Expenditures	Page 46
Balance Sheet Accounts	Page 51
Allocation Standards	Page 53

<b>Financial Management Guide</b>	Community Management Handbook Series	
	Effective Date	September 2002
	Revision Date	January 2020
	Page Number	Page 3 of 54

## Appendix

Appendix A – Community Administrative Officer (Bylaw and Resolution)

Appendix B – Role of Chair

Appendix C – Agenda (Regular and Special Meeting)

Appendix D – Regular Meeting Minutes

Appendix E – Certified Resolution

Appendix F – List of Bylaws

Appendix G – Sample Organizational Bylaw

Appendix H – Sample:

- Procedures Bylaw
- Rules of Procedure (Unincorporated Communities)
- Council Member’s Code of Conduct

Appendix I – Combination Numeric and Subject Filing System

Appendix J – Balance Sheet

Appendix K – Income Statement

Appendix L – Statement of Cash Flows

Appendix M – Project Report for Administration Program

Appendix N – Schedule of Locally Generated Revenue

Appendix O – Schedule of Reserves

Appendix P – Schedule of Tangible Capital Assets

Appendix Q – Employee or Independent Contractor

Appendix R – Sample Financial Reserve Bylaw

Appendix S – Cash Flow Projection

Appendix T – Budget Form

Appendix U – Chart of Accounts

# Financial Management Guide

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## Administrative

### Community Administrative Officer Responsibilities

The position of the community administrative officer (CAO) is established per subsection 132(1) of The Northern Affairs Act. Unincorporated communities establish and appoint a person to this position by resolution and incorporated communities by bylaw per subsection 132(2) of the act. A sample CAO bylaw and resolution is provided in Appendix A. The CAO's responsibilities and administrative duties are outlined in the act, under subsection 134(1) and (2) and provided below as a quick reference.

The CAO is the administrative head of the community and is responsible for:

- ensuring the policies and programs of the community are implemented
- advising and informing the council on the operation and affairs of the community
- except as the council may decide otherwise, the management and supervision of the employees of the community
- carrying out the powers, duties and functions assigned to a community administrative officer by the council or by this or any other act
- notifying the council if money of the community is spent or invested contrary to a bylaw or resolution of this or any other act

Per subsection 135(1) of the act, if the CAO provides notice to council under subsection 134(1)(e) which is the last bullet above and council does not within a reasonable time rectify the matter, the CAO **must** give the minister written notice of the matter as soon as is reasonably possible.

The CAO must ensure that:

- the minutes of every council meeting are made without note or comment
- the bylaws and minutes of council meetings and all other records and books of account of the community are kept safe and in accordance with section 139
- the revenues of the community are managed in accordance with the act
- money belonging to or held by the community is deposited in the bank, credit union, caisse populaire or trust corporation designated by the council
- the accounts for authorized expenditures of the community are paid
- accurate records and books of account are kept of the financial affairs of the community
- monthly, the council of the community is provided a financial statement of the community reflecting its financial activities for the preceding month
- any information requested of the community by the minister is provided within a reasonable time

## Activities/Yearly Calendar Checklist

### Daily:

- √ receive and handle mail
- √ keep filing up-to-date
- √ issue receipts for funds received
- √ pay recurring bills as authorized
- √ complete purchase orders
- √ check data integrity and backup accounting files

### Weekly:

- √ bank deposits, if cash is greater than \$200
- √ check data integrity and backup accounting files

### Bi-weekly:

- √ payroll

### Monthly:

- √ remit to Receiver General
- √ remit for Municipal Employees Benefit Program (MEBP) (no later than 10 working days after the last pay period)
- √ prepare bank reconciliations for all accounts, including reserves
- √ reconcile allocations
- √ submit reports to the department as required per policy
- √ prepare cash flow, if required
- √ remit property tax revenue
- √ send out monthly invoices: water, solid waste, pumpouts, etc.
- √ follow-up on accounts receivables/payables
- √ receive reports from fire department, community safety officer program, council employees/council members attending meetings/training/workshops, etc.
- √ check data integrity and backup accounting files (store off site)
- √ prepare financial statements

### Quarterly:

- √ submit financial statements to department
- √ submit payroll report to MEBP administrator

### Annually:

- √ conduct physical inventory (recommend this be done in conjunction with September infrastructure audit)
- √ prepare year-end financial statements
- √ complete inventory count requirement for year-end financial statements, ex. gravel, fuel, chemicals
- √ submit copies of T4's and T4 summary to MEBP administrator

### Council Meeting Preparation:

- √ prepare and distribute agenda and supporting documents in a timely manner
- √ distribute minutes from previous meeting
- √ prepare and present current financial statements (includes bank reconciliation)
- √ prepare list of outstanding accounts payables/receivables
- √ prepare correspondence

Following Council Meetings:

- √ prepare minutes
- √ pay approved bills
- √ prepare certified resolutions and forward as required
- √ prepare correspondence replies, etc., as directed by council and forward as required

Important dates are highlighted on the yearly calendar provided in Appendix F2-A – Reporting Requirements and Community Calendar of the *Northern Affairs Manual of Policies and Procedures* (NAMPP). The NAMPP is referenced throughout the guide and is another important resource for your use.

- January:
- √ prepare new TD1's (federal and provincial)
  - √ file for goods and services tax (GST) refund, if applicable
  - √ submit community management plan (CMP), including budget, by the 31<sup>st</sup>
  - √ appoint auditor for current fiscal year by the 31<sup>st</sup> (see subsection 153(1) of the act) and advise minister of appointment (in applicable years)
  - √ submit third quarter financial statements by the 30<sup>th</sup> (Oct. to Dec.)
  - √ submit quarterly payroll report to MEBP administrator
  - √ submit Waste Reduction and Recycling Support (WRARS) levy payment to Manitoba Conservation and Climate by the 30<sup>th</sup>
- February:
- √ T4's to be issued no later than last day of this month
  - √ submit copies of T4's and T4 summary to MEBP administrator
  - √ analyze firefighter payments over \$1,000
  - √ complete Workers Compensation Board (WCB) annual return
  - √ post tenders for next fiscal year
- March:
- √ renew employee job descriptions for next fiscal year
  - √ resolution for recurring bills, signing/purchasing authority
  - √ set rates for hall rental, water and wastewater/solid waste, pumpouts, etc.
  - √ award contract(s) for tenders posted in February
  - √ ensure all bank deposits are done by last day of the month for year-end
  - √ complete inventory count requirement for year-end financial statements
  - √ prepare year-end entries (includes amortization)
  - √ submit community emergency plan to department by the 31<sup>st</sup>
  - √ submit bill backs to department for the fiscal year
- April:
- √ submit year-end financial statements by the 30<sup>th</sup>
  - √ file for GST refund, if applicable
  - √ ensure no balances remain in the unallocated program report
  - √ receipt of tangible capital asset (TCA) entries from department by the 15<sup>th</sup>
  - √ prepare schedules for auditor (including honorariums, other payments reports)
  - √ review accounts receivable for uncollectible accounts for allowance for doubtful accounts year-end entry
  - √ submit quarterly payroll report to MEBP administrator
- May:
- √ review the maintenance cost analysis (MCA) and request necessary adjustments for next fiscal year by the 30<sup>th</sup>

- June:
- √ send financial records to audit firm
  - √ install Sage 50 payroll updates, if applicable
  - √ submit copy of T4 summary page and all T4 slips to MEBP administrator
  - √ receipt of revenue confirmations from department by the 15<sup>th</sup>
- July:
- √ file for GST refund, if applicable
  - √ submit first quarter financial statements by the 30<sup>th</sup> (April to June)
  - √ submit quarterly payroll report to MEBP administrator
  - √ submit WRARS levy payment to Manitoba Conservation and Climate by the 30<sup>th</sup>
  - √ complete WCB revisions for estimates
- August:
- √ follow-up with auditor for review of draft financial audit
  - √ schedule exit audit meeting with auditor and notify your municipal development consultant (MDC)
  - √ ensure senior election official is notified of upcoming regular election (in applicable years)
- September:
- √ initiate pre-planning of CMP
  - √ infrastructure audit done (recommend the annual physical inventory be conducted in conjunction)
  - √ start to update hard copy of community inventory report as sent by the department due November 1 (inventory day is second Wednesday)
  - √ post prior year-end and adjusting entries and reversing entries in new year, if applicable
  - √ ensure trial balance report balances to auditor's trial balance for prior year-end
  - √ if operating deficit incurred (per financial audit report), submit deficit recovery plan for approval to department by the 30<sup>th</sup>
- October:
- √ file for GST refund, if applicable
  - √ regular election held (in applicable years on the fourth Wednesday)
  - √ submit second quarter financial statements by the 30<sup>th</sup> (July to Sept.)
  - √ submit quarterly payroll report to MEBP administrator
  - √ renew vehicle registrations by month-end
- November:
- √ needs assessment carried out by the department and community
  - √ submit updated hard copy of community inventory report by the 1<sup>st</sup> to the department
  - √ ensure newly elected council members file their oath of office and statement of assets and interests form prior to entering on the duties of a council member (in applicable years) and upon receipt forward **a copy only** (file the originals) of the oaths to the principal electoral officer (PEO) and conflict of interest forms to the department
  - √ conduct council orientation at a regular council meeting (in applicable election year or following a by-election)
  - √ review council rules of procedure and approve amendments, if any
- December:
- √ order T4's and T4A's from Canada Revenue Agency (CRA)
  - √ send request for proposals to audit firms (in applicable years)
  - √ prepare draft CMP for council review
  - √ install Sage 50 payroll updates, if applicable

## **New Fiscal Year Procedures**

### **Definition**

Fiscal year commences April 1 and ends March 31.

### **Request Year-end Approvals**

See Policy F2 – Local Government Services Program of the NAMPP for more detail.

### **Audit Preparation**

The community, department and auditor all have a role to play in ensuring the audit deadline of August 31 is met. The auditor will send the community a written request of the community records required to complete the audit at least four weeks prior to the date the records are required. The department will provide the community the TCA entries by April 15 and the revenue confirmations by June 15. Be prepared to send the following to the auditor by June 1: backup copy of Sage 50 files (ensure last year's adjusting entries have been posted), year-end financial statements, honorariums and other payment reports, all files for the year (including supplier invoices and purchase orders, monthly bank statements and cancelled cheques, receipts and deposit books, MEBP files, receiver general remittances - payroll and GST, council minutes and resolutions), copies of all current year invoices, bank statements and receipts for April, May and June and any other records requested by the auditor.

Always respond to an auditor's inquiries or requests for additional information in a timely manner. The auditor will provide a draft audit, usually late July to early August, for review in advance of the required exit interview. Follow-up with the auditor in mid July regarding the financial audit to meet the August 31 deadline for receipt of the audit. In early August, follow-up with the auditor for the financial audit exit interview and notify the MDC of the date. The MDC will review the draft audit for changes with the CAO and report changes to the auditor and ensure they are reflected in the final audit.

### **Filing**

When all year-end procedures are completed, archive old year files and start new year files. Files need to be retained as specified in the Community Records Retention regulation, as referenced later in this guide in more detail under records retention.

### **Tenders**

Where council tenders for a community service, post tender for a minimum of 10 days during the latter part of February, open tenders during the last meeting in March of each year and award. Examples of services that may be tendered include solid waste pickup, waste site maintenance or custodial service.

Tender notices should include terms of work/service required, equipment (if applicable), deadline of tenders, when and where they can submit.

### **Employee Job Descriptions**

During the last meeting in March of each year, council should review all employee job descriptions and approve any changes by resolution. This would include:

- community administrative officer/assistant community administrative officer(s)
- public works employee(s)
- community safety officer
- water and wastewater delivery/operator(s)
- recreation director
- others required by each council

## **Approvals**

At the last few meetings of the fiscal year, council should approve the following for the new fiscal year:

1. Payment of recurring expenses (regular salaries, hydro, phone, minister of Finance, Receiver General, etc.).
2. Set pay rates for all community employees, including a casual labour rate.
3. Approve authority for signing purchase orders and setting the maximum amount for purchase orders.
4. Set rates for hall rental (and rental of any other business or equipment operated by council), water rates, wastewater pumpouts and any other services provided by council.
5. Review volunteer firefighters list and approve wage rates.

