

*Reference Manual*  
*Phase Three*

Newfoundland and Labrador  
Municipalities

**PSAB Working Committee**  
**Department of Municipal Affairs**



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## Other Sources of Information

Municipal administrators and Councilors who would like to obtain additional information on the government reporting entity are encouraged to visit the PSAB web-site at:

[www.ma.gov.nl.ca/ma/psab](http://www.ma.gov.nl.ca/ma/psab)

Information sessions on the municipal reporting entity and consolidations will be made available to all municipalities through the Fall of 2009. Check the Department of Municipal Affairs' PSAB web-site at [www.ma.gov.nl.ca/ma/psab](http://www.ma.gov.nl.ca/ma/psab) for further information.

If you are uncertain about any issue, users of this manual are encouraged to contact:

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## Section 1 – Financial Statement Concepts and Objectives (PS1000)

### 1.1 What are general purpose financial statements?

All municipalities in Canada publish financial statements that display their financial position and changes in financial position for a particular reporting period. These statements are known as **general purpose financial statements** and they serve, to the extent possible, the needs of a variety of users.

General purpose financial statements are:

- commonly required by legislation
- audited
- issued annually
- are available to any interested parties

General purpose financial statements cannot fulfill all the needs of every user but they are a central feature of government financial reporting. PSAB has developed a set of guiding principles which should be considered when preparing general purpose financial statements. These would include:

1. **The elements of financial statements** or the basic categories of items portrayed in financial statements;
2. **The qualitative characteristics of financial statements** or the qualities that maximize the usefulness of the financial information to the users; and
3. **The financial statement objectives** which provide the foundation for developing financial reporting standards.

### 1.1.1 What are the elements of financial statements?

The elements of financial statements are basic categories of items portrayed in financial statements. There are two basic types of elements:

- (i) those that display the economic resources available **at a point in time** (i.e. Statement of Financial Position) or
- (ii) those that describe changes in economic resources **over a period of time** (i.e. Statement of Operations).

The notes and schedules to financial statements, which are useful for the purpose of providing further clarification or information are not considered to be an element of financial statements. Note disclosures and schedules required for the 2009 financial statements are presented in **Section 3** and **Section 4** of this manual. PSAB financial statements are based on an asset and liability model. Revenues and expenses are expressed in terms of **increases or decreases in assets and liabilities**.

The elements of a government's financial statements include:

- a) Assets (Financial and Non-financial)
- b) Liabilities
- c) Revenues
- d) Expenses

### 1.1.2 What are Assets?

Assets are economic resources from which future economic benefits are expected to be obtained which are controlled by a government. An item is not an asset if it lacks one or more of these essential characteristics:

- a) They **embody a future benefit** that involves a capacity, singly or in combination with other assets, to provide future cash flows, or to provide goods and services;
- b) The government can **control access to the benefit**; and
- c) The **transaction or event giving rise** to the government's control of the benefit **has already occurred**.

There are both financial and non-financial assets. Financial assets are assets that can be used to pay existing liabilities or finance future operations and are not for consumption in the normal course of business. Some examples of financial assets include but are not limited to:

- a) Cash
- b) A realizable asset that is convertible to cash (i.e. 30 day GIC)
- c) A contractual right to receive cash from another party (i.e. an amount receivable)
- d) A temporary or portfolio investment
- e) A financial claim on an outside organization or individual (i.e. loan receivable); or
- f) An inventory item for sale

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to pay existing liabilities. Non-financial assets are normally employed to deliver government services and as such maybe consumed in the normal course of operations but are not for sale in the normal course of business. Some examples of non-financial assets include but are not limited to:

- a) Tangible capital assets
- b) Inventories held for consumption or use
- c) Prepaid expenses

### 1.1.3 What are Liabilities?

Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.

Liabilities have three essential characteristics:

- a) They embody a **duty or responsibility to others**, leaving a government **little or no discretion to avoid** settlement of the obligation;
- b) The duty or responsibility to others entails **settlement by future transfer or use of assets**, provision of goods and services, or other form of economic settlement **at a specified or determinable date**, on occurrence of a specified event, or on demand; and
- c) The transactions or **events obligating the government have already occurred**.

Some examples of liabilities include but are not limited to:

- a) Payables and accruals
- b) Employee benefits
- c) Deferred revenue

### 1.1.4 What are Revenues?

Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities. Revenues result from operations, transactions or events of the accounting period and can include but are not limited to such things as:

- a) Taxes
- b) Sale of goods
- c) Grants
- d) Donations

#### e) Bequests

Revenues **do not include borrowings**, such as proceeds from debt issues **or transfers** from other governmental units in the government reporting entity.

### 1.1.5 What are Expenses?

Expenses, including losses, are decreases in economic resources, either by way of decreases in assets or increases in liabilities. Expenses result from operations, transactions and events of the accounting period. Expenses **do not include debt repayments or transfers** to other governmental units in the government reporting entity and some examples include but are not limited to:

- a) General Government Services Expenses
- b) Transportation Services Expenses
- c) Protective Services Expenses
- d) Amortization Expense

## 1.2 What are the qualitative characteristics of financial statements?

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users in making financial decisions. The principal qualitative characteristics are **relevance, reliability, comparability and understandability**. Financial statements should communicate information that is relevant to the needs of those for whom the financial statements are prepared. In order for information to be reliable, the information should be faithfully represented, neutral and complete. It must be clearly presented in a manner that maximizes its usefulness.

### 1.2.1 When are financial statements considered relevant?

Financial statements are relevant when they help users make decisions and provide information that:

#### a) Has predictive and feedback value;

Financial statements normally do not have predictive value. The predictive value of the Statement of Operations is enhanced if abnormal items are disclosed separately. However, information that confirms or corrects previous predictions has feedback value. An example would be when a municipality realizes a very large gain from the sale of a tangible capital asset. This would not be a normal recurring source of revenue.

#### b) Provides accountability;

Information that helps users assess a government's stewardship of the resources entrusted to it has accountability value. Accountability is enhanced when financial statements compare actual results against financial objectives and targets (i.e. budgets).

#### c) And is timely.

Information should be timely. Financial statements issued long after the fiscal period are not very useful. In order for information to be useful, the decision maker must receive the information before it loses the capacity to influence decisions.

### 1.2.2 Why must financial information be reliable?

Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding and decision making by users. It is for these reasons financial information must be reliable. Reliable information has the following characteristics:

**a) Representational faithfulness**

Representational faithfulness is achieved when transactions and events are accounted for and presented in a manner that **conveys their substance rather than necessarily their legal or other form.**

The substance of a transaction may not always be consistent with its legal or other forms. A common example is a capital lease. The legal title to a piece of equipment may remain with the lessor, but the lessee has taken on all the risks and benefits of ownership. The lessee therefore accounts for the transaction exactly as if he had borrowed funds and purchased the equipment outright.

**b) Completeness**

Completeness means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances.

**c) Neutrality**

Information is neutral when it is free from bias. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purposes of influencing behaviour in some particular direction.

**d) Conservatism**

The principle of conservatism applies to situations when estimates must be made in conditions of uncertainty. When uncertainty exists, conservative estimates would ensure that assets and revenues are not overstated or liabilities and expenses are not understated.

However, the principle of **conservatism does not mean the deliberate understatement of assets and revenues and the deliberate overstatement of expenses and liabilities.**

**e) Verifiability**

The financial statement representation of a transaction is verifiable if a knowledgeable and independent observer would concur that it is in agreement with the actual underlying transaction with a reasonable degree of precision. Verifiability focuses on the measurement of a transaction rather than its appropriateness.

**1.2.3 How is comparability amongst municipalities facilitated?**

Comparison of financial information **between municipalities** is facilitated when all municipalities follow the same standards in preparing their financial statements; namely PSAB GAAP. Consistency in the application of accounting policies **between periods** also facilitates comparability. Misconceptions may result from the application of different accounting policies in

different periods. In cases where a change in accounting policy is appropriate, disclosure of the effects of the change is necessary to continue the preservation of comparability.

#### **1.2.4 How can the understandability of financial information be enhanced?**

Financial information is understandable when it is presented clearly and simply. Excessive detail and complex presentation formats result in confusion and misinterpretation. In order for information to be useful, it must be capable of being easily understood by users.

#### **1.2.5 What is meant by a qualitative characteristic trade-off?**

In practice, there are often trade-offs between qualitative characteristics. The aim is to achieve an appropriate balance between the characteristics. There is often a trade-off between relevance and reliability.

For example, surplus land for sale has to be valued at the lower of historical or net realizable value. Valuing the land at its fair market value would be more **relevant** but it would be less **reliable** than historical cost.

### **1.3 What is the purpose of financial statement objectives?**

Financial statement objectives provide the foundation for developing financial statement reporting standards. The financial statement objectives improve government financial reporting and enhance their comparability. There are four main financial statement objectives:

#### **1.3.1 Objective #1 - Scope of Government Financial Statements**

*Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources which the government controls, including those related to the activities of its agencies and enterprises (PS1100.16).*

GAAP requires that municipalities consolidate all the entities they control. The consolidation of controlled entities provides a complete picture of the activity, assets and liabilities of the municipality. The municipality and its controlled entities make up the Municipal Reporting Entity or MRE. For more information on the MRE and consolidations please refer to the Phase Two Reference Manual.

#### **1.3.2 Objective #2 - Reporting Financial Position**

*Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating (PS1100.20):*

*(a) The government's ability to finance its activities and to meet its liabilities and contractual obligations (i.e. net financial asset position); and*

*(b) The government's ability to provide future services (i.e. accumulated surplus).*

A government's net financial asset position is the difference between its liabilities and financial assets. A government's net financial asset position is an important indicator of a government's financial position. A net debt position represents a "lien" on the ability of the government to



provide future services. A net financial asset position represents available economic resources which can be used to provide future government services.

### **1.3.3 Objective #3 - Reporting Changes in Financial Position**

*Financial statements should present information to describe the changes in a government's financial position in the accounting period. Such information should be useful in evaluating (PS1100.36):*

- (a) The sources, allocation and consumption of the government's recognized economic resources in the accounting period (i.e. statement of operations);*
- (b) How the activities of the accounting period have affected the net financial asset position of the government (i.e. statement of financial position); and*
- (c) How the government financed its activities in the accounting period and how it met its cash requirements (i.e. statement of cash flow).*

The Consolidated Statement of Operations should show:

- a) How and where a government gets its revenues;
- b) Expenses by function or major program to indicate the resources consumed by each type of government activity, and
- c) Expenses by object to disclose the nature of resources consumed by a government.

The Consolidated Statement of Change in Net Debt summarizes:

- a) The extent that the cost of services provided have been met by revenues;
- b) The extent of capital expenditures in the period; and
- c) The extent which capital expenditures have been funded by the surplus recognized in the period.

The Consolidated Statement of cash flows indicates how a government financed its activities and met its obligations through:

- a) Operations
- b) External borrowing
- c) Existing cash balances

### **1.3.4 Objective #4 - Legislative Control & Financial Accountability**

*Financial statements should demonstrate the accountability of a government for the resources, obligations and financial affairs for which it is responsible by providing information useful in (PS1100.61):*

- (a) Evaluating the financial results of the government's management of its resources, obligations and financial affairs in the accounting period; and*

*(b) Assessing whether resources were administered by the government in accordance with the limits established by the appropriate legislative authorities.*

Important accountability information about the budget decisions of the current period is provided when financial statements include a comparison of the government's actual and planned operating results.

If a government's formal budget is prepared on a different basis of accounting or for a different scope than its financial statements, the government needs to convert its formal budget to the same basis and scope used for the financial statements. The financial statements will need to include the reconciliation between the formal budget approved by council and the "PSAB" budget presented in the financial statements.

## **Section 2 – Standards of Financial Statement Presentation**

### **2.1 What should be included in a set of GAAP financial statements?**

GAAP financial statements shall include a:

- (a) Statement of Financial Position,
- (b) Statement of Operations,
- (c) Statement of Change in Net Debt and
- (d) Statement of Cash Flows.

### **2.2 What is the function of the financial statements?**

The function of the financial statements is to communicate relevant and reliable information to users. There are ten general reporting principles below to provide guidance in fulfilling this function:

1) The financial statements of a government should be clearly identified and should include an acknowledgement of the government's responsibility for their preparation.
2) Notes and schedules that are integral to the financial statements should be clearly identified.
3) Notes and supporting schedules should not be used as a substitute for proper accounting treatment.
4) Financial statements shall present any information required for the fair presentation of a government's financial position, result of operations, change in net debt, and cash flow.
5) Financial statements should be presented in such form and use such terminology and classification of items that significant information is readily understandable.
6) Financial statements should provide a comparison of current period amounts with those of the prior period.
7) Financial statements should be issued on a timely basis.
8) The basis for determining the reported amounts of assets and liabilities should be applied consistently and, where the basis is not self-evident, it should be disclosed.
9) Where the financial statements are subject to an independent audit, the auditor's report should be appended to the statements. Unaudited financial statements should be clearly identified as such.
10) Financial statements should present the substance of transactions and events.

## **2.3 What is the reporting significance of the Statement of Financial Position?**

The statement of financial position highlights four key figures that describe the financial position of the government;

- (a) financial assets,
- (b) non-financial assets,
- (c) net debt position and
- (d) accumulated surplus or deficit.

### **2.3.1 What are Financial Assets?**

Financial assets represent the resources available to discharge existing liabilities or finance future operations. The following list of financial assets is not a comprehensive list but includes accounts common to most municipalities.

**Cash and cash equivalents:**

- Cash and demand deposits
- Short term, highly liquid investments, held for meeting short term cash commitments rather than for investing
- Bank overdrafts

**Temporary investments:**

- Short term investments
- Marketable securities, GICs, term deposits, treasury bills

**Amounts receivable:**

- Amounts receivable within one year of the financial statement date
- Tax assets, government grants receivable, other government amounts receivable, amounts receivable from organizations and individuals, accrued interest receivable, etc.
- Amounts receivable beyond one year at the financial statement date should be included in loans and advances

**Inventories:**

- Inventories for sale or other assets
- Assets held for sale should be recognized as a financial asset if:
  - (i) The government is committed to selling the asset
  - (ii) The asset is in a condition to be sold
  - (iii) The asset is publicly seen to be for sale
  - (iv) There is an active market for the asset
  - (v) There is a plan in place for selling the asset

**Loans and advances:**

- A financial asset represented by a promise by a borrower to repay a specific amount at a specific time or times, or on demand, usually with interest receivable.
- Loans receivable

**Portfolio investments:**

- Long term investments of organizations that do not form part of the municipal reporting entity.
- Investments are normally in shares or debentures of the investee.

**2.3.2 What are some examples of Non-financial Assets?**

The statement of financial position should report non-financial assets segregated by main classifications. The following list of non-financial assets is not a comprehensive list but includes accounts common to most municipalities.

**Tangible capital assets:**

- Land, land improvements, buildings, vehicles, machinery, equipment, computers, furniture, roads, bridges, dams, water structures, etc.

**Inventories (not for sale):**

- For consumption or use by the municipality
- Fuel, parts inventory, materials, culverts, etc.

**Prepaid expenses:**

- Prepaid insurance

### 2.3.3 What are some examples of classifications of Liabilities?

The statement of financial position should report liabilities segregated by main classifications. The following list of liabilities is not a comprehensive list but includes accounts common to most municipalities.

**Accounts payable and accrued liabilities:**

- Accounts payable
- Accrued salaries
- Accrued audit fees

**Liabilities for employee future benefits:**

- Severance
- Pension liabilities

**Deferred revenue:**

- Taxes and fees collected for which the related service has not yet been performed.

**Liability for remediation of contaminated sites** (i.e. Environmental liabilities)

**Borrowings (principal):**

- Bank loans

**Obligations under capital leases**

**Loans from other governments**

### 2.3.4 Town of Anywhere – Prepare the Statement of Financial Position

The Town of Anywhere, is ready to prepare it's consolidated financial statements for the year ended December 31, 2009. The trial balance at December 31, 2009 is displayed in **Exhibit 1**, page17. The Town has an operating fund and reserve funds. It also has one controlled entity (i.e. Community Development Corporation - CDC) and two government partnerships (i.e. regional library and a recreational facility). The Town must first:

- 1) Consolidate its funds (**Exhibit 2**, page 18);
- 2) Consolidate its non consolidated balances with CDC and its government partnerships. The entity balances for consolidation are given (**Exhibit 3**, page 19); and

- 3) Prepare the Statement of Financial Position (**Exhibit 4**, page 20). The 2008 comparative balances are given.

The consolidation of the funds and entities were prepared on the Consolidation Worksheet Template. The entity balances for consolidation were prepared on Entity Worksheet Templates. Both templates are available on the PSAB web-site at <http://www.ma.gov.nl.ca/ma/psab> .

## EXHIBIT #1 – Trial Balance at December 31, 2009

General Operating Fund Dr (Cr)	Reserve Funds Dr (Cr)
Cash on Hand	<b>Gen Reserve:</b>
General Bank Account	Cash
<b>Total Cash</b>	
Taxes on Roll	T-Bill – 90 Days
Taxes – Doubtful Amounts	T-Bill – 60 Days
Grants Receivable - MB	GIC – 30 Days
Grant Receivable - Feds	<b>Total Temp Investments</b>
<b>Total Amounts Rec</b>	
Inventory-Fuel	Term Deposit – 1 yr.
Prepaid Insurance	Term Deposit – 2 yrs.
Loan Receivable - CDC	<b>Total Port Investments</b>
Real Estate for Sale	
Portfolio Invest	Accrued Interest Receivable
Land	Fund Surplus
Buildings	Interest Income
Buildings – Accm Amort	Transfer from Op Fund
Vehicles	Investment Charges
Vehicles – Accm Amort	<b>Net Revenue</b>
Mach & Equip	
M&E – Accm Amort	<b>Specific Reserve:</b>
Streets	Cash
Streets – Accm Amort	T-Bill – 45 Days
<b>Total TCA</b>	Term Deposit –30 Days
Trade Payables	GIC – 30 Days
School Division Levy Pay	<b>Total Temp Investments</b>
CPP & EI payable	
Income Tax Holdings Pay	Accrued Interest Receivable
MEBP payable	Fund Surplus
GST payable	Interest Income
<b>Total Accounts Payable</b>	Transfer from Op Fund
Accrued Salaries	Investment Charges
Accrued Wages	<b>Net Revenue</b>
Accrued Holidays	
Accrued Severance	
Accrued Audit Fees	
Accrued Interest	
<b>Total Accruals</b>	
Prepaid taxes	
Landfill#1 – Closed	
Landfill#2 - Open	
<b>Total Landfill Liabilities</b>	
Debenture #1	
Term Bank Loan	
<b>Total Borrowings</b>	
Nominal Surplus	
Property taxes	
User fees	
Government Transfers	
Grants in Lieu	
Other Income	
<b>Total Revenue</b>	
General Government	
Protective Services	
Trans Services	
Enviro Health Services	
Public Health	
Regional planning & dev	
Res cons & Industrial dev	
Recreation & Culture	
Fiscal Services:	
Transfer to Gen Reserve	
Transfer to Spec Res	
<b>Total Expenses</b>	
<b>Operating Deficit</b>	

## EXHIBIT #2 – Consolidation of Funds

<i>All balances are taken from Exhibit #1 – Trial Balance at Dec 31/09</i>	General Op	General	Specific	Town of Anywhere
	Fund	Reserve	Reserve	(unconsolidated)
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>Statement of Financial Position</b>				
Cash & Temporary Investments	750,300	225,000	325,000	1,300,300
Amounts Receivable	400,000	4,500	3,000	407,500
Portfolio Investments	56,500	25,000	-	81,500
Loans and Advances	50,000	-	-	50,000
Real Estate Properties for Sale	57,000	-	-	57,000
<b>Total Financial Assets</b>	<b>1,313,800</b>	<b>254,500</b>	<b>328,000</b>	<b>1,896,300</b>
Accts Payable & Accr Liabilities	(1,109,850)	-	-	(1,109,850)
Deferred Revenue	(15,000)	-	-	(15,000)
Landfill Liabilities	(26,000)	-	-	(26,000)
Long Term Debt	(125,000)	-	-	(125,000)
<b>Total Liabilities</b>	<b>(1,275,850)</b>	<b>-</b>	<b>-</b>	<b>(1,275,850)</b>
<b>Net Financial Assets (Debt)</b>	<b>37,950</b>	<b>254,500</b>	<b>328,000</b>	<b>620,450</b>
Tangible Capital Assets	698,500	-	-	698,500
Inventories	10,000	-	-	10,000
Prepays	36,000	-	-	36,000
<b>Total Non Financial Assets</b>	<b>744,500</b>	<b>-</b>	<b>-</b>	<b>744,500</b>
<b>Accumulated Surplus (Deficit)</b>	<b>782,450</b>	<b>254,500</b>	<b>328,000</b>	<b>1,364,950</b>
<b>Statement of Operations</b>				
Taxation	(543,000)	-	-	(543,000)
Water and Sewer	-	-	-	-
User Fees	(20,000)	-	-	(20,000)
Government Transfers	(175,000)	-	-	(175,000)
Permits, licences and fines	-	-	-	-
Grants in Lieu of Taxation	(40,000)	-	-	(40,000)
Investment Income	-	(8,250)	(7,100)	(15,350)
Other Income	(4,000)	-	-	(4,000)
<b>Total Revenue</b>	<b>(782,000)</b>	<b>(8,250)</b>	<b>(7,100)</b>	<b>(797,350)</b>
General Government Services	170,000	250	250	170,500
Protective Services	20,000	-	-	20,000
Transportation Services	215,000	-	-	215,000
Water & Sewer Services	-	-	-	-
Environmental Health Services	20,000	-	-	20,000
Public Health & Welfare Services	10,000	-	-	10,000
Regional Planning & development	8,000	-	-	8,000
Resource cons & industrial development	10,000	-	-	10,000
Recreational & Cultural Services	40,000	-	-	40,000
Transfers	293,500	(100,000)	(193,500)	-
<b>Total Expenses</b>	<b>786,500</b>	<b>(99,750)</b>	<b>(193,250)</b>	<b>493,500</b>
<b>Annual (Surplus) Deficit</b>	<b>4,500</b>	<b>(108,000)</b>	<b>(200,350)</b>	<b>(303,850)</b>
<b>Opening (Surplus) Deficit</b>	<b>(786,950)</b>	<b>(146,500)</b>	<b>(127,650)</b>	<b>(1,061,100)</b>
<b>Ending (Surplus) Deficit</b>	<b>(782,450)</b>	<b>(254,500)</b>	<b>(328,000)</b>	<b>(1,364,950)</b>

To Exhibit  
#3-pg. 19



## EXHIBIT #3 – Consolidation of Controlled Entities and Government Partnerships

<i>All Anywhere's unconsolidated balances are from Exhibit #2 - Consolidation of Funds</i>	<b>Anywhere</b> <small>(unconsolidated)</small>	<b>CDC</b> <b>(100%)</b>	<b>Library</b> <b>(50%)</b>	<b>Recreation</b> <b>(50%)</b>	<b>Anywhere</b> <small>(consolidated)</small>
	<b>Dr (Cr)</b>	<b>Dr (Cr)</b>	<b>Dr (Cr)</b>	<b>Dr (Cr)</b>	<b>Dr (Cr)</b>
<b>Statement of Financial Position</b>					
Cash & Temporary Investments	1,300,300	95,000	86,000	16,000	1,497,300
Amounts Receivable	407,500	100	2,400	600	410,600
Due From (to) Other Funds	-	-	-	-	-
Portfolio Investments	81,500	-	-	-	81,500
Loans and Advances	50,000	(50,000)	-	-	-
Real Estate Properties for Sale	57,000	90,300	-	-	147,300
<b>Total Financial Assets</b>	<b>1,896,300</b>	<b>135,400</b>	<b>88,400</b>	<b>16,600</b>	<b>2,136,700</b>
Accts Payable & Accr Liabilities	(1,109,850)	(550)	(500)	(400)	(1,111,300)
Deferred Revenue	(15,000)	-	-	-	(15,000)
Landfill Liabilities	(26,000)	-	-	-	(26,000)
Long Term Debt	(125,000)	(27,500)	-	-	(152,500)
<b>Total Liabilities</b>	<b>(1,275,850)</b>	<b>(28,050)</b>	<b>(500)</b>	<b>(400)</b>	<b>(1,304,800)</b>
<b>Net Financial Assets (Debt)</b>	<b>620,450</b>	<b>107,350</b>	<b>87,900</b>	<b>16,200</b>	<b>831,900</b>
Tangible Capital Assets	698,500	-	31,000	13,000	742,500
Inventories	10,000	-	-	-	10,000
Prepays	36,000	-	1,200	-	37,200
	<b>744,500</b>	<b>-</b>	<b>32,200</b>	<b>13,000</b>	<b>789,700</b>
<b>Accumulated Surplus (Deficit)</b>	<b>1,364,950</b>	<b>107,350</b>	<b>120,100</b>	<b>29,200</b>	<b>1,621,600</b>
<b>Statement of Operations</b>					
Taxation	(543,000)	-	-	-	(543,000)
User Fees	(20,000)	-	(1,800)	(16,000)	(37,800)
Government Transfers	(175,000)	-	(66,700)	-	(241,700)
Permits, licences and fines	-	-	-	(17,700)	(17,700)
Grants in Lieu of Taxation	(40,000)	-	-	-	(40,000)
Investment Income	(15,350)	(4,800)	(1,300)	(350)	(21,800)
Other Income	(4,000)	-	(3,800)	(20)	(7,820)
<b>Total Revenue</b>	<b>(797,350)</b>	<b>(4,800)</b>	<b>(73,600)</b>	<b>(34,070)</b>	<b>(909,820)</b>
General Government Services	170,500	-	-	-	170,500
Protective Services	20,000	-	-	-	20,000
Transportation Services	215,000	-	-	-	215,000
Environmental Health Services	20,000	-	-	-	20,000
Public Health & Welfare Services	10,000	-	-	-	10,000
Regional planning & development	8,000	-	-	28,700	36,700
Res cons & industrial development	10,000	17,300	-	-	27,300
Recreational & Cultural Services	40,000	-	56,000	-	96,000
Transfers	-	-	-	-	-
<b>Total Expenses</b>	<b>493,500</b>	<b>17,300</b>	<b>56,000</b>	<b>28,700</b>	<b>595,500</b>
<b>Annual (Surplus) Deficit</b>	<b>(303,850)</b>	<b>12,500</b>	<b>(17,600)</b>	<b>(5,370)</b>	<b>(314,320)</b>
<b>Opening (Surplus) Deficit</b>	<b>(1,061,100)</b>	<b>(119,850)</b>	<b>(102,500)</b>	<b>(23,830)</b>	<b>(1,307,280)</b>
<b>Ending (Surplus) Deficit</b>	<b>(1,364,950)</b>	<b>(107,350)</b>	<b>(120,100)</b>	<b>(29,200)</b>	<b>(1,621,600)</b>
<b>Check for Balance</b>	-	-	-	-	-