## **Meeting Management**

Effective meetings require proper planning and a purpose. Every meeting requires an agenda and an assigned chair to conduct the meeting accordingly. Normally, the mayor chairs all meetings, but in their absence a designate must be chosen. More information on the role of the chair is provided in Appendix B. The chair should follow parliamentary procedures at each meeting to maintain order and control. A good resource on parliamentary procedures available for purchase is *Robert's Rules of Order*.

### **Preparation of the Agenda**

The CAO is responsible for preparing and distributing the agenda prior to the meeting. An agenda is a list of items to be addressed by council and is necessary for the orderly and effective conduct of the meeting. Agenda approval should be the second item on the agenda. Once the agenda is approved (added to or deleted from) at the opening of the meeting, unanimous consent of the council is required to amend it during the meeting.

Consider the following in preparation of the agenda:

- Put the start and finish time on the agenda.
- Avoid listing Any other business on the agenda, as it is an invitation to waste time. Unexpected items should be added to the agenda at the beginning of the meeting.
- Be specific when outlining agenda items rather than stating topics. For example, use Approve previous meeting minutes as opposed to Minutes. The meeting will be simplified and shorter.

Examples of an agenda for a regular and special meeting are provided in Appendix C.

## **Meeting Preparation**

Prepare and distribute in a timely manner to council the following (preferably 48 hours prior to the meeting, as this allows council members ample time to plan and prepare for the meeting):

- proposed agenda
- minutes of last meeting(s) for approval and signature of the chair (resolution of approval should note date of meeting(s) being approved)
- background information on all agenda items (otherwise it will be difficult to discuss them)
- up-to-date financial statements (including bank reconciliation) for review and approval (resolution of approval should note date of financial statements being approved)
- up-to-date list of accounts receivables/payables for review and approval
- list of recurring accounts paid since last meeting for approval
- all invoices (non-recurring) received since last meeting for review and approval (or rejection) of payment
- correspondence received since last meeting (can include substantive emails and attachments)
- information on any ongoing projects, etc., and any other information previously requested by council

## **Duties at Council Meetings**

- Ensure the chair establishes a quorum before proceeding. A quorum is the majority of the council members, or if a position is vacant, a majority of the remaining members.
- Upon approval of the minutes by resolution, have the chair of the meeting sign the minutes.
- Record minutes of the meeting (usually in draft form).
- Record accurately all decisions made by council in resolution form. Read the written resolution back to council prior to council's vote on the resolution. No council member can individually make decisions for council; motions must be moved, seconded and voted on. Note in the minutes whether the resolution has been carried or defeated by council as a whole. Carried resolutions become a legal binding action of council. Decisions must be made by a majority of council members present at the meeting.
- Note all decisions of council that require follow-up, ex. correspondence to be handled, information to be obtained, etc.
- Assist council in decision making by being familiar with legislation, regulations and policies under which councils operate (ex. The Northern Affairs Act, Council Compensation regulation, NAMPP) and provide well-researched reports containing options and a recommended course of action to address issues.

## **Duties Following Council Meetings**

- Prepare the minutes in final from draft made at the meeting. The minutes should correspond to the agenda, even though at the actual meeting the order of business was changed. For example, a delegation may be late in arriving and although they are third on the agenda, they do not make their presentation until the end of the meeting. In the minutes, this delegation would still be the third item.

- Prepare and have the chair sign (if not done at the meeting) any certified resolutions arising from meetings. Submit these to persons or agencies indicated.
- Pay the accounts approved at the meeting.
- Handle any correspondence as requested at the meeting.
- Gather any information requested for the next meeting.
- Submit copies of minutes and resolutions as required to the department and post in a public place in the community. These can also be posted on the community website, if applicable.

### **Contents of Minutes**

Minutes should be accurate, legible and concise. They are the only record of council business and will be required for constant referral. You must therefore ensure:

- Minutes contain all items of the agenda, in the order as shown on the agenda.
- Resolutions are recorded exactly as read and voted on by council.
- Where no decision has been arrived at on an issue at the meeting, a statement is recorded that the topic has been discussed followed by one of these statements **No decision** or **Tabled to the next council meeting**. No details of the discussion should appear in the minutes.
- Only decisions of council as a whole are recorded in the form of resolutions. Unless specifically requested by a council member, no opinions of individual council members should be recorded in the minutes.
- When a specific council member is excused from discussion and/or vote on a specific issue because of conflict of interest, record in the minutes that this council member declared a conflict and refrained from discussion or vote. This council member must leave the meeting before discussion on the item begins, until a resolution is passed or defeated. See Policy G3 – Community Elected Official Providing Services to the Community on a Contracted or Purchase Basis and Policy G9 – Conflict of Interest of the NAMPP for further details.
- The following are part of and attached to the minutes: list of payments made since the last meeting, accounts payables/receivables list and approved monthly financial statements (including bank reconciliation).
- After being adopted and signed at the next regular meeting, file in a folder for minutes only and store in a current year file.

An example of regular meeting minutes is provided in Appendix D.

### **Resolutions**

A council may act only by bylaw or resolution as per subsection 107(1) of the act. If a council is required or authorized under the act or under a bylaw to do something without specifying that it be done by bylaw, the council may do it by resolution.

### **Definition**

Resolutions are the official and legal decision of council, duly approved by the majority of council members present at a meeting.

## **Resolution Contents**

Resolutions contain the following:

- a) number (ex. Resolution #1-13/14), starting at one at the beginning of the fiscal year, including a reference to the current fiscal year, continuing numerically until year-end
- b) names of persons making the resolution
- c) reason for the resolution (the Whereas portion)
- d) resolution itself (the Be it Resolved portion)
- e) decision (Carried or Defeated)

Generally, once the motion has been moved and seconded, discussion on both the pros and cons will occur. Once all council members have spoken on the motion, a vote is called.

In the event a council member wishes to have a vote recorded, they must make the request immediately after the vote is taken. All council members' votes are then recorded including any abstentions per subsection 122(2) of the act.

In the minutes, the resolution is followed by the word Carried or Defeated. Carried indicates the resolution is approved by the majority of council members that voted and is legally binding; otherwise the motion is defeated.

For unincorporated communities, the CAO must ensure a copy of each resolution council passes is filed with the minister. A resolution filed with the minister comes into force 14 days after the day it is filed, unless the resolution provides for a later date.

## **Certified Resolutions**

Certified resolutions, copied exactly from the minutes on a resolution form, are certified by both the chair and CAO. Resolutions, which affect or need the approval of persons or agencies outside of council, need to be certified and distributed to those persons or agencies. This is in accordance with subsection 230(1) of the act. File copies of the certified resolution in a certified resolutions folder. An example of a certified resolution is provided in Appendix E.

## **Resolution Index**

The CAO keeps an index of resolutions for quick reference.

## **Bylaws**

A council may act only by bylaw or resolution as per subsection 107(1) of the act. A council that is expressly required or authorized under a bylaw or the act or any other act to do something by bylaw may do it only by bylaw. Anything a council does by bylaw that may be done by resolution is not invalid because the council does it by bylaw.

## **Introduction**

Under the act per section 25, the minister may delegate bylaw making authority to unincorporated community councils by regulation. Regulation 253/2006 titled Procedures and Delegation of Bylaw Making Powers (Communities that are not incorporated) identifies general areas in which councils may enact a bylaw.

A list of bylaws a community has the authority to enact can be found in Appendix F. If a bylaw is required in an area with no delegated authority, the minister must make the bylaw on behalf of the community.

## **Requirements**

To be found valid and enforceable in the courts, a bylaw must:

- have legal authority
  - community councils may only enact bylaws under the delegated authority of the minister
  - incorporated communities enact bylaws under their own authority
- be enacted by three readings at properly convened council meetings with a quorum of the council present and authenticated in the manner required
  - community councils operating under the delegated authority of the minister have the bylaw authenticated by the registrar of the Bylaw Registry Office
  - incorporated communities are required to have the bylaw sealed and signed by the mayor or chair who presided at the meeting at which the final reading of the bylaw took place and at least one other council member (see section 111 of the act)
- be within the power or authority of the community and must not conflict with federal or provincial legislation
- be made in the interest and benefit of the residents of the community
- be reasonable and not discriminatory
- be clear in meaning
- meet all required procedural conditions before enactment
- be proclaimed to the public

A bylaw would normally become effective on the registration date, but a bylaw may include a clause specifying it takes effect on a specified date, some time after the enactment of the bylaw by council. For unincorporated communities, a bylaw filed with the minister comes into force 30 days after the day it is filed.

Council has the responsibility to ensure these requirements are met:

- fully consider all aspects of imposing restrictions on the rights of individuals or requiring individuals to take specific actions, for the common good of the community
- fully consider the protection of individual rights, so discrimination does not occur
- ensure the proposed actions of the bylaw are within council's authority to carry out
- consider how the bylaw will be enforced
- hold a public meeting, where required to do so by the act, to provide an opportunity for the public to make representations for or against the bylaw and to consider the effects of the comments given

## **Bylaw Standards**

Bylaws are prepared in a formal format, considering they become the permanent laws of the community. Community residents will be able to recognize the document as a bylaw of the community as it will contain the following standards:

- a) Number, Bylaw No. 1-13. Generally, numbered consecutively and include a reference to the year of enactment. The department assigns these numbers for all communities (except incorporated communities), so leave blank when drafting the bylaw.
- b) Title, with an introduction identifying the general purpose in simple and concise form.
- c) A preamble citing (or quoting) the authority under which the bylaw is being enacted. This can be in full quotation or by reference to the relevant legislation.
- d) The enacting portion begins with a phrase such as:  
*Now therefore, be it enacted as a bylaw of the [full name] Community Council duly assembled as follows:*
- e) The enacting clauses follow in sequence according to this order:
  - i) General provisions
  - ii) Special provisions
  - iii) Exceptions
  - iv) Enforcement
  - v) Penalties
  - vi) Repeal of former bylaws (where applicable)
  - vii) Closing (signature block)

### **Bylaw Process**

Refer to Policy G10 – Bylaw Procedure of the NAMPP for more details. Be familiar with the general bylaw procedures in order to give good advice to council and ensure the bylaw is properly enacted as legislated and in accordance to policy.

- Three separate readings of a bylaw is required and an amendment to the content of the bylaw can be made at any reading. No more than two readings of a bylaw may be given at one council meeting.
- Public participation is an important part of the process. Be aware of how, when and where public participation is required by legislation. This is to ensure community residents know when bylaws are being enacted. Public notice informs residents of their opportunity to learn about the bylaw and make representations on their concerns about the bylaw.
- In drafting a bylaw for council, it is your responsibility to know what government approvals are required for the bylaw and when they are required in the process. Ensure the bylaw is not contradictory to federal or provincial legislation.

The department has in draft form most of the applicable bylaws. Contact your MDC for the most current electronic version.

Where council has passed a bylaw to appoint election officials the CAO must forward a copy to the PEO (per subsection 9(2) of the Community Councils Election regulation 71/2009).

### **Promulgation**

Promulgation is the name given to the process of advising the public of the enactment of a bylaw and the date it comes into effect. Copies of the bylaw must be posted in the community centre, community offices and at least two other places for two weeks. There is a specific form for the notice to be given to residents outlining their opportunity to use a legal procedure, called quashing, or having the bylaw declared totally or partially invalid, if they feel that the bylaw unfairly removes some of their rights.

## **Organizational Bylaw**

An incorporated community must pass an organizational bylaw and review it at least once during its term of office, per subsection 125(2) of the act. A sample is provided in Appendix G. Unincorporated communities may establish the organizational structure for the community and may establish one or more council committees and other bodies of the council and define their duties and functions and establish the manner of appointment of persons to council committees and other bodies per subsection 125(1) of the act.

## **Procedures Bylaw**

Council must govern itself in accordance with the procedures it adopts. An incorporated community must pass a procedures bylaw and review it at least once during its term of office. Unincorporated communities must adopt rules of procedure and must review its procedures at least once every four years. Samples of both are provided in Appendix H.