To  
Statement  
of  
Financial  
Position –  
pg.20

To  
Statement of  
Operations  
Pg. 27

## EXHIBIT #4 – Consolidated Statement of Financial Position

**TOWN OF ANYWHERE**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at December 31, 2009**

	<u>2009</u>	<u>2008</u>
<b>FINANCIAL ASSETS</b>		
Cash and temporary investments	\$ 1,497,300	\$ 1,547,100
Amounts receivable	410,600	307,950
Portfolio investments	81,500	75,000
Real estate properties held for sale	<u>147,300</u>	<u>137,000</u>
	<u>\$ 2,136,700</u>	<u>\$ 2,067,050</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 1,111,300	\$ 1,136,100
Deferred revenue	15,000	30,000
Landfill closure and post closure liabilities	26,000	20,650
Long-term debt	<u>152,500</u>	<u>140,220</u>
	<u>1,304,800</u>	<u>1,326,970</u>
<b>NET FINANCIAL ASSETS</b>	<u>\$ 831,900</u>	<u>\$ 740,080</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets <i>(Schedule 1-Exhibit #8, pg. 47)</i>	\$ 742,500	\$ 516,000
Inventories	10,000	20,000
Prepaid expenses	<u>37,200</u>	<u>31,200</u>
	<u>789,700</u>	<u>567,200</u>
<b>ACCUMULATED SURPLUS</b>	<u>\$ 1,621,600</u>	<u>\$ 1,307,280</u>

*Exhibit #3 - pg. 19*

## 2.4 What is the purpose of the Statement of Operations?

The Statement of Operations displays the cost of government services provided in the accounting period, the revenues recognized in the accounting period and the difference between them. The statement of operations should:

- (a) report the amount and types of revenues for the accounting period,
- (b) report the amount and types of expenses of the period,
- (c) account for the difference between the revenues and expenses as the measure of the surplus or deficit for the period and
- (d) report the accumulated surplus/deficit at the beginning and end of the period, unless these figures are reconciled with the surplus/deficit for the period on a separate statement.

The Statement of Operations should disclose the gross amount of revenues and expenses. **Revenues including gains should be recognized in the period in which the transactions or events occurred that gave rise to the revenues.** For example, user fees should be recognized in the period the goods or services are provided. Gains are generally recognized when realized.

Transfers between funds are neither revenues nor expenses as all transfers between funds should be eliminated. Similarly, all transactions between a municipality and its entities within the Municipal Reporting Entity should be eliminated on consolidation.

### 2.4.1 What are some examples of revenue classifications?

There have been no significant changes to the revenue classifications of the past. The following list of revenues is not a comprehensive list but includes accounts common to most municipalities.

#### **Taxation:**

- All municipal taxes and levies
- Includes property taxes (current and in arrears), business taxes, water and sewer taxes plus any tax penalties and interest.

#### **User Fees:**

- Payments for exchange of goods or direct access to services
- Parking meters
- Rentals
- Park fees
- Facility use fees (pools, arenas, libraries, etc.)

#### **Grants:**

- Transfers of money to the municipality for which the government making the transfer does not
  - (i) receive any goods or services directly in return as would in a purchase/sale transaction;
  - (ii) expect to be repaid in the future as in a loan; or
  - (iii) expect a financial return as in an investment.

- Municipal Operating Grants
- Gas Tax Agreement Revenue
- Specific Support Grants, i.e. Regional Arena Construction Grant
- Multi Year Capital Works Program
- Debt Servicing Grant
- Grants from other municipalities
- Grants in Lieu of taxation by the Federal or Provincial governments or their respective Crown corporations or agencies.

**Permits, Licences and Fines:**

- Fee by which a licensee obtains permission from the municipality to conduct specified activities
- Occupancy Permits
- Building permits
- Business and amusement licenses
- Fire inspection fees
- Parking permit/meter fees and fines
- Animal control fines and fees

**Investment Income:**

- Interest earned

**Other Revenue:**

- As a rule of thumb, other revenue should never exceed 10% of your total revenues. If it does then you need to disclose the balance in more detail.
- Miscellaneous revenue
- Gains on sale of vehicles and equipment
- Gain on sale of land and buildings

**Water and Sewer:**

- Includes all revenues from water and sewer operations
- Sewer service charges
- Penalties

**2.4.2 What are some examples of functional expense classifications?**

There have been no significant changes to the functional expense classifications of the past. The following list of expenses by function is not a comprehensive list but includes activities common to most municipalities.

**General Government:**

- Expenses relating to the operation of council and the general administration of the municipality.
- Includes any expenses that cannot be attributed to a particular program.
- Includes employee pensions and benefits, legislative costs and other general government expenses.

**Protective Services:**

- Expenses relating to the provision of protective services, fire protection, animal and pest control, traffic enforcement and general protective measures.

**Transportation Services:**

- Expenses relating to the maintenance of roads, streets, back lanes, sidewalks, and bridges.
- Includes the maintenance and operation of airports and transit systems.

**Environmental Health Services:**

- Expenses relating to garbage and waste collection and disposal.
- Includes water supply and distribution.
- Includes sewage collection and disposal.

**Environmental Development Services:**

- Expenses relating to environmental planning and zoning.
- Housing and real estate
- Any other costs for environmental development services.
- Expenses relating to the provision of conservation and tourism

**Recreation & Cultural Services:**

- Expenses relating to the maintenance and operation of recreational and cultural facilities.
- Includes community centres, golf courses, swimming pools, arenas, curling rinks, libraries, museums, theatres and other cultural facilities.

**Water & Sewer Services:**

- Expenses relating to the provision of water and sewer services including the maintenance and operation of the underground networks, treatment plants, reservoirs, and lagoons.
- Includes water purchases.

**Fiscal Services:**

- Fiscal services will still be required for the financial plan (i.e. the formal budget).
- Fiscal services **should no longer be used** in GAAP financial statements.
- Relates to capital expenditures, debt payments, and transfers to reserves and other funds.
- Includes the allowance for tax assets. After the implementation of PSAB, the allowance for tax assets should be charged to general government.
- Other allowances for bad debts should be charged to the related program.
- If an allowance for bad debts cannot be charged to a particular program then it should be charged to general government.

**2.4.3 What is meant by Expenses by Object (or Type)?**

*Financial statements should disclose the expenses of the accounting period by object (PS1200.83).*

Expenses are reported by function or program on the statement of operations. Expenses by object are normally disclosed in a note or schedule to the financial statements. Disclosure of the expenses by object provides information that is useful in evaluating the major types of expenses incurred by a municipality in the period. The disclosure of the expenses by object offers a different perspective of the expenses in the period.

#### **Personnel Services:**

- Is made up of all costs related to salaries, wages and benefits.
  - a) Salaries and Wages:
    - Any salaries and wages that have to be included on a T4.
    - Includes indemnities for councilors
  - b) Benefits:
    - Holidays
    - Severance
    - Vested sick leave
    - Employer contributions to CPP and EI
    - Employer contribution to disability plan
    - Other employer contributions to health & dental plans, group life insurance, etc.

#### **Contract Services:**

- Expenses relating to the purchase of **services from the private sector or another government**
- Includes, but is not limited to:
  - Audit
  - Legal
  - Insurance
  - Road inspections
  - Consultants
  - Software support
  - Janitorial services
  - Police services (i.e. RCMP)
  - Fire protection services (i.e. from another municipality)
  - Exterminators
  - Tradesman
  - Auto repairs
  - Garbage collection and disposal (i.e. from a private company)
  - Recycling (i.e. from a private company)
  - Seminars & professional development courses (staff & elected officials)
  - Conventions (staff & elected officials)
- Includes travel costs (mileage, airfare, meals, hotels, etc.) for seminars, professional development courses and conferences.

#### **Utilities:**

- Expenses relating to the purchase of services from utilities.
- Includes but is not limited to:
  - Hydro (lighting & heating)
  - Natural gas (heat)
  - Water & sewer
  - Phone
  - Cable/Internet

**Maintenance Materials & Supplies:**

- Expenses relating to the purchase of materials and supplies
- Includes but is not limited to:
  - Cleaning supplies
  - Office supplies
  - Construction materials
  - Automotive & equipment parts
  - Chemicals/Pesticides
  - Fuel
  - Asphalt
  - Small tools
  - Gravel, dirt, sand & rocks

**Grants & Contributions:**

- Transfers of money to individuals or organizations for which the municipality does not
  - (i) receive any goods or services directly in return as would in a purchase/sale transaction;
  - (ii) expect to be repaid in the future as in a loan; or
  - (iii) expect a financial return as in an investment.

**Amortization:**

- Amortization expense relating to tangible capital assets.
- Disclosure is specifically required by PSAB.

**Interest on Long Term Debt:**

- Interest expense on loans and debentures.
- Interest expense on lines of credit that are in a credit balance for the entire fiscal year.
- Disclosure is specifically required by PSAB.

**Bad Debt Expense:**

- Expense relating to doubtful amounts receivable.
- If amounts are not significant bad debt expense can be included with “other operating expenses” for financial statement presentation purposes.
- Disclosure is specifically required by PSAB.

**Other Operating Expenses:**

- Expenses which cannot be classified to any other object.
- Could include bank service charges and interest on short term borrowing.
- As a rule of thumb, other operating expenses should never exceed 10% of your total expenses. If it does then you need to disclose the balance in more detail.

#### **2.4.4 Town of Anywhere – Prepare the Statement of Operations**

The Town of Anywhere is ready to prepare its consolidated statement of operations for the year ended December 31, 2009. The trial balance at December 31, 2009 is displayed in **Exhibit 1**, page 17. The Town has an operating fund and reserves fund. It also has one controlled entity (i.e. CDC) and two government partnerships (i.e. regional library and a recreational facility). It has already consolidated its funds (**Exhibit 2**, page 18) and controlled entities (**Exhibit 3**, page 19).

The consolidation of the funds and entities were prepared on the Consolidation Worksheet Template. The entity balances for consolidation were prepared on Entity Worksheet Templates. Both templates are available on the PSAB web-site at <http://www.ma.gov.nl.ca/ma/psab> .

Prepare the Town's consolidated statement of operations (**Exhibit 5**, page 27). The 2008 comparative balances are given and were previously prepared.



# EXHIBIT #5 – CONSOLIDATED STATEMENT OF OPERATIONS

**TOWN OF ANYWHERE  
CONSOLIDATED STATEMENT OF OPERATIONS  
Year Ended December 31, 2009**

	<u>2009 Budget</u>	<u>2009 Actual</u>	<u>2008 Actual</u>
	<i>Exhibit # 16- Schedule 8, pg.59</i>	<i>Exhibit # 3 – pg.19</i>	
<b>REVENUE</b>			
Taxation	\$ 540,000	\$ 543,000	595,000
Grants in lieu of taxation	40,000	40,000	39,500
User fees	40,000	37,800	34,400
Government Transfers	240,000	241,700	215,000
Permits, licences and fines	20,000	17,700	15,000
Investment income	20,000	21,800	26,000
Other income	8,000	7,820	8,100
Total revenue	<u>908,000</u>	<u>909,820</u>	<u>933,000</u>
<b>EXPENSES</b>			
General government services	170,000	170,500	165,000
Protective services	20,000	20,000	19,000
Transportation services	220,000	215,000	232,500
Environmental health services	23,000	20,000	25,000
Public health and welfare services	12,000	10,000	12,000
Regional planning and development	36,000	36,700	38,300
Resource conservation and industrial development	28,000	27,300	22,700
Recreation and cultural services	95,000	96,000	100,800
Total expenses	<u>604,000</u>	<u>595,500</u>	<u>615,300</u>
<b>ANNUAL SURPLUS</b>	<u>304,000</u>	<u>314,320</u>	<u>317,700</u>
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<u>1,307,280</u>	<u>1,307,280</u>	<u>989,580</u>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<u>\$ 1,611,280</u>	<u>\$ 1,621,600</u>	<u>\$ 1,307,280</u>

## 2.5 What does the Statement of Change in Net Debt provide?

The Statement of Change in Net Debt provides information regarding the extent to which expenditures of the accounting period were met by revenues recognized in the accounting period. The statement of change in net debt should:

- (i) report the extent to which the expenditures of the accounting period are met by the revenues recognized in the period,
- (ii) report net debt at both the beginning and end of the accounting period and
- (iii) report the acquisition of TCAs in the accounting period as well as other significant items that explain the difference between the surplus or deficit for the period and the change in net debt for the period. Other significant items include:
  - Amortization of TCA
  - NBV of disposed TCA
  - Write downs of TCA
  - Capitalized interest
  - Consumption of non-financial assets like inventory and prepaids
  - Expenditures to acquire non-financial assets like inventory and prepaids

A Government's Net Debt position is a key indicator of its overall financial health. Net Debt is simply a government's financial assets less its liabilities. If a government's financial assets are greater than its liabilities then it is called Net Financial Assets. If a government's financial assets are less than its liabilities then it is called Net Debt. A Net Debt balance represents a lien against future operations while a Net Financial Assets balance means the government has resources available for future operations.