As per subsection 126(3) of the act, the procedures adopted by council must provide for:

- regular meetings of council, and the day, time and place of the meetings
- the type and amount of notice to be given of regular meetings of the council
- the procedure to be followed and type and amount of notice to be given to change the day, time or place of a regular meeting of the council
- rules respecting the conduct of council meetings and public participation at council meetings
- the type and amount of notice to be given of a special meeting of the council
- time within which a special meeting of the council requested must be called by the mayor and must take place

Council may provide for other matters in its procedures deemed necessary or desirable, including the conduct of meetings of council committees. A sample council member's code of conduct is provided in Appendix H. The purpose of such a code is to establish the standards and values that council members are expected to uphold in carrying out their duties under the act and to provide clear guidelines on acceptable behaviour in dealing with each other, employees and citizens. These are in addition to other rules already in place for council members, for example conflict of interest.

## **Filing**

A good filing system increases office efficiency and ensures the required information is easily retrievable with a minimum of time and effort. Filing is one of the most neglected aspects of administration. Care, thought and time put into a well-planned filing system will be to your advantage. In order for this to occur, a filing index is mandatory and should be kept current. A digital filing key should be developed for computer files as well with backups made monthly. The four different systems of filing that are commonly used are as follows:

The **alphabetical system** is where different subjects are filed in alphabetical order. This is appropriate for customers or vendors (suppliers).

The **subject system** is appropriate where the subject of the correspondence or records is most important, ex. grants, roads, government departments, etc. Use actual names relating to the subject matter.

The **geographical system** is appropriate in relation to matters involving land and properties. All units of land in the jurisdiction may be listed in an appropriate order and matters pertaining to each unit would be filed under its heading.

The **numerical system** is used to list unrelated information. Each file has a name and an index number.

Depending on the size and scope of council operations, the filing system will probably be a combination of two or three of the different systems. Decide on the combination that best suits your needs, based on the amount of correspondence and records that would be filed under each of the four systems. An example of a combination numeric and subject filing system is provided in Appendix I.

The following procedures for filing are suggested:

- set aside a certain time just for filing – filing could be done at the end of each task, daily or weekly, depending on the amount of correspondence to be filed
- mark each document with a file number and coloured or circled for easy identification
- sort and arrange material in convenient order – items such as bylaws, contracts, agreements and land files should be filed in a permanent section of the filing system
- remove paper clips since they are bulky and catch papers
- staple matching material together, with the response on top
- file the material with the latest date on top
- bulky articles, such as thick reports, booklets, catalogues, etc., should be filed in a separate cabinet
- files must remain in the office, unless requested for financial audit purposes only – make sure to keep a record of the files that are removed – if files are to be removed for any other purpose, it should be copies only; the originals should remain in the office
- at the start of each fiscal year, open new current year files and remove and archive old year files – items in the permanent section of the filing system must remain
- files of an ongoing nature should remain in current files, ex. non-expired agreements, subdivisions, etc.
- refer to the topic on records retention to determine how long specific files must be kept in accordance with the legislation

Be familiar with the requirements under The Freedom of Information and Protection of Privacy Act (FIPPA) when accessing and securing files. Council may receive a request for information under this act and any such requests must be handled in accordance with that act. The department's FIPPA coordinator can assist the community with this process.

## Receiving and Handling Mail

The CAO is responsible for handling and opening all incoming mail. Where there is no local post office, council should make a policy on mail pick-up procedures. It is recommended that an incoming mail log be kept to show the disposition for each item. Where council has assigned portfolios and an item pertains to a particular portfolio, a copy (not the original) should be passed on to the applicable council member.

All incoming correspondence must be date stamped when received. Respond promptly to routine matters. If correspondence is of a nature requiring council's attention, acknowledge same advising the writer when a reply might be expected. Correspondence is presented to council at the next regular meeting, by copy at least 48 hours prior to the meeting. Replies are per council decisions.

## Inventories

Council is responsible for inventory control in order to protect community assets and provide good management information. The purpose of submitting an accurate inventory update to the department is for insurance/replacement and financial statement purposes.

Principles of good inventory control include:

- assets should have adequate physical protection
- an inventory record must be kept of assets that are of high value and/or subject to theft
- the inventory record should be updated as additions and disposals occur
- conduct a physical count at least once a year
- compare results of the physical count to the inventory record at the date of the physical count – council should approve any identified variances
- ensure adequate insurance coverage exists by providing the department with an accurate annual inventory update, by the date required
- photograph or video building contents as evidence in the event of a loss and store off site

## Definitions

A physical count or inventory count is a listing of items and quantities found by actual counting of the items.

An inventory record is a list (or ledger) of all council assets. It will have columns for the cost, acquisition date and disposal date. Inventories should be retained permanently. It is recommended the community keep a computerized record of the inventory.

## Suggested Procedures

- results of the physical count are given to the CAO
- make a list of variances between the inventory count and the inventory record
- investigate all variances and any inventory count errors noted
- the revised variance list should then be approved by council resolution, which gives the

CAO authority to make the required adjustments to the inventory record

- if council is satisfied the variances are reasonable, no further action is required
- if council feels too many items are missing or damaged, council should ensure the measures to protect community's assets are increased, ex. more items locked up, a policy on use of community equipment, etc.

### **Categories (For insurance/replacement purposes)**

An asset may be classified into one of three categories. The department requires control over items in category A. Council may wish to maintain its own inventory control over items in categories B or C (main difference between B and C is often cost of the individual item).

#### **A. Permanent Inventory:**

Any item in the community which is not used up as it is used. Examples are roads, water and wastewater lines, buildings, heavy equipment (such as trucks, fire engine or snowplow), small equipment (lawnmower, Wajax pump), mechanical items, furniture, office equipment, appliances, etc. Includes all equipment with a value greater than \$500.

#### **B. Temporary:**

Any item located in the community that disappears or becomes part of a permanent asset as it is used. Examples are gravel stockpile, culverts, fencing, posts, plumbing supplies, building materials, fuel oil, gasoline, etc.

#### **C. Disposable Items:**

Any item located in the community that disappears as it is used. Examples are cleaning supplies, automotive parts (oil, filters, etc.), water plant items (pillows, filters, etc.), general office stationery supplies, fire extinguisher powder refills, etc.

### **Community Inventory Report Updates for Department Use**

The department maintains an accounting software containing each community's inventory. An asset listing is provided to the Insurance and Risk Branch of Manitoba Finance to protect the value of the assets. Each community is responsible for providing updates (both additions/deletions) on the hard copy community inventory reports, which are sent by the department September 1 of each year. Prior to November 1, submit the updated hard copy as requested, **no exceptions**, to the department. Ensure information submitted is correct, legible and meets all inventory reporting requirements requested by the department. It is recommended these updates occur in conjunction with the annual infrastructure audit carried out in September. To increase the accuracy of the inventory update, the annual physical count should also occur during this time (see Policy G8 – Community Inventory of the NAMPP for further details).

### **Records Retention**

A community must retain community records for at least the minimum retention period specified in the Community Records Retention regulation 68/2009. The following outlines the length of time various records be kept and destroyed.

Documents and records to be retained permanently:

- audit reports
- final assessment rolls (up to 1982)
- cemetery site plans/plot register/index
- committee reports
- dispositions
- general ledgers
- inventories
- minutes of council
- original bylaws
- environmental permits/licences
- resolutions
- tax collector rolls
- tax sales – warrant for sale
- workplace safety and health (WSH) minutes and reports

Documents and records that may be destroyed after the lapse of a period of 10 years:

- subsidiary ledgers
- general journals
- final assessment rolls (1983 and following)

Documents and records that may be destroyed after the lapse of a period of six years:

- disclosure of assets and interests
- payroll time sheets (bi-weekly)
- employee files (after a dismissal)
- payroll administration
- litigation (after decision)
- tax certificates
- tax collection receipts
- accounts payable and receivable
- banking
- agreements (after term expires)
- land support files (after bylaw repealed)
- land zoning files (after bylaw repealed)
- subdivision files (after plan registration)
- investments (past term)

Documents and records that may be destroyed after the lapse of one year:

- board of revision (after final decision)
- competition and hiring
- conditional use/variation orders (after ceases)
- copies of burial or exhumation permits
- employee files (after cessation)
- insurance claims (after resolution)
- monthly financial statements
- preliminary assessment rolls
- tax notices
- tax sales – general (after redemption or registration of title)

Documents and records that may be destroyed after the periods and subject to conditions indicated:

- election records - six months after election, unless court application filed
- official oaths of council members - expiration of term
- general administration - retain as required
- capital projects general - project completion plus one year
- insurance policies - term plus one year
- licences - term plus one year
- loans and cancelled notes - term plus one year
- personnel administration - two years or until suspended
- tax roll maintenance - two years
- budget working papers - three years

- grievance records - three years after final decision
- routine correspondence - three years
- annual financial statement - five years
- operations activities - five years
- WSH information system - 30 years
- MEBP and non-MEBP payroll records - 60 years
- equipment - lifetime of unit
- capital projects as built, facility O&M - lifetime of facility
- permits - lifetime of facility plus one year
- site monitoring - until site closed and requirements cease
- zoning memos/certificates of non-conformity - lifetime of structure
- administrative policies and procedures - until superseded

## Financial

### Accounting System

Financial statements are to be prepared using Sage 50 (formerly Simply Accounting) and selecting the accrual basis of accounting option. This is the most commonly used accounting method which reports income when earned and expenses when incurred, as opposed to cash basis accounting which reports income when received and expenses when paid.

Program accounting is used to accumulate costs by category. The department requires **at least** the following programs be set up (do not combine any program(s) listed below):

- Administration
- Public Works
- Water
- Wastewater
- Solid Waste
- Recreation
- Fire
- Community Safety Officer

These programs concur with the Local Government Services Program (LGSP) funding provided to communities annually by the department. Details on LGSP funding, is provided under Policy F1 – Funding Formula Overview of the NAMPP. New allocation programs must be created for all conditional funding from outside sources (ex. Career Start, Green Team) or to track costs for a particular program/project.

### Allocations

As a check, reconcile program expenditures to total expenditures monthly. It is important to ensure all expenses are allocated to the correct program. Councils need to be able to review program information to determine how much a program area is costing. This can only be done if the allocations are up-to-date and accurate.

A quick check on program allocations can be done on a monthly basis. From the reports button, select *journal entries*, and then *all*. Specify the dates to be checked (ex. Aug. 1 to

Aug. 31). Make sure the *show program allocation* button is turned on. Select *ok*. The system will now show all entries made for the month, including the allocations. Print and review the entries for accuracy. If you notice a mistake (either an incorrect allocation or an expense has not been allocated) you can now make the necessary adjustment.

### **Accounting Backups**

In order to ensure data is preserved, the following backup procedures onto memory storage devices are recommended:

1. Label five devices each with a different day of the week (Monday to Friday).
2. Backup data as per software instructions daily, using the appropriately labeled device for that day.
3. Label a device Monthly.
4. At the end of each month, backup data and store this device off site.

It is good practice in order to safeguard unwanted access to the council computer and to protect community data that the CAO assign a password. Never give out the password to anyone however, note it in a sealed envelope and lock it in the council filing cabinet in the case of an emergency.

### **Financial Statements**

The department requires the following documents annually:

- Statement of Financial Position (Balance Sheet) – Appendix J
- Statement of Operations (Income Statement) – Appendix K
- Statement of Cash Flows – Appendix L
- Project Reports for all Programs – Appendix M
- Schedule of Locally Generated Revenue – Appendix N
- Schedule of Reserves – Appendix O
- Schedule of Tangible Capital Assets (TCA) – Appendix P
- Aged Accounts Payable Listing
- Aged Accounts Receivable Listing

Appendices J to M contain examples of these statements generated using sample data. The example provided in Appendix M is for the administration program only. Appendices N to P contain examples of completed schedules for locally generated revenue, reserves and TCA, using sample data. The electronic version of blank forms is available by request to the department and contain all the necessary calculation formulas. To protect the formulas, it is recommended these forms be copied to a hard drive prior to use and retained as a master copy.

All year-end financial statements are to be submitted to the department **no later than April 30** of each year and monthly statements as required during the year. Audited year-end financial statements are **due by August 31 each year**.

The CAO is responsible for correct reporting and to make council aware of the financial position on a continuous basis. A thorough understanding of these statements is required to provide proper advice and interpretation to council as required. Council has overall

accountability for the financial position of the community and must ensure the community's finances are responsibly managed.