The Statement of Change in Net Debt is a derivative statement of the Statement of Financial Position and Statement of Operations. **You should only prepare the Statement of Change in Net Debt after you have prepared the Statement of Financial Position and Statement of Operations.** The reason being is that you require the:

- (i) Annual surplus/deficit for the year – Statement of Operations
- (ii) Changes in your non-financial assets – Statement of Financial Position

### 2.5.1 Town of Anywhere – Prepare the Statement of Change in Net Financial Assets

The Town of Anywhere has completed its Statement of Financial Position and Statement of Operations. It must now complete the Consolidated Statement of Change in Net Financial Assets (**Exhibit 6**, page 29). The changes in her TCA balances are as follows:

Opening TCA Balance, Jan 1/09	<i>(Exhibit #8 – Schedule 1, pg.46)</i>	\$	516,000
Acquisition of TCA			331,800
Amortization of TCA			<u>(105,300)</u>
Ending TCA Balance, Dec 31/09		\$	<u>742,500</u>

# EXHIBIT #6 – CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

TOWN OF ANYWHERE

CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

Year Ended December 31, 2009

	2009 Budget	2009 Actual	2008 Actual
	<i>(Consolidated Statement of Operations - Exhibit 5, pg.27)</i>		
<b>ANNUAL SURPLUS</b>	<b>\$ 304,000</b>	<b>\$ 314,320</b>	<b>\$ 317,700</b>
Acquisition of tangible capital assets <i>(pg 28)</i>	(330,000)	(331,800)	(449,000)
Amortization of tangible capital assets <i>(pg 28)</i>	100,000	105,300	175,000
Loss (Gain) on sale of tangible capital assets	-	-	5,000
Proceeds on sale of tangible capital assets	-	-	1,000
Decrease (Increase) in inventories <i>(\$20,000-\$10,000)</i>	12,000	10,000	14,300
Decrease (Increase) in prepaids <i>(\$31,200-\$37,200)</i>	(5,000)	(6,000)	10,680
	<u>(223,000)</u>	<u>(222,500)</u>	<u>(243,020)</u>
<b>CHANGE IN NET FINANCIAL ASSETS</b>	<b>81,000</b>	<b>91,820</b>	<b>74,680</b>
<b>NET FINANCIAL ASSETS (NET DEBT), BEGINNING OF YEAR</b>	<u>740,080</u>	<u>740,080</u>	<u>665,400</u>
<b>NET FINANCIAL ASSETS (NET DEBT), END OF YEAR</b> <i>(Exhibit #4, pg.20)</i>	<u><u>\$821,080</u></u>	<u><u>\$ 831,900</u></u>	<u><u>\$ 740,080</u></u>

## 2.6 What is the importance of the Statement of Cash Flows?

Information about the cash flows of a government enables users of its financial statements to assess:

- (i) the capacity of the government to generate cash, and
- (ii) the need of the government for cash resources.

The Statement of Cash Flows should report:

- how a government generated and used cash in the period;
- the change in cash and cash equivalents in the period; and
- the cash and cash equivalents at both the beginning and end of the accounting period.

The Statement of Cash Flows should report cash flows during the period classified by:

- (i) operating activities
- (ii) capital activities
- (iii) investing activities
- (iv) financing activities

A government may report cash flows using either the **direct method** or the **indirect method**. Both are acceptable under PSAB however, very few governments use the direct method as it is more difficult to prepare. In this manual and in future training sessions only the indirect method will be illustrated.

The Statement of Cash Flow, similar to the Statement of Net Debt, is a derivative statement of the Statement of Financial Position and Statement of Operations. You should only prepare it after you have prepared the first two statements. The reason for this is that you require the:

- (i) Annual surplus/deficit for the year – Statement of Operations
- (ii) Items not affecting cash – Statement of Operations
- (iii) Changes in your non cash financial assets, liabilities, and non-financial assets – Statement of Financial Position

To prepare the Statement of Cash Flow the preparer must recognize which non cash items are **sources of cash** and which are **uses of cash**. Decreases in non-cash assets are sources of cash, while increases are uses of cash. Liabilities are completely the opposite so increases in liabilities are sources of cash while decreases in liabilities are uses of cash.

An operating surplus is a source of cash while an operating deficit is a use of cash. Some financial statement items like amortization, gains and losses, and accruals affect the operating results but do not affect the cash position of the government. The government's cash from operations has to be adjusted for these items. The following table summarizes the sources and uses of cash:

	Source of Cash	Use of Cash
<b>Operating Transactions:</b>		
Annual surplus	β	
Annual deficit		β
Changes in non-cash items:		
Increase in amounts receivable		β
Decrease in amounts receivable	β	
Increase in inventories		β
Decrease in inventories	β	
Increase in prepaids		β
Decrease in prepaids	β	
Increase in AP & accrued liabilities	β	
Decrease in AP & Accrued liabilities		β
Loss on sale of TCA	β	
Gain on sale of TCA		β
Amortization	β	
<b>Capital Transactions:</b>		
Proceeds on sale of TCA	β	
Acquisition of TCA		β
<b>Investing Transactions:</b>		
Proceeds on sale of portfolio investments	β	
Proceeds on sale of real estate properties	β	
Loans and advances repaid	β	
Purchase of portfolio investments		β
Acquisition of real estate properties		β
Loans and advances issued		β
<b>Financing Transactions:</b>		
Proceeds of long term debt	β	
Obligation under capital lease	β	
Debt repayment		β
Repayment of obligation under capital lease		β

### 2.6.1 Town of Anywhere – Prepare the Statement of Cash Flows

The Town of Anywhere, must now complete it's Consolidated Statement of Cash Flows (**Exhibit 7**, page 31). The changes in the TCA balances again are as follows:

Opening TCA Balance, Jan 1/09	( <i>Exhibit #8 –pg.46</i> )	\$	516,000
Acquisition of TCA			331,800
Amortization of TCA			<u>(105,300)</u>
Ending TCA Balance, Dec 31/09		\$	<u><u>742,500</u></u>

## EXHIBIT #7 – CONSOLIDATED STATEMENT OF CASH FLOWS

**TOWN OF ANYWHERE  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Year Ended December 31, 2009**

	<u>2009</u>	<u>2008</u>
<b>OPERATING TRANSACTIONS</b>		
Annual surplus <span style="float: right;"><i>(Statement of Operations-Exhibit #5)</i></span>	<b>\$ 314,320</b>	317,700
Changes in non-cash items: <span style="float: right;"><i>(Statement of Financial Position – Exhibit #4)</i></span>		
Amounts receivable <span style="float: right;"><i>(\$307,950 - \$410,600)</i></span>	<b>(102,650)</b>	(145,500)
Accounts payable and accrued liabilities <span style="float: right;"><i>(\$1,111,300 - \$1,136,100)</i></span>	<b>(24,800)</b>	(44,800)
Deferred revenue <span style="float: right;"><i>(\$15,000 - \$30,000)</i></span>	<b>(15,000)</b>	(10,000)
Inventories <span style="float: right;"><i>(\$20,000 - \$10,000)</i></span>	<b>10,000</b>	14,300
Prepays <span style="float: right;"><i>(\$31,200 - \$37,200)</i></span>	<b>(6,000)</b>	10,680
Landfill closure and post liabilities <span style="float: right;"><i>(\$26,000 - \$20,650)</i></span>	<b>5,350</b>	(1,500)
Loss (Gain) on sale of tangible capital asset	-	5,000
Amortization <span style="float: right;"><i>(pg. 46)</i></span>	<b>105,300</b>	175,000
Cash provided by operating transactions	<b><u>286,520</u></b>	<u>320,880</u>
<b>CAPITAL TRANSACTIONS</b>		
Proceeds on sale of tangible capital assets	-	1,000
Cash used to acquire tangible capital assets <span style="float: right;"><i>(pg. 46)</i></span>	<b>(331,800)</b>	(449,000)
Cash applied to capital transactions	<b>(331,800)</b>	(448,000)
<b>INVESTING TRANSACTIONS</b>		
Portfolio investments <span style="float: right;"><i>(\$75,000 - \$81,500)</i></span>	<b>(6,500)</b>	(12,000)
Real estate properties held for resale <span style="float: right;"><i>(\$137,000 - \$147,300)</i></span>	<b>(10,300)</b>	50,000
Cash provided by investing transactions	<b>(16,800)</b>	38,000
<b>FINANCING TRANSACTIONS</b>		
Proceeds of long-term debt	<b>118,000</b>	-
Debt repayment	<b>(105,720)</b>	(79,700)
Cash provided (applied) to financing transactions <span style="float: right;"><i>(\$152,500--\$140,220)</i></span>	<b>12,280</b>	(79,700)
<b>INCREASE IN CASH AND TEMPORARY INVESTMENTS</b>	<b>(49,800)</b>	(168,820)
<b>CASH AND TEMPORARY INVESTMENTS, BEGINNING OF YEAR</b>	<b>1,547,100</b>	1,715,920
<b>CASH AND TEMPORARY INVESTMENTS, END OF YEAR <span style="float: right;"><i>(pg. 20)</i></span></b>	<b><u>\$1,497,300</u></b>	<b><u>\$1,547,100</u></b>

## Section 3 – Financial Statement Note Disclosures

### 3.1 What is the first disclosure note for a Municipality?

The financial statements should provide a short description of the government and its relevant legislation in a note disclosure form. An example of such disclosure is:

#### 1. Status of the Town of Anywhere

The incorporated Town of Anywhere is a municipal government that was incorporated in 1986 pursuant to the Province of Newfoundland and Labrador's Municipalities Act. The Town provides or funds municipal services such as fire, public works, parks and recreation, tourism, and other general government operations.

### 3.2 How often should note disclosure regarding significant accounting policies be presented?

Financial Statement note disclosure for a municipality's significant accounting policies should be presented every year. Commencing with the 2009 fiscal year, all municipalities in the Province should prepare their general purpose audited financial statements in accordance with GAAP.

In accordance with PS2100, **a clear and concise description of all significant accounting policies of a reporting entity should be included as an integral part of its financial statements and such disclosure should be made in one place.**

As a minimum, disclosure of information relating to accounting policies should include:

- a. the reporting entity and, where applicable, the method of consolidation,
- b. the source of the basis of accounting used in the financial statements, and
- c. the specific accounting policies selected and applied to significant assets, liabilities, revenues and expenses.

An example of note disclosure for Significant Accounting Policies is:

#### 2. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants and reflect the following significant accounting policies:

### 3.2.1 What is meant by disclosing the “basis of consolidation”?

A Municipality’s financial statements should disclose, in notes or schedules, a listing of the entities included in the Municipal Reporting Entity. An example of such note disclosure is:

#### **a) Basis of Consolidation**

The consolidated financial statements include the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of all organizations, local boards and committees of the council which are controlled by the Municipality which include the following:

Community Development Corporation  
Anywhere Public Library  
Anywhere Memorial Stadium

### 3.2.2 What kind of disclosure is required for a Municipality’s Assets & Liabilities?

A Municipality is required to disclose yearly the significant accounting policies on its assets and liabilities but it only need to disclose the accounting polices on asset and liability balances that are on its Statement of Financial Position. For example, you don’t need to disclose an accounting policy for landfill liabilities if you don’t have a landfill.

#### **b) Cash and Temporary Investments**

Cash and temporary investments include cash and short-term investments with maturities of three months or less from the date of acquisition.

#### **c) Investments**

Temporary investments are accounted for at the lower of cost and market.

Other investments are recorded at cost.

#### **c) Inventories**

Inventories are valued at the lower of cost and replacement cost. Cost is determined on the first in, first out basis.

#### **d) Real Estate Properties Held for Sale**

Real estate properties held for sale are recorded at the lower of cost and net realizable value. Cost includes the amount of acquisition, legal fees and improvements to prepare the properties for sale or servicing.

It is reasonably anticipated that real estate properties held for sale will be sold to outside the reporting entity within one year of the balance sheet date.

#### **e) Tangible Capital Assets**

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. Assets under construction are not amortized until the asset is put into use and one-half of the annual amortization is charged in the year of acquisition and in the year of disposal. The cost, less residual value, of the tangible capital



assets are amortized on a straight line basis over their estimated useful lives as follows:

Buildings	25 years
Computer hardware and software	5 years
Equipment	5 years
Roads	20 years
Vehicles	10 years
Water and Sewer	60 years

**f) Leases**

Leases are classified as capital or operating leases. Leases which transfer substantially the entire benefits and risks incidental to the ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

**3.2.3 What is an example of note disclosure for revenue recognition?**

**g) Revenue Recognition**

Revenues are recognized as earned and when collection is reasonably assured. Tax rates are approved annually by Council.

**3.2.4 What is an example of note disclosure for a Municipality's use of estimates?**

**h) Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**3.3 What kind of disclosure should a Municipality make regarding Cash and Temporary Investments?**

A Municipality's financial statements should disclose adequate information about the nature and terms of its temporary investments together with any valuation allowances. Also, where the market value of the temporary investments has declined below the carrying value, investments should be carried at market.

### 3. Cash and Temporary Investments

Cash and temporary investments are comprised of the following:	<u>2009</u>	<u>2008</u>
Cash	\$ 1,057,300	\$ 1,147,100
Temporary investments	<u>440,000</u>	<u>400,000</u>
	\$ <u>1,497,300</u>	\$ <u>1,547,100</u>

Temporary investments are comprised mainly of guaranteed investment certificates and term deposits and have a market value approximating cost. The Municipality has designated \$670,000 (2008 \$500,000) to reserves for debt principal repayments and tangible capital asset acquisitions.

### 3.4 What is an example of note disclosure for Amounts Receivable?

Financial Statement note disclosure for Amounts Receivable is only required if it is applicable to the municipality. Financial statements should disclose the nature and terms of a government's financial assets together with any valuation allowances.

Amounts receivable should be presented on the Statement of Financial Position at their net realizable value (NRV) with allowances for doubtful amounts sufficient but not excessive. Allowances should be reviewed annually with documentation to support their values.

### 4. Amounts Receivable

	<u>2009</u>	<u>2008</u>
Poll tax	\$ 244,891	\$ 142,663
Business tax	94,863	96,662
Water and sewer	72,428	71,858
HST Rebate	2,533	2,252
Other	<u>6,885</u>	<u>7,015</u>
	421,600	320,450
Less allowances for doubtful amounts	<u>11,000</u>	<u>12,500</u>
	\$ <u>410,600</u>	\$ <u>307,950</u>

### 3.5 What is an example of note disclosure for Portfolio Investments?

### 5. Portfolio Investments

	<u>2009</u>	<u>2008</u>
Marketable securities:		
Government of Canada	\$ 55,000	\$ 55,000
Province of Newfoundland & Labrador	<u>11,500</u>	<u>10,000</u>
	66,500	65,000
Other investments	<u>15,000</u>	<u>10,000</u>
	\$ <u>81,500</u>	\$ <u>75,000</u>

### 3.6 Are Municipalities required to provide note disclosure for Accounts Payable and Accrued Liabilities?

Municipalities are required to provide financial statement note disclosure for Accounts Payable and Accrued Liabilities if such disclosure is applicable to the Municipality. Financial statements should disclose the nature and terms of a government's liabilities.

<b>6. Accounts Payable and Accrued Liabilities</b>		
	<u>2009</u>	<u>2008</u>
Accounts payable	\$ 1,020,350	\$ 1,005,600
Accrued expenses	90,950	125,500
Other governments	-	5,000
	<u>\$ 1,111,300</u>	<u>\$ 1,136,100</u>

### 3.7 When should note disclosure be included for Landfill Closure and Post Closure Liabilities?

Financial statement note disclosure for Landfill Closure and Post Closure would only be included if it is applicable to the Municipality. However, if it is to be included in the notes it should disclose:

- (a) the nature and source of landfill closure and post-closure care requirements
- (b) the basis of recognition and measurement of the liability for closure and post-closure care
- (c) the reported liability for closure and post-closure care at the balance sheet date, the estimated total expenditures for closure and post-closure care, and the amount remaining to be recognized
- (d) the remaining capacity of the site and the estimated remaining landfill life
- (e) how any requirements for closure and post-closure care are being met
- (f) the amount of any assets designated for settling closure and post-closure care liabilities
- (g) the estimated length of time needed for post-closure care.

## 7. Landfill Closure and Post Closure Liabilities

### a) Operating Landfill

The Town is currently operating a Class 1 landfill site. Legislation requires closure and post-closure care of solid waste landfill sites. Closure costs include final covering and landscaping of the landfill and implementation of drainage and gas management plans.

	<u>2009</u>	<u>2008</u>
Estimated closure and post closure costs over the next 50 years	\$ <b>600,000</b>	\$ 600,000
Discount rate	<b>5.25%</b>	5.25%
<b>Discounted costs</b>	<b>187,320</b>	199,324
Expected year capacity will be reached	<b>2034</b>	2034
Capacity (tonnes)		
Used to date	<b>1,665,600</b>	1,243,825
Remaining	<b>10,334,400</b>	10,756,175
Total	<b>12,000,000</b>	12,000,000
Percent utilized	<b>13.88%</b>	10.36%
<b>Liability Based on Percentage</b>	<b>\$ 26,000</b>	\$ 20,650

Legislation requires the Town to monitor its closed landfill site. Post closure care requirements include cap maintenance, groundwater monitoring, gas management system operations, inspections and annual reports. Post closure care for the closed landfill site is not estimated to be required until 2034.

### 3.8 What should Municipalities disclose in relation to Long Term Debt?

*Financial statements should disclose information to highlight the composition of a government's long-term debt as follows (PS3230.15):*

- a) *the gross amount outstanding;*
- b) *the amounts issued specifically on behalf of government business enterprises;*
- c) *the net amount reported on the consolidated statement of financial position;*
- d) *the gross interest paid or payable for the period relating to the debt described in (a);*
- e) *the interest revenue for the period received or receivable from government business enterprises on debt issued specifically by the government on behalf of government business enterprises and reported in accordance with paragraph PS 3230.10; and*
- f) *the net amount of interest expense reported on the consolidated statement of operations.*

Municipalities should disclose adequate information about the nature and terms of their long-term debt in their financial statements which would include:

- a) interest rates;
- b) the existence of sinking fund and redemption provisions;
- c) a description of repayment dates, amounts and the nature of the repayment; and
- d) any amounts payable on demand.

Municipal financial statement notes should also disclose the aggregate amount of payments estimated to be required in each of the next five years as in the example below.

<b>8. Long Term Debt</b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Newfoundland Municipal Financing Corporation loan with interest at 12%, payable in monthly installments and maturing December 2012.	\$ <b>61,695</b>	\$ 82,260
Royal Bank term loan with interest at 8%, repayable in monthly installments and maturing October 2016.	<b>50,715</b>	57,960
Royal Bank term loan with interest at 7%, repayable in monthly installments and maturing October 2015	<b>40,090</b>	-
	<b>\$ <u>152,500</u></b>	<b>\$ <u>140,220</u></b>
Principal payments required in each of the next five years are as follows:		
2010	\$ <b>21,185</b>	
2011	\$ <b>33,137</b>	
2012	\$ <b>36,724</b>	
2013	\$ <b>14,729</b>	
2014	\$ <b>15,882</b>	

### **3.9 What should be disclosed regarding obligations under capital leases?**

The following information should be disclosed with respect to a government's leased tangible capital assets (PSG-2, s. 24):

- a) The gross amount of leased tangible capital assets and related accumulated amortization should be disclosed. Disclosure of leased tangible capital assets and accumulated amortization by major category (for example, land, buildings, machinery) may be desirable.
- b) Liabilities related to leased tangible capital assets should be shown separately from other liabilities. Particulars of liabilities related to leased tangible capital assets, including interest rates and expiry dates, should be shown separately from other long-term liabilities. Significant conditions of the lease agreement should be disclosed, including future contractual obligations, purchase options, terms of renewal and contingencies, and circumstances that require or result in the government's continuing involvement in the contractual arrangement.
- c) The amount of amortization of leased tangible capital assets included in the determination of operating results should be disclosed separately or as part of amortization expense for tangible capital assets. Disclosure should also be made of methods and rates of amortization.

- d) Interest expense related to lease liabilities should be disclosed separately, or as part of interest on long-term debt.

### 9. Obligation Under Capital Lease

Equipment under capital lease, interest at 7%, minimum lease payments at \$370 monthly including interest. Future minimum lease payments under the capital lease are as follows:

2010	\$	4,440
2011		4,440
2012		4,440
2013		4,440
2014		4,440
After 2014		4,440
Total minimum lease payments		26,640
Lease amount representing future interest		(4,810)
Balance of obligation	\$	<u>21,830</u>

The cost of the equipment under capital lease is \$23,000 (2008 – nil). Accumulated amortization is \$600 (2008 – nil).

### 3.10 What are the disclosure requirements regarding Contractual Obligations or Commitments?

Note disclosure for Contractual Obligations or Commitments should be presented only if applicable to the municipality. In accordance with PS3390.08, *information about a government's contractual obligations that are significant in relation to the current financial position or future operations should be disclosed in notes or schedules to the financial statements and should include descriptions of their nature and extent and the timing of the related expenditures.*

### 10. Commitments

The Town of has outstanding contractual obligations of approximately \$65,000 at December 31, 2009 (2008 - \$72,000) for capital works.

In addition, the Municipality is leasing office space at \$1,071 per month, expiring 2012. The minimum lease payments to expiration are \$31,059.

The minimum lease payments in the next three years are as follows:

2010	\$12,852
2011	\$12,852
2012	\$ 5,355

### 3.11 When should a contingent liability be recognized and disclosed?

*A contingent liability should be recognized in the financial statements when (PS3300.15):*

- a) *it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and*
- b) *the amount can be reasonably estimated.*

*The existence of a contingent liability at the date of the financial statements should be disclosed in notes to the financial statements when (PS3300.27):*

- a) *the occurrence of the confirming future event is likely but the amount of the liability cannot be reasonably estimated;*
- b) *the occurrence of the confirming future event is likely and an accrual has been made, but there exists an exposure to liability in excess of the amount accrued; or*
- c) *the occurrence of the confirming future event is not determinable.*

### **3.12 What is a financial instrument?**

A **financial instrument** is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. An example would be a loan where the lender has a loan receivable while the borrower has a loan payable. Inventory is not a financial instrument.

The following generic note disclosure for a financial instrument would likely be adequate in most situations.

#### **11. Financial Instruments**

The Town as part of its operations carries a number of financial instruments. It is management's opinion the Town is not exposed to significant interest, currency or credit risk arising from these financial instruments, except as otherwise disclosed. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

### **3.13 What is a subsequent event?**

A subsequent event is an event which occurs sometime between the financial statement date and the date the financial statements are completed. PSAB has standards on how to account for and disclose these subsequent events. In general there are two types:

- (i) Those that provide evidence of a condition that existed at the financial statement date; and
- (ii) Those that indicate conditions that arose after the year end.

Financial statements reflect the municipality's financial position and changes in financial position at a particular date. However, events occurring after the year end may indicate a need to either:

- (i) Adjust the financial statements; or
- (ii) Make specific disclosures in the financial statements.

In general, financial statements should be adjusted when events occurring between the date of the financial statements and the date of their completion provide sufficient additional evidence

that the events relate to conditions that existed at the date of the financial statements. However, financial statements **should not** be adjusted for, but **disclosure should be made** for events occurring during this period that do not relate to conditions that existed at the date of the financial statements. These events still cause significant changes to assets or liabilities in the subsequent period and may have a significant effect on the future operations of the government.

## 12. Subsequent Events

*(This is an example of the first type of subsequent event. Since it has already been accrued in the financial statements it would be unnecessary to disclose the subsequent event in the notes.)*

Subsequent to the year end a major local business in the Town filed for bankruptcy. At the financial statement date the business owned \$10,000 in taxes and \$5,000 for water and sewer to the Town. Council believes that the collection of these amounts is doubtful and has therefore included these balances in the allowance for doubtful accounts at December 31, 2009.

*(This is an example of the second type of subsequent event. These types of subsequent events should be disclosed in the notes to the financial statements)*

Subsequent to the year end council has approved and entered into an agreement to purchase a new fire truck in the amount of \$75,000. The purchase of the fire truck is to be financed through the general reserve.

### 3.14 Are Municipalities required to disclose the reconciliation between their present budget and their new PSAB budget in their financial statements?

Municipalities will have to disclose the reconciliation between the two budgets in the notes to their financial statements. For 2009 and beyond, the financial plan or budget will continue to be prepared on a non-consolidated revenue and expenditure basis. For financial reporting purposes, municipalities will have to “PSAB” their budgets. An example of note disclosure for this move to PSAB is:

## 13. Budget

In accordance with the *Municipalities Act (1999)* every council must adopt a financial plan for each fiscal period in a form approved by the minister. The financial plan is prepared on a revenue and expenditure basis that does not meet the recommendations of PSAB. For comparative purposes, the Town has modified its financial plan to prepare a budget that is consistent with the scope and accounting principles used to report the actual results. The budget figures used in these financial statements have been approved by council.