## **Revenue**

For an item to be considered revenue it must be earned. Therefore, GST refunds, recovery of overpayments/advances and all reimbursements are **not** revenue items. When these non-revenue items are received, reduce the related expenditure/asset by that amount. For example, if the reimbursement is for travel, then reduce the travel expenditure account. Revenue is considered earned when goods and services have been provided or the grant conditions have been met.

### **Department Funding – Local Government Services Program (LGSP)**

Once funding is finalized through the estimates process, the department will forward each community its annual funding schedule. The department will identify on the cheque stub whether the payment is for:

- operating funding
- reserve funding
- capital funding
- supplemental funding (if as a result of an invoice the invoice number will be recorded on the cheque stub)
- non-department funding such as the municipal operating grant, municipal taxes, etc. (each to be specified on the cheque stub)
- any amount(s) withheld, specifying the reason(s)

The process for recording revenue from the department is as follows:

- upon receipt of the funding schedule, set up a receivable for the operating portion of the LGSP funding amount
- upon receipt of the reserve funding cheque, allocate the funds received to the appropriate reserve liability accounts

### **Accounts Receivable (A/R)**

When revenue is recorded and the funds have not yet been received, the debit is to A/R.

### **Locally Generated Revenue (LGR)**

LGR is defined as:

- community revenue from service fees and other revenues
- the net revenue of property taxes, fees in lieu of taxes
- the net revenue of a community operation

**Service fees** relate to community services provided such as water delivery, wastewater pumpouts, water and wastewater fees for piped systems, solid waste pickup, etc. Where a water and wastewater system exists, it is recommended the fees reflect the higher level of service received by the residents.

**Other revenues** include user fees (ex. rentals for equipment and buildings, photocopy/fax charges), community license fees, interest revenue, gifts/donations, fine option program, proceeds from the sale of assets and fundraising revenue. Note: Expenses attributable to fundraising activity should be allocated to a fundraising program. Separate programs may be set up where desirable.

If the community has taxes in arrears, council should take appropriate action to pursue collection. This will benefit the community by increasing the LGR and enable council to meet or exceed the 20 per cent minimum requirement under LGSP funding.

**Community operations** are services provided by council that are **not** funded by the department. These may include for example, trailer court, park or ferry operation. Community operations with net revenue are considered LGR. Council should seriously consider the risk of an activity losing money prior to approving community involvement.

All LGR needs to be reported in the proper section of the financial statement, which is the heading titled User Fees and Other Revenue, to assist in meeting or exceeding the 20 per cent requirement. This will also provide better representation of the financial position of the community and assist council with decision making. It is important that you do not code revenues under this section that are not locally generated funds. For further detail on LGR, see Policy F2 – Local Government Services Program of the NAMPP.

## **Expenditures**

### **Overview**

Expenditures are costs to council for goods and services received. The expenditure process has the following stages:

1. Expenditure (Purchasing) Approval
2. Receipt of Goods or Services
3. Payment Approval
4. Payment (Issuing Cheques)

### **1. Expenditure (Purchasing) Approval**

Council has sole authority to commit council to an expenditure, so only council can approve an expenditure, unless it has by resolution delegated this authority. The person(s) who has (have) been delegated expenditure approval, use this authority by completing a purchase order. Purchase Orders (PO's) are used to provide:

- control over purchases
- a record of commitments from council funds

Council should, by resolution at the last meeting in March, delegate who and what limits person(s) may purchase goods or services on behalf of council for the upcoming fiscal year. All purchases over and above the set limits require a separate resolution from council.

Councils have Purchase Order Books and these are to be used for all purchases made by community employees who have been delegated purchasing authority. The first copy of the PO is provided to the CAO to keep in a file awaiting the invoice. Verify that an authorized

person signed the purchase order. The second copy should remain in the purchase order book in numerical order. If a PO is cancelled the original should be filed with the first copy. A PO should be pre-numbered and include: name and address of supplier, name and billing address of purchaser, quantity/description/price of items purchased, authorized signing authority, minimum of two copies (preferably three) and include account code and program.

Monitor PO's issued and refer any PO's not meeting the guidelines to council. Review the outstanding PO file periodically to ensure the goods and invoices have been received and follow-up on long outstanding PO's.

## **2. Receipt of Goods or Services**

The individual who receives the goods or services should stamp received and sign the packing slip/invoice.

## **3. Payment Approval**

Match the invoice details with the packing slip, and the first copy of the PO and check that the quantity, description and prices on the invoice, packing slip and purchase order match.

After the invoices have been checked, the first copy of the PO and packing slip is attached. The accounts payable listing is presented to council for payment approval. In addition, the list of cheques issued since the last council meeting is presented to council for review.

## **4. Payment (Issuing Cheques)**

For non-recurring payments, record cheque number on the list of payables approved for payment by council, which is attached to the minutes. Record cheque number, journal entry and payment approval authority on the invoice.

When cancelling a cheque, reverse the cheque, mark **void** and file the cheque in a Void Cheque file or with the returned cheques in the same month as the cheque was written.

As good management practice, ensure cheque recipients are not an authorizing signature on the cheque and **do not** pre-sign cheques. Before signing a cheque, delegated signing officers must ensure that there is evidence that the transaction for which payment is being made is complete, accurate and authorized.

Evidence, which forms an appropriate management audit trail, will be in the form of an invoice, purchase order, timesheet or council resolution and will accompany the cheque to support the payment and to ensure the transaction meets the above criteria for completeness, accuracy and is properly authorized.

## **Receipts**

All cash, including cheques and money orders, must be recorded as soon as it is received. The debit is to account 1020. Upon receiving a cheque or money order, stamp on the back **for deposit only**, write the account number and the name of council. The reason being, if the cheque gets lost or stolen it cannot be cashed.

It is mandatory that receipts be printed or issued manually. Receipts are to be pre-numbered and the receipts book stored in a safe place.

## **Bank Deposits**

Deposit all funds received once a week, if the amount of cash on hand exceeds \$200. Deposit slips are obtained from the bank. The journal entry recording the deposit should bring the account balance of 1020 to zero.

Bank reconciliations are required monthly. This is one of the most important procedures related to good financial management and is covered in more detail in the *Accounting Training Manual*. A bank reconciliation:

- provides information in regards to the differences between the bank statement and an entity's records and assurances that all transactions that have passed through the bank have been recorded in the entity's records – the bank statement acts as an audit trail
- helps identify bookkeeping errors and in rare cases bank errors

## **Payroll**

The purpose of payroll is to have an established system or system of control on how community employees will get paid. Wages are not to be paid, unless the employee has been hired in accordance with council's hiring policy and an approved time sheet has been submitted. To assist in determining whether an employment or contract relationship exists some basic questions are provided in Appendix Q. If CRA determines an employee relationship exists and council is paying as a contract, then council may be held responsible for the deductions that should have been paid for both the employee and employer portions.

All payroll items must be processed through the payroll module, except as otherwise indicated in other payroll considerations contained in this section.

New employees must complete all documentation required as a result of government regulation or employees benefit plans, ex. TD1 (federal and provincial), MEBP. TD1's are prepared by everyone being paid by council. These documents are very important in determining what deductions are to be taken for income tax purposes for each employee. If these are not filled out properly, the employer cannot determine what code to make the deductions from and the employee could find themselves owing more money at year-end or paying more than is necessary each bi-weekly pay period.

A community receiving funding for remoteness allowance must have a policy on the rates to be paid for eligible community employees (see Policy F9 – Community Employees of the NAMPP for funded rates).

## **Contract Employment**

Where a contract for services exists, the contract must state that the contractor is considered to be a self-employed person and is responsible for both the employee/employer share of CPP and EI premiums and for all tax remittances.

## **Time Sheets**

A time sheet is a daily record of **actual** time worked for the pay period. Time sheets are to be used for everyone being paid by council. This includes regular community employees, labourers, firefighters and ambulance attendants. The time sheets are the responsibility of the CAO for all community employees, unless council directs otherwise, to maintain and sign at the end of each pay period. Pay periods are prepared on a bi-weekly basis, except for council honorariums, which are prepared monthly.

## **Other Payroll Considerations**

- There is a \$1,000 expense allowance available to volunteer firefighters. Per CRA regulations, remuneration paid on an hourly basis does not qualify for the exemption and therefore is taxable earnings. Any other form of remuneration paid does qualify and should not be processed via the payroll system until the \$1,000 maximum has been paid. The income exemption related to volunteer firefighters is shown in box 87 of the T4 slips.
- CRA taxation requires that deductions be based upon the entire employment income received for a pay period. For this purpose, employment income includes regular wages, the income portion of council honorariums, per diems (for attending meetings, etc.) and firefighter's hourly wages for both training and actual fire fighting. Consult with CRA on these requirements.
- Per CRA regulations, election workers receive a T4A versus a T4. Employment Insurance (EI) premiums should not be deducted for election workers if they work less than 35 hours.
- Vacation pay should be accrued for regular employees and paid out on each cheque for part-time and term employees. Check current labour laws for minimum vacation pay entitlement. If the employee agreement calls for a larger amount, the agreement prevails.

## **Municipal Employees Benefit Program (MEBP) Payments**

Calculate, using the most current *MEBP Monthly Remittance Form* and complete as per instructions on the form. The remittance should be received by the department no later than 10 working days following the last pay period of each month. When sending information to the MEBP administrator, hand written material is not acceptable.

Review all employees not currently on the plan to determine their eligibility to join. It is compulsory that all employees, once they have reached one-quarter of their yearly CPP earnings for two consecutive years, join the program. For full-time employees (working 30+ hours per week), enrollment is compulsory after six months from their start date. Submit a payroll report on a quarterly basis and copies of T4's and T4 summary annually to the MEBP administrator to assist in a review. This will ensure all employees required to be on the plan are enrolled and avoid unnecessary costs (ex. late enrollment fees, etc.). Refer to the online MEBP manual for further details which is updated regularly at [www.mebp.mb.ca](http://www.mebp.mb.ca).

## **Other Deductions**

It is important that all deductions from pay are authorized. Receiver General deductions are authorized (mandatory) due to federal law. MEBP deductions are authorized via forms completed when the employee joins the plan. Wage garnishments are authorized (mandatory) via court order. Bond deductions are authorized via forms completed when the employee applies to purchase bonds under the payroll deduction plan. Where other deductions are made

that provide a direct benefit to the employee a signed authorization must be obtained from the employee. For recovery of payroll errors or pay advances, an employer cannot deduct more than 30 per cent of the employee's gross cheque amount, unless a greater amount is authorized by the employee. Employers cannot deduct (even if the employee agrees) for broken, stolen or damaged property, faulty or poor quality work, customer theft, cash or inventory shortages, safety equipment, interest or other fees for cash advances or cashing cheques.

### **Receiver General Payments**

Remittances must be made monthly to the Receiver General before the 15<sup>th</sup> of the following month to avoid substantial penalties and interest charges. Send the bottom portion of remittance notice with payment. The top portion is stamped, filed on a blue back with accounts paid for that current month.

### **Preparation of T4's and T4A's**

T4's must be prepared for each community employee who has been paid by council in the form of wages or honorariums, except for election workers (these require T4A's). These forms must be completed by February 28 and issued to all persons receiving employment income from council during the previous calendar year. Consult with CRA for forms and instructions.

### **Amendments or Lost T4's**

In the event a T4 or T4A requires amendment, the comment section must refer to the original T4 number being amended. For lost T4's or T4A's, make a copy from council's copy and certify that it is true and correct on the copy given to the employee.

### **Lost cheques**

In the event a cheque issued to a community employee is lost and a new cheque needs to be issued, stop payment and follow Policy F6 – Financial Administration Issues of the NAMPP on issuing of cheques.

### **Reserves**

Reserve funds are conditional and must be used for the specific purpose intended. These funds are provided yearly by the department for eligible infrastructure and are to be set up in a reserve fund established by a reserve bylaw. A sample financial reserve bylaw is provided in Appendix R. Reserve funds must be established for each item as required on the funding schedule. There are both operational and replacement reserves. Council may establish additional reserves by bylaw, for example road maintenance, painting.

Each year, deposit reserve funds into a selected guaranteed interest bearing account within 30 days of receipt of funds. Investment options include term deposits, guaranteed investment certificates (GIC's) or investments with Manitoba Finance. All interest earned on investments must be coded to the individual reserve accounts not interest revenue. The interest revenue should be pro-rated based on the individual reserve fund balances.