The reconciliation between the financial plan and the budget figures used in these statements is disclosed in Schedule 8 – Reconciliation of the Financial Plan to the Budget.

### 3.15 What are the general types of accounting changes normally encountered?

There are generally four types of accounting changes a Municipality may encounter, namely a:

#### 1) change in presentation,

These changes result when there has been a change in how accounts have been grouped for financial statement purposes. These changes impair comparability between years if both years



presented are not changed; therefore the comparative year should be changed for a change in presentation.

**Example:**

In the financial statements before 2009, the allowance for tax assets was included in fiscal services. In 2009, the allowance for tax assets should be included in general government services. The 2008 allowance in tax assets should also be reclassified to general government services for this change in presentation.

**2) change in accounting policy,**

A change in accounting policy can occur for two reasons:

**(i) To conform to a new PSAB recommendation (or adopt PSAB)**

As new PSAB standards are issued, municipalities will have to adopt the standards. Often the new standards themselves dictate whether the changes should be applied retroactively or prospectively. If the new standard does not specify, PS2120.13 indicates that the adoption of the new standard can be applied retroactively or prospectively.

One of the most significant new standards which comes into effect on January 1, 2009 is PS 3150 or TCA. Under the section of "Transitional Provisions for Local Governments", PS 3150.44 states that PS 3150 "applies to all TCAs". This means that the change has to be applied retroactively. Municipalities must restate their prior periods (i.e. the 2008 comparatives) for the change in accounting policy so that the 2008 comparatives also include TCA balances and amortization expense.

**(ii) Change from one appropriate accounting policy to another**

When a government changes from one appropriate accounting policy to another, the change **must be** applied retroactively with the restatement of prior periods.

**3) change in accounting estimate or**

Estimates require judgment and often have to be updated for new information. It would not be appropriate to apply the change to prior periods. Therefore changes in accounting estimates should be accounted for in the period of the change.

**4) a correction of an error in prior periods.**

An unintentional error in the financial statements can result from a miscalculation, a misunderstanding or an oversight of information. This is not a change in accounting estimates which are made because of new information or developments. An error may be so material that the prior period financial statements are no longer fairly presented. Corrections of an error should be treated retroactively with restatement.

**All municipalities in the Province are facing a change in accounting policies for the fiscal year ended December 31, 2009.** As of this date, in order to be in compliance with PSAB standards, municipalities in the Province will be implementing four significant changes in accounting policy:

- 1) Capitalization & amortization of TCAs (all municipalities)

- 2) Municipal Reporting Entity (all municipalities will likely have to consolidate at least one entity)
- 3) Accruing landfill closure/post closure liabilities (all municipalities that operate a landfill)
- 4) Accruing environmental liabilities (likely limited to a few municipalities)

These changes in accounting policies will all have to be applied retroactively with a restatement of the fiscal 2008 financial statements. An example of note disclosure for this change in accounting policy follows.

#### 14. Changes in Accounting Policies

The Town has restated its financial statements to comply with the adoption of generally accepted accounting principles as recommended by the Public Sector Accounting Board (PSAB).

Section PS3150 requires governments to record and amortize their tangible capital assets on their financial statements.

Section PS3270 requires governments to accrue their landfill closure and post closure costs as the landfill is used.

Finally, PSAB also requires the inclusion of all organizations controlled by the government, including any government partnerships on a proportional consolidation basis.

	<u>2009</u>	<u>2008</u>
Opening fund balances:		
Nominal Surplus – General Operating Fund	\$ 213,450	\$ 165,300
General Reserve Funds	274,150	212,640
Surplus – General Capital Fund	<u>398,200</u>	<u>308,870</u>
Opening accumulated surplus, all funds, as previously reported	<b>885,800</b>	686,811
Adjustments:		
Tangible capital assets	<b>1,516,000</b>	1,612,000
Fixed assets in the capital funds	<b>(1,084,510)</b>	(1,005,510)
Landfill closure and post closure liabilities	<b>(20,650)</b>	(22,150)
Opening non-consolidated accumulated surplus, restated	<b>1,296,640</b>	1,271,151
Consolidation of controlled entities and government partnerships	<b>114,026</b>	10,015
Opening consolidated accumulated surplus, as restated	<b>1,410,666</b>	1,281,166
Consolidated annual surplus	<b>745,684</b>	129,500
Consolidated accumulated surplus, end of year	\$ <b>2,156,350</b>	\$ 1,410,666

## Section 4 – Schedules to the Consolidated Financial Statements

For some disclosure requirements the information can be more clearly presented in a schedule as opposed to a note. All schedules should be properly identified and the presentation should be clear and understandable.

Schedules are part of the financial statements and should be audited with the statements and the notes. In accordance with HB5400;

- *the auditor's standard report should cover all financial statements required for fair presentation of financial position, results of operations, and cash flows in accordance with generally accepted accounting principles. Such statements will normally include the balance sheet and the statement of income, retained earnings and cash flows together with the accompanying notes, and **supporting schedules** to which the financial statements are cross-referenced, and*
- *notes to the financial statements, and **supporting schedules** and other information to which the financial statements are cross-referenced, are an integral part of such statements and, accordingly, **need not be specifically referred to in the auditor's report**. It is important that unaudited information which could be construed to be part of the audited financial statements be clearly differentiated.*

### 4.1 How should the Schedule 1 – Consolidated Schedule of Tangible Capital Assets be presented?

Tangible capital assets (TCAs) should be presented by major categories of assets. Some major categories of TCAs for Municipalities would include land, land improvements, buildings, machinery and equipment, roads, streets and bridges, and water and sewer systems.

*The financial statements should disclose, for each major category of tangible capital assets and in total (PS3150.40):*

- a) cost at the beginning and end of the period;*
- b) additions in the period;*
- c) disposals in the period;*
- d) the amount of any write-downs in the period;*
- e) the amount of amortization of the costs of tangible capital assets for the period;*
- f) accumulated amortization at the beginning and end of the period; and*
- g) net carrying amount at the beginning and end of the period.*

As can be seen above the disclosure requirements for TCAs are quite detailed. It is often therefore easier to present the required disclosure in a schedule format as shown in Schedule1, Exhibit 8.

# EXHIBIT #8 – CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS

**TOWN OF ANYWHERE  
CONSOLIDATE SCHEDULE OF TANGIBLE CAPITAL ASSETS  
For the Year Ended December 31, 2009**

**SCHEDULE 1**

	General Capital Assets					Infrastructure			Total	
	Land and land Improvements	Buildings and Leasehold Improvements	Vehicles And Equipment	Computer Hardware and Software	Assets Under Construction	Roads, Streets and Bridges	Water and Sewer	Assets Under Construction	2009	2008
<b>Cost</b>										
Balance, beginning of year	10,050	525,000	860,000	11,100	-	650,000	1,006,000	-	3,062,150	2,823,150
Add: Additions during year	4,950	-	15,000	2,900	-	-	20,000	288,950	331,800	449,000
Less: Disposals during the year	-	-	-	-	-	-	-	-	-	(10,000)
<b>Balance, end of year</b>	<b>15,000</b>	<b>525,000</b>	<b>875,000</b>	<b>14,000</b>	<b>-</b>	<b>650,000</b>	<b>1,026,000</b>	<b>288,950</b>	<b>3,393,950</b>	<b>3,262,150</b>
<b>Accumulated Amortization</b>										
Beginning accum Amortization	-	400,000	605,200	5,000	-	617,500	918,450	-	2,546,150	2,575,150
Amortization for year	-	15,000	22,200	2,000	-	28,500	37,600	-	105,300	175,000
Disposals for year	-	-	-	-	-	-	-	-	-	(4,000)
<b>Closing accm amortization</b>	<b>-</b>	<b>415,000</b>	<b>627,400</b>	<b>7,000</b>	<b>-</b>	<b>646,000</b>	<b>956,050</b>	<b>-</b>	<b>2,651,450</b>	<b>2,746,150</b>
<b>Net Book Value of tangible capital assets</b>	<b>15,000</b>	<b>110,000</b>	<b>247,600</b>	<b>7,000</b>	<b>-</b>	<b>4,000</b>	<b>69,950</b>	<b>288,950</b>	<b>742,500</b>	<b>516,000</b>

A Municipality's financial statements should also disclose:

- a) the amortization method, period and rate used for each category of TCA,
- b) the net book value of TCAs not being amortized because they are under construction or development or have been removed from service,
- c) the nature and amount of contributed TCAs received in the period,
- d) the nature and use of TCAs recognized at nominal value,
- e) the nature of the works of art and historical treasures held by the government, and
- f) the amount of interest capitalized in the period.

These disclosure requirements presented in PS3150.42 are normally presented as part of the Significant Accounting Policies note to the financial statements.

#### **4.2 What is the purpose of the Schedule 2 – Consolidated Schedule of Revenues?**

The purpose of this schedule is simply to provide more detail on the revenues without cluttering the Statement of Operations. The information is useful to the Department and may be of interest to the general public. The total revenue should of course agree to the total revenue as per the Consolidated Statement of Operations.

Schedule 2 was prepared for the Town of Anywhere; see Exhibit 9.

#### **4.3 What is the purpose of the Schedule 3 – Consolidated Schedule of Expenses?**

The purpose of this schedule is simply to provide more detail on the expenses without cluttering the Statement of Operations. The information is useful to the Department and may be of interest to the general public. The total expenses should of course agree to the total expenses as per the Consolidated Statement of Operations.

Schedule 3 was prepared for the Town of Anywhere; see Exhibit 10.

# Exhibit #9 – Consolidated Schedule of Revenues

**TOWN OF ANYWHERE**  
**CONSOLIDATED SCHEDULE OF REVENUES**  
**Year Ended December 31, 2009**

**SCHEDULE 2**

*# - Agrees to the Statement of Operations – pg. 27*

	<b>2009</b>	2008
	<u>Actual</u>	<u>Actual</u>
<b>Taxation:</b>		
Municipal taxes levied	<b>\$540,000</b>	\$ 590,000
Penalties and interest	<b>3,000</b>	5,000
	<b># 543,000</b>	595,000
<b>Grants in lieu of taxation:</b>		
Federal government	<b>15,000</b>	14,500
Provincial government enterprises	<b>15,000</b>	15,000
Other local governments	<b>5,000</b>	5,000
Non-government organizations	<b>5,000</b>	5,000
	<b># 40,000</b>	39,500
<b>User fees</b>		
Parking meters	<b>7,000</b>	6,000
Sales of service	<b>20,000</b>	15,000
Rentals	<b>10,800</b>	13,400
	<b># 37,800</b>	34,400
<b>Government Transfers</b>		
General assistance	<b>175,000</b>	175,000
Municipal support grants	<b>66,700</b>	40,000
	<b># 241,700</b>	215,000
<b>Permits, licenses and fines</b>		
Permits	<b>17,700</b>	15,000
	<b># 17,700</b>	15,000
<b>Investment income:</b>		
Cash and temporary investments	<b>15,350</b>	22,000
Marketable securities	<b>6,450</b>	4,000
	<b># 21,800</b>	26,000
<b>Other revenue:</b>		
Gain on sale of tangible capital assets	<b>3,200</b>	-
Miscellaneous (donations):	<b>4,620</b>	8,100
	<b># 7,820</b>	8,100
<b>Total revenue</b>	<b># 909,820</b>	933,000

# Exhibit #10 – Consolidated Schedule of Expenses

**TOWN OF ANYWHERE**  
**CONSOLIDATED SCHEDULE OF EXPENSES**  
**Year Ended December 31, 2009**

**SCHEDULE 3**

*# - Agrees to the Statement of Operations – pg. 27*

	2009	2008
	Actual	Actual
<b>General government services:</b>		
Legislative	\$ 75,000	\$ 74,000
General administrative	95,500	91,000
	<b># 170,500</b>	165,000
<b>Protective services:</b>		
Fire	15,000	14,000
Emergency measures	5,000	5,000
	<b># 20,000</b>	19,000
<b>Transportation services:</b>		
Road and street maintenance	160,000	175,000
Sidewalk and boulevard maintenance	30,000	28,500
Street lighting	25,000	29,000
	<b># 215,000</b>	232,500
<b>Environmental health services:</b>		
Waste collection and disposal	10,000	15,000
Recycling	10,000	10,000
	<b># 20,000</b>	25,000
<b>Public health and welfare services:</b>		
Public health	8,000	9,000
Social assistance	2,000	3,000
	<b># 10,000</b>	12,000
<b>Regional planning and development:</b>		
Planning and zoning	28,700	27,000
Urban renewal	8,000	11,300
	<b># 36,700</b>	38,300
<b>Resource conservation and industrial development:</b>		
Water resources and conservation	7,000	8,500
Industrial development	17,300	10,000
Tourism	3,000	4,200
	<b># 27,300</b>	22,700
<b>Recreation and cultural services:</b>		
Community centers and halls	2,000	3,500
Skating and curling rinks	30,000	26,300
Parks and playgrounds	5,000	6,000
Museums	3,000	5,000
Libraries	56,000	60,000
	<b># 96,000</b>	100,800
<b>Total expenses</b>	<b># 595,500</b>	615,300

#### **4.4 What is the purpose of the Schedule 4 – Consolidated Statement of Operations by Program?**

There are two purposes for this Schedule, both of which are GAAP requirements:

- i) disclosing the expenses by object or type; and
- ii) reporting on segments.

Government financial statements should separately disclose the following information, in notes or schedules, about each of a government's segments identified in accordance with paragraph [PS2700](#):

- a) *the basis for identifying segments, the nature of the segments and the activities they encompass, and the method of significant allocations to segments;*
- b) *segment expense by major object or category and*
- c) *segment revenue by source and type.*

A segment is a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information. In Schedule 4, the distinguishable activities are the program areas or expenses by function. Revenues and expenses that cannot be attributed to a particular sector should be included in general government. This would include taxation and unconditional grants.

Exhibit 11 has a completed Schedule 4 for your reference.

#### **4.5 What is the purpose of Schedule 5 - Consolidated Details and Reconciliation to Core Government Results?**

The purpose of this Schedule is to:

- i) disclose the expenses by object or type; and
- ii) report on segments.

In this case, the segments are the core government and the consolidated entities. The core government is the departments, funds and local urban districts or the equivalent of what was reported in the old financial statements. Reporting on the core government results is in essence the unconsolidated results of the Municipality.

The consolidated entities are the controlled entities which the Municipality controls and the government partnerships, which the Municipality has shared control.

Exhibit 12 has a completed Schedule 5 for the Town of Anywhere. Exhibit 13 has a completed worksheet for the consolidation of expenses by object.



# Exhibit #11 – Consolidated Statement of Operations by Program

TOWN OF ANYWHERE

SCHEDULE 4

## CONSOLIDATED STATEMENT OF OPERATIONS BY PROGRAM

Year Ended December 31, 2009

	General Government*		Protective Services		Transportation Services		Environmental Health Services		Public Health and Welfare Services	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	<i># - Agrees to Statement of Operations – Exhibit #5 - pg. 27</i>									
<b>REVENUE</b>										
Taxation	\$ 543,000	\$ 595,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants in lieu of taxation	40,000	39,500	-	-	-	-	-	-	-	-
User fees	-	-	-	-	7,000	6,000	-	-	-	-
Grants - other	-	-	-	-	175,000	175,000	-	-	-	-
Permits, licences and fines	-	-	-	-	-	-	-	-	-	-
Investment income	21,800	26,000	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	3,200	-	-	-	-	-
Total revenue	\$ 604,800	\$ 630,500	\$ -	\$ -	\$ 182,200	\$ 181,000	\$ -	\$ -	\$ -	\$ -
<b>EXPENSES</b>										
Personnel services	\$ 85,707	\$ 136,000	\$ 10,000	\$ 9,000	\$ 59,750	\$ 63,000	\$ -	\$ -	\$ -	\$ -
Contract services	19,800	27,500	3,500	3,250	31,500	37,000	20,000	25,000	2,000	3,500
Utilities	8,550	9,500	1,000	950	-	-	-	-	-	-
Maintenance materials and supplies	33,450	4,500	1,500	1,150	38,000	42,500	-	-	-	-
Grants and contributions	-	-	-	-	-	-	-	-	8,000	8,500
Amortization	16,100	8,000	4,000	4,650	75,700	78,500	-	-	-	-
Interest on long term debt	5,183	7,100	-	-	10,050	11,500	-	-	-	-
Other	1,710	2,400	-	-	-	-	-	-	-	-
Total expenses	\$ 170,500	\$ 165,000	\$ 20,000	\$ 19,000	\$ 215,000	\$ 232,500	\$ 20,000	\$ 25,000	\$ 10,000	\$ 12,000
<b>Surplus (Deficit)</b>	\$ 434,300	\$ 450,610	\$ (20,000)	\$ (19,000)	\$ (32,800)	\$ (211,500)	\$ (20,000)	\$ (25,000)	\$ (10,000)	\$ (12,000)

\* The general government category includes revenues and expenses that cannot be attributed to a particular sector.

# Exhibit #11 – Consolidated Statement of Operations by Program

TOWN OF ANYWHERE

SCHEDULE 4

## CONSOLIDATED STATEMENT OF OPERATIONS BY PROGRAM

Year Ended December 31, 2009

	Regional Planning & Development Services		Resource Conservation & Industrial Development		Recreation and Cultural Services		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
<b>REVENUE</b>							<b>#</b>	<b>#</b>
Taxation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 543,000	\$ 595,000
Grants in lieu of taxation	-	-	-	-	-	-	40,000	39,500
User fees	10,800	13,400	-	-	20,000	15,000	37,800	34,400
Grants - other	-	-	-	-	66,700	40,000	241,700	215,000
Permits, licences and fines	17,700	15,000	-	-	-	-	17,700	15,000
Investment income	-	-	-	-	-	-	21,800	26,000
Other revenue	-	-	-	-	4,620	8,100	7,820	8,100
<b>Total revenue</b>	<b>\$ 28,500</b>	<b>\$ 28,400</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 91,320</b>	<b>\$ 63,100</b>	<b>\$ 909,820</b>	<b>\$933,000</b>
<b>EXPENSES</b>								
Personnel services	\$ 20,000	\$ 21,000	\$ 10,550	\$ 12,000	\$ 49,750	\$ 60,000	\$ 235,757	\$172,000
Contract services	5,000	5,200	6,000	8,000	6,250	15,000	94,050	97,750
Utilities	1,000	950	750	800	11,500	12,000	22,800	16,550
Maintenance materials and supplies	1,700	1,600	-	-	12,500	17,200	87,150	88,950
Grants and contributions	8,000	8,300	10,000	11,000	7,500	15,000	33,500	42,800
Amortization	1,000	1,250	-	-	8,500	10,600	105,300	175,000
Interest on long term debt	-	-	-	-	-	-	15,233	18,950
Other	-	-	-	900	-	-	1,710	3,300
<b>Total expenses</b>	<b>\$ 36,700</b>	<b>\$ 38,300</b>	<b>\$ 27,300</b>	<b>\$ 22,700</b>	<b>\$ 96,000</b>	<b>\$ 100,800</b>	<b>\$595,500</b>	<b>\$ 615,300</b>
<b>Surplus (Deficit)</b>	<b>\$ (8,200)</b>	<b>\$ (7,900)</b>	<b>\$ (27,300)</b>	<b>\$ (27,700)</b>	<b>\$ (4,680)</b>	<b>\$ (68,700)</b>	<b>\$ 314,320</b>	<b>\$ 317,700</b>

# - Agrees to Statement of Operations – Exhibit #5 - pg. 27

# Exhibit #12 – Consolidated Details and Reconciliation to Core Government Results

TOWN OF ANYWHERE

SCHEDULE 5

## CONSOLIDATED DETAILS AND RECONCILIATION TO CORE GOVERNMENT RESULTS

Year Ended December 31, 2009

# - Agrees to the Statement of Operations –Exhibit #5-pg. 27

\* - Agrees to Schedule 4 –Exhibit #11

	Core Government		Controlled Entities		Government Partnerships		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
<b>REVENUE</b>							<b>#</b>	<b>#</b>
Taxation	\$ 543,000	\$ 595,000	\$ -	\$ -	\$ -	\$ -	\$ 543,000	\$ 595,000
Grants in lieu of taxation	40,000	39,500	-	-	-	-	40,000	39,500
User fees	20,000	18,000	-	-	17,800	16,400	37,800	34,400
Grants	241,700	215,000	-	-	-	-	241,700	215,000
Permits, licences and fines	-	-	-	-	17,700	15,000	17,700	15,000
Investment income	21,800	26,000	-	-	-	-	21,800	26,000
Other revenue	4,000	3,200	-	-	3,820	4,900	7,820	8,100
<b>Total revenue</b>	<b>\$ 1,446,350</b>	<b>\$ 1,304,500</b>	<b>\$ 4,800</b>	<b>\$ 5,000</b>	<b>\$ 107,670</b>	<b>\$ 76,300</b>	<b>\$ 909,820</b>	<b>\$ 933,000</b>
<b>EXPENSES</b>							<b>*</b>	<b>*</b>
Personnel services	\$ 138,757	\$ 139,000	\$ 37,000	\$ 35,000	\$ 60,000	\$ 58,000	\$ 235,757	\$ 172,000
Contract services	75,850	80,250	8,200	8,000	10,000	9,500	94,050	97,750
Utilities	17,950	12,000	600	550	4,250	4,000	22,800	16,550
Maintenance materials and supplies	63,300	63,500	400	450	23,450	25,000	87,150	88,950
Grants and contributions	83,500	99,800	(30,000)	(30,000)	(20,000)	(27,000)	33,500	42,800
Amortization	98,300	168,500	-	-	7,000	6,500	105,300	175,000
Interest on long term debt	15,233	18,950	-	-	-	-	15,233	18,950
Other	610	2,400	1,100	900	-	-	1,710	3,300
<b>Total expenses</b>	<b>\$ 493,500</b>	<b>\$ 584,400</b>	<b>\$ 17,300</b>	<b>\$ 14,900</b>	<b>\$ 84,700</b>	<b>\$ 76,000</b>	<b>\$ 595,500</b>	<b>\$ 615,300</b>
<b>Surplus (Deficit)</b>	<b>\$ 952,850</b>	<b>\$ 720,100</b>	<b>\$ (12,500)</b>	<b>\$ (9,900)</b>	<b>\$ 22,970</b>	<b>\$ 300</b>	<b>\$ 314,320</b>	<b>\$ 317,700</b>

# Exhibit #13 – Consolidation of Expenses by Object

## Town of Anywhere Consolidation Worksheet - Expenses By Object December 31, 2009

	Town of Anywhere (uncons) Dr (Cr)	Controlled Entities (100%)		Government Partnerships				Controlled Entities Total Dr (Cr)	Government Partnerships Total Dr (Cr)	Town of Anywhere (cons) Dr (Cr)
		CDC Dr (Cr)	Entity #2 Dr (Cr)	100% Recreation Dr (Cr)	50.00% Recreation Dr (Cr)	100% Library Dr (Cr)	50.00% Library Dr (Cr)			
Personnel Services	137,227	43,530	-	60,000	30,000	50,000	25,000	43,530	55,000	235,757
Contract Services	55,200	14,850	-	32,000	16,000	16,000	8,000	14,850	24,000	94,050
Utilities	20,450	1,100	-	1,000	500	1,500	750	1,100	1,250	22,800
Maintenance Materials & Supplies	82,980	2,070	-	2,200	1,100	2,000	1,000	2,070	2,100	87,150
Grants and Contributions	83,500	-	-	(60,000)	(30,000)	(40,000)	(20,000)	-	(50,000)	33,500
Amortization	98,300	-	-	2,000	1,000	12,000	6,000	-	7,000	105,300
Interest on LTD	15,233	-	-	-	-	-	-	-	-	15,233
Bad Debts	-	-	-	-	-	-	-	-	-	-
Other	610	1,100	-	-	-	-	-	1,100	-	1,710
	493,500	62,650	-	37,200	18,600	41,500	20,750	62,650	39,350	595,500

Pg. 50 & 51

#### **4.6 What are the disclosure requirements for Schedule 6 – Schedule of Change in Reserve Fund Balances?**

Reserve fund balances are merely financial assets that have been put aside, the use of which can be restricted for any general or specific purpose. Reserve funds are established through a by-law of council. However, Council can reverse its by-law and remove the restrictions on the reserve funds. PSAB terms these types of funds or entities as internally restricted as opposed to externally restricted.

Internally restricted funds or reserves are not available to finance the operations of the municipality unless approved by council. Users of the financial statements need to understand the extent of internally restricted funds because they limit the municipality's financial flexibility.

An example would be a reserve fund for the closure costs of a class 1 landfill. The funds will be needed in the future to finance the expenditures that will occur when the landfill is closed. It would not be financially prudent for a council to use these funds for other purposes. Unless it is disclosed, users of the financial statements will not know that some of the financial assets have been restricted for this use and are not available for other uses.

*(PS3100.24) Government financial statements should disclose, in notes or schedules, condensed supplementary financial information relative to internally restricted entities. The financial information should be provided for internally restricted entities or groups of similar entities and for all internally restricted entities as a whole. The information provided should report the financial position and results of operations, including:*

- (a) total assets and liabilities segregated by main classification;*
- (b) net assets or liabilities;*
- (c) total revenues and expenses; and*
- (d) net operating results for the period.*

*In addition, a general description of the nature of the internal restriction should be provided.*

For most municipalities the assets that are internally restricted to reserves can be simply disclosed in the "Cash and Temporary Investments" notes. If a municipality has portfolio investments or loans receivable that are restricted to reserves than this should also be disclosed. The total net assets, total revenues and expenses, and the net operating results will be disclosed on Schedule 6.

An example of Schedule 6 has been completed for the Town of Anywhere in Exhibit 14.