## Operational Reserves

The required operational reserves are pump replacement, water/wastewater line repairs and fire equipment. Operational reserves can be used as approved by council resolution. Other examples include gravel and ditching. Where these funds are not required in a given year, set up a replacement reserve in order to properly plan for this work.

## Replacement Reserves

The required replacement reserves are vehicle replacement and waste disposal site cell replacement. Replacement reserves must receive ministerial approval prior to being used.

## Example of Reserve Transactions

April 15, 2015 – Receive cheque from department, enter in receivables receipts.

1020 – Cash	\$10,600	
2710 – Operating Reserve: Pump Replacement		\$1,600
2740 – Capital Reserve: Water Truck		\$6,600
2750 – Capital Reserve: Waste Disposal Site		\$2,400

To record receipt of funds (receipt #52).

April 16, 2015 – Deposit cheque in bank, create general journal entry.

1030 – Bank: Operating	\$10,600	
1020 – Cash		\$10,600

To deposit funds (Receipt #52).

April 30, 2015 – Move funds from operating account to investment, create general journal entry.

1050 – Reserve Investments	\$10,600	
1030 – Bank: Operating		\$10,600

To transfer funds into an investment account.

July 15, 2015 – Receive investment statement showing interest earned, create general journal entry.

1050 – Reserve Investments	\$100	
2710 – Operating Reserve: Pump Replacement		\$15.09
2740 – Capital Reserve: Water Truck		\$62.27
2750 – Capital Reserve: Waste Disposal Site		\$22.64

To record interest earned on reserve investment.

August 15, 2015 – Purchase new pump using operating reserve funds, enter invoice in payables invoices.

5360 – Pump Replacement	\$1,025	
1030 – Bank: Operating		\$1,025

To record pump purchase.

August 15, 2015 – Create general journal entry to recognize operating reserve as revenue.

2710 – Operating Reserve: Pump Replacement	\$1,025	
4020 – Operating Reserve		\$1,025

To recognize revenue due to pump replacement expenditure.

August 31, 2015 – Move funds from investment to operating account at bank, create general journal entry.

1030 – Bank: Operating	\$1,025	
1050 – Reserve Investments		\$1,025

To transfer funds from reserve to operating account.

## Accounting for Capital Projects

Capital funds are conditional funds and are considered liabilities until such time they are used for their stated purpose. When funds are received, debit cash and credit a liability account. As project expenditures occur, debit the work in progress account and credit cash account. At the end of each year until the project is completed, recognize revenue for expenditures to date by debiting the liability and crediting the revenue. At project completion, debit the appropriate tangible capital asset account and credit the work in progress account. Work in progress is commonly referred to as construction in progress. GST for capital project costs should be recorded the same as all other purchases as a debit to account 1240 – GST Paid on Purchases.

### Example of Capital Project Transactions

The community is building a new administration building.

April 15, 2015

1020 – Cash	\$400,000	
2460 – Deferred Revenue: Administration Building		\$400,000

To record receipt of department funds to build administration building.

June 15, 2015

1590 – Work in Progress	\$100,000	
1240 – GST Paid on Purchases	\$5,000	
1020 – Cash		\$105,000

To record progress payment to contractor.

November 30, 2015

1520 – Buildings	\$420,000	
1590 – Work in Progress		\$420,000

To record completed asset.

November 30, 2015

3051 – Transfers to Equity in TCA	\$420,000	
3600 – Equity in TCA		\$420,000

To record transfer to equity for asset addition.

November 30, 2015

2460 – Deferred Revenue: Administration Building	\$400,000	
4760 – Capital Reserve: Administration Building		\$400,000

To record capital revenue.

## Surplus

If the community has an operating surplus at year-end, the council may by resolution (per subsection 150(4) of the act) do any of the following:

- (a) expend some or all of it for a purpose not set out in the operating budget
- (b) transfer some or all of it to the capital budget
- (c) transfer it to a reserve fund

Policy F2 – Local Government Services Program of the NAMPP provides further guidelines on dealing with allocation of operating surplus. It suggests any amount over the five per cent operation and maintenance (O&M) safeguard can be used for the establishment of a special and/or general reserve. The community may set up a special reserve called contribution to capital where the purpose of this reserve is for any item identified on the community capital five-year expenditure plan. Capital and replacement reserves require ministerial approval for any withdrawals.

### Accounting for Year-end Surpluses into the New Year

Following is an example of how to account for operating surplus (Account 3060 – Retained Earnings). A community ends the year with reported O&M revenue of \$200,000 and a \$25,000 surplus and wants to accelerate the replacement of its water truck to the current year. The water truck is expected to cost \$85,000. The community will have \$75,000 in its water truck reserve once the current year funding is received. A council resolution approves the use as follows:

- \$10,000 (five per cent of current year's budget) to be retained as a safeguard for unanticipated O&M expenditures
- \$5,000 to purchase a riding mower
- \$10,000 to enhance the water truck reserve

The entry would be:

3060 – Retained Earnings	\$15,000	
3061 – Appropriated Surplus: Riding Mower		\$5,000
2720 – Capital Reserve: Water Truck		\$10,000

To segregate funds per council resolution.

The actual cost of the mower and water truck is \$5,100 and \$86,500.

When the money is spent the entries are:

1510 – Machinery and Equipment	\$5,100	
1030 – Bank: Operating		\$5,100

To purchase riding mower.

1515 – Vehicles	\$86,500	
1030 – Bank: Operating		\$86,500

To purchase water truck.

2720 – Capital Reserve: Water Truck	\$75,000	
4720 – Capital Reserve: Water Truck		\$75,000
To record department funded reserves.		
3061 – Appropriated Surplus: Riding Mower	\$5,000	
2720 – Capital Reserve: Water Truck	\$10,000	
3060 – Retained Earnings		\$15,000
To record incurred expenditures for qualifying appropriated surplus.		

### **Bad Debt Expense/Allowance for Doubtful Accounts**

An entry must be recorded at year-end to make an allowance for doubtful accounts. To calculate the allowance for doubtful accounts:

- Obtain a list of community accounts receivables and for each receivable estimate by percentage the probability the account will not be collected. This will vary for each receivable between zero and 100 per cent.
- Multiply the receivable by the estimated percentage. The total of these amounts is the total estimated to be uncollectable.

If an entry for an allowance for doubtful accounts is not made at year-end, the community’s financial statements may be overstated leaving the impression the community’s finances are better than what they actually are. When an accounts receivable entry is recorded, revenue is increased. If the accounts receivable cannot be collected, the accumulated surplus must be reduced.

It is important to realize that making an allowance for doubtful accounts is not the same as writing off an accounts receivable balance. When an entry is made for allowance for doubtful accounts, the amount owing by the customer still shows up on their account. If there is no chance of ever collecting an accounts receivable balance, council should decide if the account should be written off and pass a resolution indicating such and forward to the department for approval. Refer to Policy F5 – Community Accounts Receivable Write-Off of the NAMPP for details on this procedure.

### **Example of Allowance for Doubtful Accounts Transactions**

A community has a balance of \$542.50 in account 1215 – Allowance for Doubtful Accounts at March 31, 2016. It has seven accounts receivables totaling \$18,355.12 as follows:

<u>Customer</u>	<u>A/R Balance</u> ( <u>\$'s</u> )	<u>Estimate of</u> <u>Uncollectability</u> ( <u>%</u> )	<u>Estimated</u> <u>Uncollectable</u> <u>Amount (\$'s)</u>
Customer A	687.52	100	687.52
Customer B	240	0	0
Customer C	150	0	0
Customer D	452.60	50	226.30
Customer E	15,200	0	0
Customer F	125	50	62.50

Customer G	1,500	0	0
Total	\$18,355.12		\$976.32

The account for allowance for doubtful accounts has a balance of \$542.50, but it needs a balance of \$976.32, so an increase of \$433.82 is required. Prepare a general journal entry as follows:

5160 – Bad Debt Expense	\$433.82	
1215 – Allowance for Doubtful Accounts		\$433.82

To record annual bad debt expense.

### Examples of Transactions for Bad Debt

If an account is determined to be 100 per cent uncollectible, a resolution to write off the account **must** be passed and forwarded to the department for approval. If the resolution is not approved by the department the community **can not** write off the debt. If the resolution is approved by the department, create a sales invoice to credit the customer's account by the uncollectible amount. Transaction is as follows:

1215 – Allowance for Doubtful Accounts	\$687.52	
1210 – Accounts Receivable		\$687.52

To write off uncollectible receivable from customer A.

If the customer makes a payment on the account after it has been written off, a sales invoice needs to be entered into receivables, so a receipt can be generated. Transaction is as follows:

1210 – Accounts Receivable	\$687.52	
1215 – Allowance for Doubtful Accounts		\$687.52

To re-enter an invoice previously written off as uncollectible.

### Year-end and Other Entries

Year-end entries are made to:

- record amortization and adjustments to tangible capital assets
- record inventory and prepaid items
- accrue for bills, payroll costs and revenue/receivables relating to the old year
- adjust the financial statements for an allowance for doubtful accounts
- correct entries made previously

If a general journal entry is made to accrue for a transaction relating to the old year, but the transaction was posted in the new year, the general journal entry will need to be reversed in the new year. Once all of the year-end adjusting entries have been posted in the general journal, the trial balance should balance to the auditor's trial balance.

### Examples of Year-end Entries and Reversing Entries

#### Example 1:

March 31, 2016 – General Journal Entry

5010 – Wages	\$2,885	
5150 – Accounting/Auditing/Legal	\$2,100	

2111 – Accounts Payable: Y/E Accrual		\$4,985
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To accrue for prior year expenses to be reversed in April.

April 1, 2016 – General Journal Entry

2111 – Accounts Payable: Y/E Accrual	\$4,985	
5010 – Wages		\$2,885
5150 – Accounting/Auditing/Legal		\$2,100

To reverse year-end accrual for prior year expenses.

Example 2:

March 31, 2016 – General Journal Entry

2710 – Operating Reserve: Pump Replacement	\$1,252.49	
4020 – Operating Reserve		\$1,252.49

Recognize revenue from reserves for pump already expensed, no reversing entry required.

Example 3:

March 31, 2016 – General Journal Entry

1211 – Accounts Receivable: Y/E Accrual	\$4,455.50	
4040 – Supplemental Funding		\$4,455.50

To accrue for bill back invoice #123 submitted to department on March 31, 2016, to be reversed in April.

April 1, 2016 – General Journal Entry

4040 – Supplemental Funding	\$4,455.50	
1211 – Accounts Receivable: Y/E Accrual		\$4,455.50

To reverse year-end accrual for prior year revenue.

April 29, 2016 – Receivables Receipt

1030 – Bank: Operating	\$4,455.50	
4040 – Supplemental Funding		\$4,455.50

To record receipt of payment from department for invoice #123.

**Examples of Other Entries**

Subsection 49(2) of the act, allows charges to be collected in the same manner as taxes. This may be an option for council in situations where a community is having difficulty collecting outstanding bills. If pursued, council would pass a resolution requesting the department add the outstanding amounts to the tax roll and forward to the department by May 31, along with a list of the amounts and description of the property to which the service was provided.

The department will forward to the property tax clerk for processing. Once amounts are added they need to be removed from the customer’s account in the community records. Transactions are as follows:

- Have a customer called Department – Taxes.
- Determine which customer has outstanding amounts to be added to property taxes.

- Go to *Sales* journal, select the customer and enter a negative number for the amount to be added and select the account to which the customer was originally charged (ex. water and wastewater services). Post the transaction.
- Go to *Receipts* journal and select the customer for which the above transaction was made. The account should now show the original amount outstanding as well as a negative amount to be added to taxes. Post the negative amount and the same amount from the outstanding amount. This should give you a zero balance once posted and will remove the original amount from the account. Repeat for all customers having amounts added to taxes.
- Go to *Sales* journal and create an invoice for Department - Taxes for the total amount to be added to taxes. Select the original account the customer was charged (ex. water and wastewater services). Post the transaction.
- When you receive your tax cheque from the department, apply the amount showing as Taxes Added to the outstanding Department - Taxes invoice. The balance is coded to municipal taxes.

## GST

Councils are eligible to collect 100 per cent of GST paid on purchases. Refunds may be claimed quarterly or annually. CRA must approve any change in the claim period. Further information is available from CRA. The method of recording GST is as follows:

- When paying an expense, record the amount paid less the GST as an expense with a program allocation to the applicable program. Record the GST portion and code it to account 1240 – GST Paid on Purchases.

### Example

A community purchases, as approved by resolution, \$100 of supplies on June 18, 2015. The invoice shows the \$100 of supplies purchased, plus \$7 PST and \$5 GST. The entry to record this transaction would be as follows:

June 18, 2015			<u>Programs</u>
5380 – Supplies	\$107		
Public Works			\$107
1240 – GST Paid on Purchases	\$5		
1030 – Bank: Operating		\$112	
To record purchase of supplies.			

### Accounting for a GST Refund

The method for filing a GST return is as follows:

- Print account 1240 – GST Paid on Purchases. The refund amount is for 100 per cent of the account total.
- Complete the GST return form and ensure the total amount balances to the account print out.
- Set up the GST return amount as an accounts receivable amount from the Receiver General under sales invoice. Use word GST and the current date for the invoice number.

- When the GST payment is received, apply the payment against the outstanding accounts receivable invoice.

### Example

A community submits their GST return on a quarterly basis. On October 1, 2015, the balance in account 1240 – GST Paid on Purchases is \$3,670.25. This is the total of the GST paid from July to September. The entry to set up the accounts receivable transaction would be as follows:

#### Sales Invoice

October 1, 2015

Invoice number - GST 100105

Customer – Receiver General

1210 – Accounts Receivable	\$3,670.25	
1240 – GST Paid on Purchases		\$3,670.25

To set up receivable for GST refund.

When the cheque is received from the Receiver General, apply the payment against the invoice entered above in receivables receipts. The entry to apply the payment would be as follows:

#### Receivables Receipt

1030 – Bank: Operating	\$3,670.25	
1210 – Accounts Receivable		\$3,670.25

To record payment on outstanding receivables balance.

### Cash Flow

Cash flow is a forecast of the cash deficiency or surplus at year-end. It is prepared to inform council of potential cash shortages early enough in order to take the necessary steps to avoid the actual shortage. Do not confuse this cash flow projection with the statement of cash flows generated. Your MDC can assist with the preparation of a cash flow, if requested. A simplified example, using the administration program, is provided in Appendix S. The narrative for this example follows.

### Example

On December 8, 2015, the CAO made a request to purchase a new computer for the office. Council requested a cash flow projection for the administration program before proceeding with the request. The CAO needs to prepare the cash flow for the next council meeting scheduled for January 12, 2016.

The CAO uses the following to develop a three-month cash flow for council review:

- estimates they will receive \$11,268.84 of revenue in January for the fourth quarter and \$1,700 per month for water and wastewater services
- the opening bank balance is \$2,000 on January 1, 2016

The CAO also estimates the following expenses **per month** [for the purpose of this example, expected expenditures in all programs other than administration are considered zero]:

- wages \$20.48 per hour x 30 hours per week plus 15 per cent benefits with three pay periods in January
- honorariums for five council members, mayor at \$300 and councillors at \$250
- bank charges \$10
- phone \$150
- travel \$100
- building maintenance \$100
- equipment maintenance \$50
- office supplies \$40
- hydro \$100
- new computer cost of \$1,800

The CAO enters this data into the cash flow form. The same process would apply to the other programs. A sample cash flow projection form is provided in Appendix S. The electronic version of this form totals the numbers automatically.

Assuming council wishes to have a cushion of \$1,000 for unforeseen items and based on the projected ending balance of \$1,127, the council may approve the purchase.

## **Tangible Capital Assets**

### **Definitions**

Amortization is a rational and systematic manner of allocating the cost of an asset over its estimated useful life.

Betterments are enhancements to the service potential of a capital asset such as:

- an increase in the previously assessed physical output or service capacity
- a reduction in associated operating costs
- an extension of the estimated useful life
- an improvement in the quality of output

Capital Assets are non-financial assets having physical substance that:

- are held for use by the community in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets
- have useful lives extending beyond a year and are intended to be used on a continuing basis
- are not intended for sale in the ordinary course of operations

Capital-type Expenses are costs for assets that meet the definition of a capital asset, but are less than the cost thresholds. These assets are expensed in the year in which they are purchased.

Cost is the amount of consideration given up to acquire, construct, develop or better a capital asset and includes all costs directly attributable to its acquisition, construction, development or betterment, including installing the asset at the location and in the condition necessary for

its intended use. The cost of a contributed capital asset is considered to be equal to its fair value at the date of contribution.

Disposal refers to the removal of a capital asset from service as a result of sale, destruction or loss.

Estimated Useful Life is the estimate of the period over which a capital asset is expected to be used. It is the period over which an asset will be amortized.

Fair Value is the amount of the consideration that would be agreed upon in an arm's length transaction in an open market.

Financial Assets are assets that are available to discharge existing liabilities or finance further operations and are not for consumption in the normal course of operations. Examples of financial assets are cash on hand, accounts receivable and inventories for sale.

Gain/Loss on Disposal is the difference between the net proceeds received and the net book value of an asset and is accounted for as a revenue or expense, respectively, in the period the disposal occurs.

Leased Capital Assets are non-financial assets leased by an incorporated community for use in the delivery of goods and services. Substantially all of the benefits and risks of ownership are transferred to the community without requiring the transfer of legal ownership.

Net Book Value is the capital asset cost less accumulated amortization and any write-down. It represents the asset's unconsumed cost.

Non-financial Assets are assets that do not normally provide resources to discharge liabilities. They are employed to deliver services, may be consumed or used up in the delivery of those services and are not generally for sale. Examples of non-financial assets are capital assets and inventories held for consumption or use.

Residual Value is the estimated net realizable value of a capital asset at the end of its estimated useful life. A related term, salvage value, refers to the realizable value at the end of an asset's life. If the community expects to use a capital asset for its full life, residual value and salvage value are the same.

Straight-line Method is an amortization method which allocates the cost of a capital asset equally over each year of its estimated useful life.

Threshold is the value over which an asset will be recorded as a capital asset on the balance sheet.

Work in Progress is the accumulation of capital costs for partially constructed or developed projects. An example of a work in progress is the construction of a building, which occurs over several years. Work in progress would also include deposits which are to be applied to the cost of a capital asset.

Works of Art and Historical Treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually. These assets are not capitalized as their expected future benefits are difficult to quantify.

Write-down is a reduction in the cost of a capital asset as a result of a decrease in the quality or quantity of its useful life. If a capital asset is deemed to have no economic potential and is fully written down, it is termed a **write-off**. A write-down or write-off will be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

### Capital Asset Categories

The following table lists the capital asset categories and examples of capital assets and costs. See Appendix F13-A Capital Asset Thresholds and Estimated Useful Life of the NAMPP.

<u>Capital Asset Category</u>	<u>Examples of Capital Assets</u>	<u>Examples of Capital Asset Costs</u>
<b>Land and Land Improvements</b>		
Land	<ul style="list-style-type: none"> <li>• land acquired for parks, recreation and conservation purposes, building sites and other programs</li> <li>• land acquired for construction of road surface, drainage areas and allowances or future expansions</li> </ul>	<ul style="list-style-type: none"> <li>• acquisition price</li> <li>• professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys</li> <li>• improvement and development costs, such as land excavation, filling, grading, drainage, demolition of existing buildings (less salvage)</li> </ul>
Land Improvements	<ul style="list-style-type: none"> <li>• fencing and gates, parking lots, paths and trails, and landscaping</li> </ul>	<ul style="list-style-type: none"> <li>• original purchase price or completed project costs, including costs of material and labour or costs of a contractor</li> </ul>
<b>Buildings and Building Improvements</b>		
Buildings	<p>A roofed and walled structure built for permanent use consisting of:</p> <ul style="list-style-type: none"> <li>• buildings with fire proofed structural steel frames with reinforced concrete or masonry floors and roofs</li> <li>• buildings with reinforced concrete frames and concrete or masonry floors and roofs</li> <li>• operational storage facilities, sheds, small buildings, inventory storage buildings and pump houses</li> <li>• timber framed buildings</li> </ul>	<ul style="list-style-type: none"> <li>• original purchase price or completed project costs, including basic costs of material and labour or costs of a contractor</li> <li>• costs to remodel, recondition or alter a purchased building to make it ready to use for the acquired purpose</li> <li>• preparation of plans, blueprints and specifications</li> <li>• costs of building permits, studies, tests (pre-acquisition costs)</li> <li>• professional fees for title</li> </ul>

		<p>searches, architect, legal, engineering, appraisals, environmental surveys</p> <ul style="list-style-type: none"> <li>• operating costs such as temporary buildings used during construction</li> </ul>
Building Improvements	<ul style="list-style-type: none"> <li>• major repairs that increase the value or useful life of the building, such as structural changes, installation or upgrade of heating and cooling systems, plumbing, electrical, phone systems</li> <li>• improvements that increase the functionality of leased or similar accommodations</li> </ul>	<ul style="list-style-type: none"> <li>• complete project costs, including basic costs of material and labour or costs of a contractor</li> <li>• preparation of plans, blueprints and specifications</li> <li>• cost of building permits, studies, tests</li> <li>• professional fees for architect, legal, engineering, appraisals, environmental surveys</li> <li>• operating costs such as temporary buildings used during construction</li> </ul>
<b>Machinery and Equipment</b>		
Heavy Equipment	<ul style="list-style-type: none"> <li>• power and construction equipment, such as tractors and trucks one ton and over</li> </ul>	<ul style="list-style-type: none"> <li>• original contract price or invoice price</li> <li>• freight charges</li> <li>• installation charges</li> <li>• charges for testing and preparation</li> <li>• costs of reconditioning used items when purchased</li> <li>• parts and labour associated with the construction of equipment</li> </ul>
Operating Equipment	<p>Include, but not exclusive to:</p> <ul style="list-style-type: none"> <li>• equipment specific to maintenance, shop and sanitation, safety, appliances and communication equipment</li> <li>• utility trailers, security systems, snowplows, radios, freezers, refrigerators, washers and meters</li> </ul>	<ul style="list-style-type: none"> <li>• original contract price or invoice price</li> <li>• freight charges</li> <li>• installation charges</li> <li>• charges for testing and preparation</li> <li>• costs of reconditioning used items, when purchased</li> <li>• parts and labour associated with the construction of equipment</li> </ul>
<b>Transportation Equipment</b>		
Vehicles	<ul style="list-style-type: none"> <li>• used primarily for</li> </ul>	<ul style="list-style-type: none"> <li>• original contract price or</li> </ul>

	<p>transportation purposes, such as trucks under one ton, vans, boats, all terrain vehicles and snowmobiles</p> <ul style="list-style-type: none"> <li>• fire trucks</li> <li>• light duty (passenger)</li> <li>• medium duty (water/wastewater distribution) vehicles in excess of one ton</li> </ul>	<p>invoice price</p> <ul style="list-style-type: none"> <li>• freight charges</li> <li>• costs of reconditioning used items, when purchased</li> </ul>
<b>Office and Information Technology</b>		
Computer Software	<ul style="list-style-type: none"> <li>• off the shelf software and related upgrades, software licences after removing any maintenance or similar charges</li> </ul>	<ul style="list-style-type: none"> <li>• purchase price of off the shelf software and related software upgrades in excess of threshold</li> <li>• installation charges</li> </ul>
Computer Hardware	<ul style="list-style-type: none"> <li>• servers, scanners, printers, hard drives, modems</li> </ul>	<ul style="list-style-type: none"> <li>• purchase price</li> <li>• installation charges</li> <li>• freight charges</li> </ul>
Office Furniture and Equipment	<ul style="list-style-type: none"> <li>• desks, tables, chairs, filing cabinets, fax machines, photocopiers, video conferencing stations, projectors and digital cameras</li> </ul>	<ul style="list-style-type: none"> <li>• original contract price or invoice price</li> <li>• freight and installation charges</li> <li>• costs of reconditioning used items, when purchased</li> <li>• parts and labour associated with the construction of furniture</li> </ul>
<b>Infrastructure</b>		
Roads/Culverts – construction	<ul style="list-style-type: none"> <li>• community roads and culverts within the built up area</li> <li>• access roads and culverts within community boundary</li> <li>• excludes provincial roads (PTH)</li> </ul>	<ul style="list-style-type: none"> <li>• direct costs of construction, including tender construction costs, labour, materials, survey costs and project specific design costs</li> <li>• construction and material costs related to overhead structures, culverts and signage</li> <li>• salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control</li> </ul>
Roads – repaving	<ul style="list-style-type: none"> <li>• major resurfacing and preservation overlays on community roads within the</li> </ul>	<ul style="list-style-type: none"> <li>• direct costs of construction, including labour and materials</li> <li>• salary and travel costs for</li> </ul>

	built up area and access roads within community boundary	employees assigned to the project for direct management duties, such as project management, inspection and quality control
Outdoor Lighting	<ul style="list-style-type: none"> <li>• light systems (traffic/ outdoor), new signage initiative and aggregate acquisition costs within the built up area</li> <li>• street lamps</li> </ul>	<ul style="list-style-type: none"> <li>• original purchase price</li> <li>• installation charges</li> <li>• charges for testing and preparation</li> <li>• parts and labour associated with construction and installation</li> </ul>
Water Systems	<ul style="list-style-type: none"> <li>• water mains, reservoirs, pumping facilities, pipes, water intake, tanks and associated non mobile infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• original purchase price</li> <li>• direct costs of construction, including labour and materials</li> <li>• salary and travel costs for employees assigned to the project for direct management duties, such as project management, inspection and quality control</li> </ul>
Wastewater Systems	<ul style="list-style-type: none"> <li>• wastewater mains, reservoirs, pumping facilities, pipes, tanks and associated non mobile infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• original purchase price</li> <li>• direct costs of construction, including labour and materials</li> <li>• salary and travel costs for employees assigned to the project for direct management duties, such as project management, inspection and quality control</li> </ul>
Engineered Structures	<ul style="list-style-type: none"> <li>• bridges within the community boundary</li> </ul>	<ul style="list-style-type: none"> <li>• direct costs of construction, including tender construction costs, labour, materials, survey costs and project specific design costs within the built up area of the community</li> <li>• salary and travel costs for employees assigned to the project for direct management duties, such as project management, inspection and quality control</li> </ul>
Other Infrastructure	<ul style="list-style-type: none"> <li>• snow fences</li> <li>• playground and other recreational facilities</li> </ul>	<ul style="list-style-type: none"> <li>• costs that support infrastructure, but are not included in any other category</li> </ul>

Wastewater Lagoon	• lagoons	<ul style="list-style-type: none"> <li>• direct costs of construction, including tender construction costs, labour, materials, survey costs and project specific design costs within the built up area of the community</li> <li>• salary and travel costs for employees assigned to the project for direct management duties, such as project management, inspection and quality control</li> </ul>
Waste Disposal Site	• solid waste sites	

### **Tangible Capital Asset Entries**

#### Example – Purchase of New Equipment

A community purchased a backhoe for \$10,000 in July 2015.

Calculations:

Cost = \$10,000

PST = \$700

GST = \$500

Residual value = \$1,070 (10 per cent of cost + PST)

Amortizable basis = (\$10,700 – \$1,070) = \$9,630

Estimated useful life = 20 years (heavy equipment)

Annual amortization = (\$9,630/20 years) = \$481.50

1030 – Bank: Operating	\$10,000	
4710 – Capital Reserve: Backhoe		\$10,000
To record receipt of capital funds.		
1510 – Machinery and Equipment	\$10,700	
1240 – GST Paid on Purchases	\$500	
1030 – Bank: Operating		\$11,200
To record purchase of backhoe.		
3051 – Transfers to Equity in TCA	\$10,700	
3600 – Equity in TCA		\$10,700
To record transfer to equity in TCA for new asset.		

#### Example – Purchase of New Truck and Trade-in of Old Truck

A community purchased a new three ton water truck for \$40,000 in May 2015. The old water truck was traded in for \$7,000.

Calculations for disposal of old water truck:

Cost = \$35,000

Accumulated amortization = \$30,000

Net book value = \$5,000  
 Proceeds from trade-in = \$7,000  
 Gain on disposal = \$2,000

1020 – Cash	\$7,000	
1715 – Accum. Amortization - Vehicles	\$30,000	
1515 – Vehicles		\$35,000
5950 – Gain/Loss on Disposal of Assets		\$2,000

To record disposal of old water truck.

3600 – Equity in TCA	\$5,000	
3051 – Transfers to Equity in TCA		\$5,000

To record transfer from equity for asset disposal using net book value.

Calculations for addition of new three ton water truck:

Cost = \$40,000  
 PST = \$2,800  
 GST = \$2,000  
 Residual value = \$4,280 (10 per cent of cost + PST)  
 Amortizable basis = \$38,520 (\$42,800 - \$4,280)  
 Estimated useful life = 10 years (medium vehicle)  
 Annual amortization = (\$38,520/10 years) = \$3,852

1515 – Vehicles	\$42,800	
1240 – GST Paid on Purchases	\$2,000	
1020 – Cash		\$7,000
1030 – Bank: Operating		\$37,800

To record purchase of new water truck.

3051 – Transfers to Equity in TCA	\$42,800	
3600 – Equity in TCA		\$42,800

To record transfer to equity for asset addition.

Example – Disposal of Asset

A community sold their old wastewater truck for \$4,000.

Calculations for disposal of wastewater truck:

Cost = \$40,000  
 Accumulated amortization = \$35,000  
 Net book value = \$5,000  
 Sale price = \$4,000  
 Loss on disposal = \$1,000

1030 – Bank: Operating	\$4,000	
5950 – Gain/Loss on Disposal of Assets	\$1,000	
1715 – Accum. Amortization - Vehicles	\$35,000	

1515 – Vehicles \$40,000  
 To record sale of old wastewater truck.

3600 – Equity in TCA \$5,000  
 3051 – Transfers to Equity in TCA \$5,000  
 To record transfer from equity for asset disposal using net book value.

Example – Recording Annual Amortization Expense

A community shows the following balances in its tangible capital assets (TCA) schedule:

<u>Asset Description</u>	<u>Balances - March 31</u>			<u>Annual Amortization</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
Vehicles	126,789	(15,702.83)	111,086.17	(5,705.51)
Buildings	339,812.69	(329,143.95)	10,668.74	(561.57)
Land Improvements	10,588.24	(10,235.29)	352.94	(352.94)
Machinery and Equipment	15,000	(7,001.03)	7,998.97	(500)
Totals	\$492,189.93	(\$362,083.10)	\$130,106.83	(\$7,120.02)

5910 – Amortization Expense \$7,102.02  
 1710 – Accum. Amort. - Machinery and Equipment \$500  
 1715 – Accum. Amort. - Vehicles \$5,750.51  
 1720 – Accum. Amort. - Buildings \$561.57  
 1750 – Accum. Amort. - Land Improvements \$352.94  
 To record annual amortization expense.

3600 – Equity in TCA \$7,102.02  
 3051 – Transfers to Equity in TCA \$7,102.02  
 To transfer from equity in TCA for annual amortization.

**Inventories**

Inventory should be set up as an asset on the balance sheet at year-end, items include:

- fuel (if purchased in bulk in remote communities)
- chemicals (if a large quantity is on hand)
- gravel (stock piles of gravel)

Inventory is set up as an asset, so its costs can be properly expensed in the year the inventory is consumed. An inventory count is required on March 31 each year to accurately determine the amount of inventory on hand at year-end.

Example – Inventory Transactions

The community purchased a large quantity of chemicals for the water treatment plant in March 2016. None of the chemicals purchased will be used before March 31 year-end.

March 15, 2016 – Purchase chemicals and set up as inventory.  
 1410 – Inventory \$6,000

5130 – Postage/Freight	\$500	
1240 – GST Paid on Purchases	\$300	
2110 – Accounts Payable		\$6,800
April 30, 2016 – Expense chemicals used.		
5420 – Chemicals	\$1,000	
1410 – Inventory		\$1,000

## Budgeting and Coding

### Introduction

A budget is a plan of action for a specified period of time in the future. In community budgeting, O&M costs are planned for the upcoming year. The CAO will prepare a draft CMP (including budget) and provide information for council’s review, to support council’s budget discussions (see the *Community Management Plan Development Manual* for further information on preparation of a CMP). The budget process involves determining the activities that are to occur per the CMP. The estimated cost of these activities are grouped under the account which most accurately describes the revenue or expenditure and totalled. Preparation of the CMP and budget must be based on the most reliable information available at the time, which requires thorough investigation, study, research and consultation with community employees. The budget is part of the CMP, which council will present to community residents at a public meeting. The department releases funding based on receipt of the overall CMP from the community which must be complete.

Items must be coded for financial reporting purposes to the account under which the item was budgeted, even though it may exceed the budgeted amount for that account. This will provide accurate information for the preparation of future budgets. Budgets and budgeting have the following benefits for good local government management:

- Control and Direction**

Once a budget has been approved and entered into the accounting system, this will allow the financial statements to compare actual revenues or expenditures to budgeted revenues or expenditures. This will make it easier to identify variances, which may require adjustments to council’s operational plans. This increases council’s ability to control and manage community operations.
- Communication**

The budget becomes a means of information to community staff, potential funding agencies (including the various levels of government) and community residents. It shows what plans have been approved and informs the residents what direction the community council wishes to take during the upcoming operating year.

## Preparing the Budget

The following items will be needed to complete the budget:

- copy of the budget form (as provided in Appendix T)
- action plan from the CMP
- most recent funding schedule
- budget information sheets

Where required, prepare budget information sheets for each revenue and expenditure code by program. Transfer the total from each sheet to the budget form. It is recommended that the expenditure portion of the budget be completed first, prior to completing the revenue portion. As per subsection 143(2) of the act, **Council Must Submit a Balanced Budget (Expenditures Must Equal Revenues)**.

Following is an example of a completed budget information sheet (using a blank sheet of paper) for wages in the administration program.

### **Budget Information Sheet**

Budget Item: Wages: Administration Program

Details:

60 hours bi-weekly x \$20.48 per hour x four per cent vacation pay	<u>\$1,277.95</u>
Plus: Remoteness allowance (if applicable, use rate set by council policy)	<u>\$146</u>
Plus: 15 per cent for benefit expense (use appropriate rate)	<u>\$191.69</u>
Weekly total:	<u>\$1,615.64</u>
Annual Total: (\$1,615.64 x 26)	<u>\$42,006.64</u>

## Account Contents – Revenues and Expenditures

A complete list of the chart of accounts is provided in Appendix U.

### **Revenues**

#### **4000 – Department O&M Funding**

This major category of revenue involves all funding received by the community from the department for regular ongoing local government services.

#### 4010 – Core Funding

Amount received from the department as per the funding schedule proposed department contribution plus honorarium and wage supplement, minus the total reserve fund amount as indicated on the funding schedule.

#### 4020 – Operating Reserve

Revenue recognized due to pump replacements and/or water/wastewater line repairs and other

operating reserves as designated by the community. This is money transferred from the related deferred revenue account to offset the expense(s) incurred.

#### 4030 – NACC

Amount provided to cover membership fees to participate in the Northern Association of Community Councils (NACC). Communities have the option of forwarding these funds to the association or using it to cover other costs.

#### 4040 – Supplemental Funding

Any other funding provided by the department throughout the year in addition to the core funding amount to support the operation of municipal services.

#### **4100 – Other Federal/Provincial Grants**

This major category of revenue involves all funding received by the community through provincial grants from other departments used for regular ongoing local government services.

#### 4110 – Municipal Operating

Per capita grant provided from Manitoba Municipal Relations (MR). Population figures are based on the latest Stats Canada census and the rate per person is adjusted annually by MR. When budgeting, use the previous year's actual dollars received, unless otherwise advised by the department.

#### 4160 – Municipal Improvement Fund

Funds provided from MR for eligible community improvement projects.

#### **4300 – User Fees and Other Revenue**

Revenues collected from the community or neighbouring First Nation (not other sources) to support regular ongoing local government services. For example, cost sharing arrangements with First Nations.

#### 4310 – Municipal Tax

Amount received from the Northern Affairs Fund, representing property taxes collected less the school taxes payable. Property taxes collected from community residents for forwarding to the property tax clerk should be recorded to account 2180 – Property Taxes Payable.

#### 4320 – Water and Wastewater Services

Fees collected from an established delivery or piped service. Water rates are set by council. Fees collected for provision of wastewater treatment plant/lagoon and a pickup service by either pipe and/or truck system. Council will set a residential/business fee for service rate. Revenue should be sufficient to operate the service of septic tank pumpout and operation of the lagoon.

#### 4330 – Solid Waste Services

Fees set by council for solid waste pickup service.

#### 4340 – Rentals

Rental fees charged/collected for the use of community buildings (ex. community hall), including rental of space (ex. office) and equipment. Rental fees are set by council.

#### 4350 – Licenses/Permits/Fees

Revenues collected from development permits, photocopying fees, etc., that are required under local bylaws and revenues received on a fee-for-service basis.

#### 4360 – Interest

Interest received, other than that pertaining to reserve funds, which is recorded in the reserve liability account.

#### 4370 – Gifts/Donations

Gifts or donations provided to council by individuals and/or community organizations, ex. a community ball club may wish to contribute toward the improvement of the ball park.

### **4600 – Community Operations**

Funds received to operate business-like services or to run programs (which are not department funded) that are not strictly local government in nature. Although the business-like service may suggest a conflict with the act for unincorporated communities, it may be necessary for the purposes of good local government to maintain such operations until more satisfactory arrangements can be considered and implemented. Examples may include laundromat, post office, cabin rentals, hotel/rooming houses and programs ran such as ambulance or employment.

If the community is incurring costs for these types of operations, there must be revenue earned. If there is no revenue, the service should not be operated and therefore no costs incurred. Record the gross revenue, when received, in a community operations revenue account.

### **4700 – Capital**

Revenue recognized for projects funded in whole, part or in combination by the department, by replacement reserve funding or other funding sources (ex. Building Sustainable Communities Program). The last two digits of the account should match the last two digits of the related deferred revenue (projects) or deferred revenue (reserves) accounts.

#### 4790 – Contributed Assets Revenue

Fair market value of assets donated to the community. The offsetting entry will always be to a tangible capital asset account.

### **Expenditures**

#### **5001 Payroll**

##### 5010 – Wages

Includes gross wages, employer's portion of all benefits (EI, CPP, \*MEBP, WCB, etc.), for all employees (regular, full-time, part-time, casual, students, firefighters), per diems and

remoteness allowance (if applicable). (\*5040 – MEBP Expense, may be used to track MEBP expenses, if council wishes.)

#### 5050 – Council Honorariums

All monies paid to each council member as an honorarium for services they render to the community. The Council Compensation regulation 252/2006 specifies the maximum allowable amount for unincorporated communities for the mayor and each councillor.

#### 5080 – Other

Election workers remuneration and fire chief honorarium only.

### **5100 Operations**

Costs associated with the operation and maintenance of the community's infrastructure, vehicles, equipment and administration.

#### 5110 – Bank/Late Fees/Interest

Bank charges, supplier interest, Receiver General interest, penalties and service charges.

#### 5120 – Election Expense

All costs related to an election (both regular and by-elections), ex. printing, ordering posters, purchasing election supplies, etc., **excluding** election workers remuneration.

#### 5130 – Postage/Freight

Postage and other post office fees, costs of freight, bus parcel service and courier fees, **except** for costs related to shipping of water and wastewater samples.

#### 5140 – Phone/Fax/Internet

Monthly and long distance charges.

#### 5150 – Accounting/Auditing/Legal

Fees for these services performed by someone other than a community employee.

#### 5160 – Bad Debt Expense

Estimated annual expense due to uncollectable accounts receivables.

#### 5170 – Memberships/Registration Fees

Cost of membership fees in organizations such as NACC and registration fees paid to attend trade shows and conferences. Registration fees **do not** include those related to training.

#### 5180 – Grants and Donations

Council may support a community organization by a grant or donation to help in their work or endeavours in accordance with the legislation and policies.

#### 5190 – Training

Costs related to training council members and community employees, including travel, course cost, registration fees, tuition, mileage, hotel, meals, incidentals, fire training, etc.

#### 5200 – Travel

Costs related to travel for council members and community employees, **excluding** those costs related to training.

#### 5310 – Road Maintenance

Costs related to gravel, grader and other equipment rental, purchase and installation of culverts, calcium chloride, ditching, drainage, snow removal (non-private), footbridges, sidewalks, etc., performed in maintenance of community roads and/or streets, and costs to hire a contractor to deliver the service on their behalf.

#### 5320 – Site Maintenance

Maintenance costs (including grass cutting) related to sites such as the solid waste disposal site, recreation grounds, public cemetery, wastewater lagoon, playgrounds/beaches, outdoor rinks, community operated docks, etc.

#### 5330 – Building Maintenance

Maintenance costs for minor repairs, renovations, etc. of buildings.

#### 5340 – Equipment Rental

Rentals of an operating nature not related to road maintenance, ex. photocopier.

#### 5350 – Equipment Maintenance

Repair and operating costs of any equipment, including fluids (oil, greases, etc.) and parts (blades, chains, etc.), involved in the delivery of municipal services, ex. cost to repair tools, electrical motors, lawnmowers, tractors, pumps, vehicles, etc.

#### 5360 – Pump Replacement

Cost to replace water and wastewater pumps.

#### 5370 – Equipment

Equipment purchase costs such as tools, electrical motors, lawnmowers, photocopiers, fax machines, cabinets, office furniture, fire and community safety officer equipment, **excluding** pumps and equipment purchases funded in whole or in part by capital and/or reserve funds and purchases that meet the tangible capital asset thresholds and are therefore capitalized.

#### 5380 – Supplies

Costs of consumables used in the operation of the water and wastewater treatment plants and/or wastewater lagoon (ex. filters), buildings and delivery of particular programs, office supplies (paper, pens, photocopier, fax, etc.) and custodial/cleaning supplies.

#### 5390 – Hydro

Cost of power for community buildings and heat trace, including streetlights.

#### 5400 – Fuel

Cost of gas for running community vehicles/equipment used in the delivery of community services. Where there is no landline power, heating fuel cost is recorded here.

#### 5410 – Licences and Insurance

Cost for the licence, registration and insurance required for all community vehicles, buildings and equipment; community safety officer insurance upgrade; environmental licences and permit fees. **Does not** include WCB insurance costs.

#### 5420 – Chemicals

Cost of chemicals used in the operation of water and wastewater treatment plants.

#### 5430 – Testing

Cost of water and wastewater sample testing and shipment.

#### 5440 – Water and Wastewater Line Repairs

Cost to repair water breaks and wastewater line repairs with respect to material and contract costs, **excludes** community employees wages and equipment cost.

#### 5490 – Other Operations

Miscellaneous related costs for operations and programs that do not fit into any defined account. Use of this account should be limited, as most costs will fit into a defined account.

### **5600 – Community Operations**

Costs involved in the operation of business-like services or to run programs (which are not department funded) that are now or expected to be ongoing and are not a local government service in nature. List only those operations for which there is revenue.

### **5900 Other Expenses**

#### 5910 – Amortization Expense

Used to record amortization (depreciation) expense of tangible capital assets on an annual basis.

#### 5920 – WDS Closure/Post-closure Cost

The current year portion of the estimated future cost for closure of a waste disposal site.

#### 5950 – Gain/Loss on Disposal of Assets

The difference between the proceeds of the sale or trade-in and the net book value of the tangible capital asset.

## **Balance Sheet Accounts**

Most of the balance sheet accounts are self-explanatory by the account name. Others that are not so clear are defined here for further clarification.

### **Assets**

#### 1020 – Cash

All receipts (cash and cheques) received by mail or in person. The balance in this account should equal the cash and cheques, excluding petty cash, on hand at the end of the day. Once each deposit is made and recorded the balance in this account should be zero.

1030 – Bank: Operating

Community chequing account in which all deposits should be made and all cheques issued. Receipts are not recorded to this account until they are deposited.

1050 – Reserve Investments

Consists of segregated funds targeted to meet reserve liabilities.

1300 – Prepaid Expenses and Deposits

Only include those that are in excess of \$500. An example of a prepaid could be Autopac insurance, if significant.

15XX – Tangible Capital Assets

These accounts are used to record the historical costs of tangible capital assets as per the TCA policy.

17XX – Accumulated Amortization - Tangible Capital Assets

These accounts are used as the offsetting entry of the annual amortization expense of tangible capital assets. The historical cost (15XX) accounts less accumulated amortization (17XX) is the net book value of the tangible capital assets.

**Liabilities**

2170 – Damage Deposits

Funds received over and above the rental fee by the renter (group or individual) to cover the cost of any damage that the renter may cause due to negligence during the period of time the community asset is used. The deposit, less any cost of repairs (if any), is returned to the renter after the rental period has ended.

2180 – Property Taxes Payable

Property and business taxes collected by the community for forwarding to the department's property tax clerk.

2950 – WDS Closure/Post-closure

Total estimated future cost for closing the waste disposal site that has been expensed to date. This is the offsetting entry to account 5920.

**Equity**

3051 – Transfers to Equity in TCA

Account used to offset the entry from account 3600.

3600 – Equity in TCA

Account used to separate the TCA from operating equity.

## Allocation Standards

All communities are required to allocate expenditures in accordance with the defined chart of accounts outlined in this guide to a specific program area. For expenditures which do not fall into any of the defined program areas, create an appropriate program category to allocate the specified expenditure. Allocating is a required condition.

Functional classifications: All the account categories are distributed over the primary area they serve. The primary area is a function, ex. travel. The secondary classification is a program classification, ex. public works.

Following on the next page is a table which cross references the expenditure accounts with a specific program area. If an X does not appear in a box, do not allocate that account to that program area. It is important to note the difference for recording *registration fees* for accounts denoted <sup>1</sup>. Account 5170 is to record fees such as joining an association or attending a trade show, etc., whereas account 5190 is to record registration fees related to training. It is important to note the difference for recording *travel costs* for accounts denoted <sup>2</sup>. Account 5190 is to record all travel costs related to training, whereas account 5200 is to record travel costs not related to training such as council and/or community employee travel costs to attend meetings.

The department maintains a community financial/statistical database that records the annual audited financial data of O&M revenues and expenditures for each community. This information is used for comparison and analytical purposes and relies on accurate financial reporting by the community for delivery of municipal services in an efficient and effective manner. Where reporting deficiencies are evident, the community will be required to provide correct data for database input purposes creating extra work that otherwise would not be necessary for the CAO and department staff who enter the audited data. The reporting deficiencies will need to be corrected the following year. This is one reason it is important to ensure financial reporting is in accordance with the guide, submit financial statements on a regular basis to the department as required and the MDC participate at the audit exit interview. There is ample opportunity throughout the year to ensure these do not reoccur.

Chart of Accounts		Program Area				
Account Number – Name	Administration	Public Works	Water or Wastewater	Solid Waste	Recreation	Fire or Community Safety Officer
5010 – Wages	X	X	X	X	X	X
5050 – Council Honorariums	X					
5080 – Other	X (Election worker remuneration)					X (Fire chief honorarium)
5110, 5120, 5140, 5150, 5160	X					
5130 – Postage/Freight	X	X	X	X	X	X
5170 <sup>1</sup> – Memberships/Registration Fees	X	X	X	X	X	X
5180 – Grants and Donations	X					
5190 <sup>1,2</sup> – Training	X	X	X	X	X	X
5200 <sup>2</sup> – Travel	X	X	X	X	X	X
5310 – Road Maintenance		X				
5320 – Site Maintenance		X	X	X	X	
5330 – Building Maintenance	X	X	X	X	X	X
5340 – Equipment Rental	X	X	X	X		
5350 – Equipment Maintenance	X	X	X	X	X	X
5360 – Pump Replacement			X			
5370 – Equipment	X	X	X	X	X	X
5380 – Supplies	X	X	X	X	X	X
5390 – Hydro	X	X	X		X	X
5400 – Fuel		X	X	X		X
5410 – Licences and Insurance	X	X	X	X	X	X
5420 – Chemicals			X			
5430 – Testing			X			
5440 – Water and Wastewater Line Repairs			X			
5490 – Other Operations	X	X	X	X	X	X

Functional Classifications