# Exhibit #14 – Schedule of Change in Reserve Fund Balances

TOWN OF ANYWHERE

SCHEDULE 6

## SCHEDULE OF CHANGE IN RESERVE FUND BALANCES

Year Ended December 31, 2009

	<u>General Reserve</u>	<u>Specific Reserve</u>	<u>2009 Total</u>	<u>2008 Total</u>
<i>Consolidation of Funds – Exhibit #2 – pg. 18</i>				
<b>REVENUE</b>				
Investment income	\$ 8,250	\$ 7,100	\$ 15,350	\$ 31,000
Other income	-	-	-	-
Total revenue	<u>8,250</u>	<u>7,100</u>	<u>15,350</u>	<u>31,000</u>
<b>EXPENSES</b>				
Investment charges	250	250	500	1,150
Other expenses	-	-	-	-
Total expenses	<u>250</u>	<u>250</u>	<u>500</u>	<u>1,150</u>
<b>NET REVENUES</b>	8,000	6,850	<b>14,850</b>	29,850
<b>TRANSFERS</b>				
Debt repayments	-	-	-	(56,000)
Transfers from (to) operating fund	100,000	193,500	<b>293,500</b>	150,000
Acquisition of tangible capital assets	-	-	-	(45,000)
<b>CHANGE IN RESERVE FUND BALANCES</b>	108,000	200,350	308,350	78,850
<b>FUND SURPLUS, BEGINNING OF YEAR</b>	<u>146,500</u>	<u>127,650</u>	<u><b>274,150</b></u>	<u>195,300</u>
<b>FUND SURPLUS, END OF YEAR</b>	<u><u>\$ 254,500</u></u>	<u><u>\$ 328,000</u></u>	<u><u><b>\$ 582,500</b></u></u>	<u><u>\$ 274,150</u></u>

#### **4.7 What is the disclosure required for Schedule 7 - Schedule of Trust Funds?**

Trusts are assets that have been assigned to the municipality acting as a trustee. As trustee the municipality administers the assets in accordance with the terms and conditions of a trust agreement for the benefit of a beneficiary. As trustee the municipality has no authority to change the terms and conditions of the trust agreement.

*(PS1300.40) Trusts administered by a government or government organization should be excluded from the government reporting entity.*

*(PS1300.44) Government financial statements should disclose, in a note or schedule, a description of trusts under administration by a government or government organization, and a summary of trust balances.*

Trusts should be disclosed on Schedule 7 – Schedule of Trust Funds. If a trust fund administered by a municipality is audited separately under its own audit opinion, then the disclosure need only refer to the availability of audited financial statements.

Exhibit 15 provides an example of a completed Schedule 7 for the Town of Anywhere.

#### **4.8 What are the details of Schedule 8 – Reconciliation of the Financial Plan to the Budget?**

For 2009 municipalities will continue to prepare their financial plan on a non-consolidated revenue and expenditure basis. However, in addition to the Budget Submission Form, a “PSAB/accrual” budget will also be required to accompany your 2009 financial statements, which are due by June 30, 2010. A reconciliation between the financial plan and the PSAB budget will have to be disclosed in the notes and/or schedules to the financial statements. The major differences between the financial plans and PSAB will be:

- 1) the financial plan is prepared on a cash basis while PSAB is prepared using full accrual accounting,
- 2) under PSAB, transfers are neither revenues nor expenses,
- 3) only the interest portion of debt repayments is an expense in PSAB financial statements. The entire debt repayment is included as expenditure in the financial plan and
- 4) in the financial plan the entire amount of a capital transaction is included as an expenditure of the accounting period. In PSAB capital expenditures are capitalized as TCAs and amortized over their useful life.

Schedule 8 is a worksheet designed to help municipalities convert their financial plan into a PSAB budget. A completed Schedule 8 for the Town of Anywhere is presented as Exhibit 16 on page 59.

A detailed example on how to convert a financial plan is illustrated in Appendix 1 – Town of Richmond.

# Exhibit #15 – Schedule of Trust Funds

**TOWN OF ANYWHERE**  
**SCHEDULE OF TRUST FUNDS**  
**Year Ended December 31, 2009**

**SCHEDULE 7**

	<b>John Smith Memorial Trust Fund</b>	<b>Fire Fighters Families Trust Fund</b>	<b>Humane Society Trust Fund</b>	<b>Total</b>	
				<b>2009</b>	<b>2008</b>
<b>ASSETS</b>					
Cash and temporary investments	\$ 50,000	\$ 20,000	\$ 12,000	<b>\$ 82,000</b>	\$ 75,000
Portfolio investments	-	100,000	-	<b>100,000</b>	100,000
Due from the Municipality	-	15,000	-	<b>15,000</b>	12,000
	<u>\$ 50,000</u>	<u>\$ 135,000</u>	<u>\$ 12,000</u>	<u><b>\$ 197,000</b></u>	<u>\$ 187,000</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Due to Municipality	\$ -	\$ -	\$ 500	<b>\$ 500</b>	\$ 500
Fund balance	50,000	135,000	11,500	<b>196,500</b>	186,500
	<u>\$ 50,000</u>	<u>\$ 135,000</u>	<u>\$ 12,000</u>	<u><b>\$ 197,000</b></u>	<u>\$ 187,000</u>
<b>REVENUES</b>					
Contributions and donations	\$ 15,000	\$ 25,000	\$ 6,000	<b>\$ 46,000</b>	\$ 42,000
Investment income	5,000	8,500	1,000	<b>14,500</b>	12,000
	<u>20,000</u>	<u>33,500</u>	<u>7,000</u>	<u><b>60,500</b></u>	<u>54,000</u>
<b>EXPENDITURES</b>					
Cemetery maintenance	-	-	-	-	-
Distribution to beneficiaries	-	30,000	5,000	<b>35,000</b>	32,000
Other	10,000	-	-	<b>10,000</b>	8,500
	<u>10,000</u>	<u>30,000</u>	<u>5,000</u>	<u><b>45,000</b></u>	<u>40,500</u>
<b>EXCESS OF REVENUES OVER</b>					
<b>EXPENDITURES</b>	10,000	3,500	2,000	<b>15,500</b>	13,500
<b>FUND BALANCE, BEGINNING OF YEAR</b>	40,000	131,500	10,000	<b>181,500</b>	168,000
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 50,000</u>	<u>\$ 135,000</u>	<u>\$ 12,000</u>	<u><b>\$ 197,000</b></u>	<u>\$ 181,500</u>



## Exhibit #16 – Reconciliation of the Financial Plan to the Budget

TOWN OF ANYWHERE

SCHEDULE 8

### RECONCILIATION OF THE FINANCIAL PLAN TO THE BUDGET

Year Ended December 31, 2009

	Financial Plan	Amortization (TCA)	Interest Expense	Transfers	Long Term Accruals	Consolidated Entities	PSAB Budget
<b>REVENUE</b>							
Property taxes	\$ 540,000	\$ -	\$ -	\$ -	\$ -	\$ -	540,000
Grants in lieu of taxation	40,000	-	-	-	-	-	40,000
User fees	22,200	-	-	-	-	17,800	40,000
Grants	173,300	-	-	-	-	66,700	240,000
Permits, licences and fines	2,300	-	-	-	-	17,700	20,000
Investment income	13,550	-	-	-	-	6,450	20,000
Other revenue	4,180	-	-	-	-	3,820	8,000
<b>Total revenue</b>	<b>\$ 795,530</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 112,470</b>	<b>\$ 908,000</b>
<b>EXPENSES</b>							
General government	\$ 147,150	\$ 16,100	\$ 6,750	\$ -	\$ -	\$ -	\$ 170,000
Protective services	16,000	4,000	-	-	-	-	20,000
Transportation services	134,050	75,700	10,250	-	-	-	220,000
Environmental health	23,000	-	-	-	-	-	23,000
Public health and welfare	12,000	-	-	-	-	-	12,000
Regional planning & dev	5,000	1,000	-	-	-	30,000	36,000
Res cons & industrial dev	11,000	-	-	-	-	17,000	28,000
Recreation & cultural	28,500	8,500	-	-	-	58,000	95,000
Fiscal services:							
Capital expenditures	112,000	(112,000)	-	-	-	-	-
Debt charges	15,000	-	(15,000)	-	-	-	-
<b>Total expenses</b>	<b>\$ 503,700</b>	<b>\$ (6,700)</b>	<b>\$ 2,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 105,000</b>	<b>\$ 604,000</b>
<b>Surplus (Deficit)</b>	<b>\$ 291,830</b>	<b>\$ (6,700)</b>	<b>\$ 2,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,470</b>	<b>\$ 304,000</b>

## Converting a Financial Plan into a PSAB Budget Detailed Example – Town of Richmond

The Town of Richmond is a small municipality in the Province. The Town has a water and sewer utility. The 2009 fiscal plan has been prepared and Council has approved the plan. Council wants to know how the fiscal plan will look when it is converted into a format that is consistent with PSAB accounting practices. You must prepare the PSAB budget for the next council meeting. The Town's financial plan is summarized as follows:

	<u>Gen Op Fund</u>	<u>Utility Op Fund</u>	<u>Combined</u>
Property taxes	\$ 655,934		\$ 655,934
Water & Sewer		115,000	115,000
User fees	17,300	2,100	19,400
Government transfers	170,000	413,000	583,000
Fees, permits, fines	3,100		3,100
Investment Income	10,000		10,000
Grant in lieu of taxes	7,450		7,450
Other income	2,000		2,000
Transfer from accumulated surplus	95,000		95,000
Transfer from reserves	105,000		105,000
<b>Total Revenues</b>	<b>\$ 1,065,784</b>	<b>\$ 530,100</b>	<b>\$ 1,595,884</b>
General government	\$ 124,840		\$ 124,840
Protective services	18,000		18,000
Transportation services (Note 1)	304,500		304,500
Environmental health services (Note 2)	24,000		24,000
Public health & welfare services	3,550		3,550
Regional planning and development	3,622		3,622
Resource conservation & industrial dev	14,740		14,740
Recreational & cultural services	78,186		78,186
Water & sewer services		102,100	102,100
Fiscal services:			
Transfer to capital (fire truck & water plant upgrade)	167,500	413,000	580,500
Debenture charges (interest - \$950)	21,950		21,950
Short term loan interest	4,500		4,500
Transfer to reserves	35,000	15,000	50,000
Allowance for tax assets	2,731		2,731
<b>Total Expenditures (Note 3)</b>	<b>\$ 803,119</b>	<b>\$ 530,100</b>	<b>\$ 1,333,219</b>
<b>Net operating surplus</b>	<b>\$ 262,665</b>	<b>\$ -</b>	<b>\$ 262,665</b>

**Note 1:**

Transportation services include \$200,000 in capital expenditures for paving & curbing gravel residential streets.

**Note 2:**

The Town operates a landfill which is expected to close in 2040. It has accrued a landfill closure liability of \$35,000 at January 1, 2009. The landfill liability at December 31, 2009 has increased to \$45,000. It has not included any landfill closure expenses in its 2009 financial plan.

**Converting a Financial Plan into a PSAB Budget  
Detailed Example – Town of Richmond**

**Note 3:**

Other than the landfill liability, the Town has been accruing liabilities and assets since December 31, 2007. It does not expect any significant changes in the level of its accruals at December 31, 2009. Amortization expense for 2009 is estimated to be as follows:

General government	\$ 30,590
Transportation services	\$100,497
Recreational & cultural services	\$ 31,663
Water and sewer services	\$ 68,868

The Town has 2 controlled entities (a CDC and a golf course.) and 1 government partnership (a recreation facility). For fiscal 2009 the Town is expecting to consolidate, after elimination of inter-entity transactions, the following revenues and expenses:

	Revenues	Expenses	Surplus
Community Development Corporation	\$ 7,000	\$ 2,000	\$ 5,000
Golf course	250,000	100,000	150,000
Recreation Facility	35,000	34,000	1,000
	<hr/>	<hr/>	<hr/>
	<b>\$ 292,000</b>	<b>\$ 136,000</b>	<b>\$ 156,000</b>

## Converting a Financial Plan into a PSAB Budget Detailed Example – Town of Richmond

TOWN OF RICHMOND

SCHEDULE 10

## RECONCILIATION OF THE FINANCIAL PLAN TO THE BUDGET

Year Ended December 31, 2009

	<u>Financial Plan</u>	<u>Amortization (TCA)</u>	<u>Interest Expense</u>	<u>Transfers</u>	<u>Landfill Liability</u>	<u>Cons Entities</u>	<u>PSAB Budget</u>
Property taxes	\$ 655,934						\$ 655,934
Water & Sewer	115,000						115,000
User fees	19,400					250,000	269,400
Government transfers	583,000						583,000
Fees, permits, fines	3,100					35,000	38,100
Investment Income	10,000					7,000	17,000
Grant in lieu of taxes	7,450						7,450
Other income	2,000						2,000
Trsf from accm surplus	95,000			(95,000)			-
Transfer from reserves	105,000			(105,000)			-
<b>Total Revenues</b>	<b>\$ 1,595,884</b>	<b>-</b>	<b>-</b>	<b>(200,000)</b>	<b>-</b>	<b>292,000</b>	<b>\$ 1,687,884</b>
General government	\$ 124,840	30,590	4,500	2,731			\$ 162,661
Protective services	18,000						18,000
Transportation services	304,500	100,497 (200,000)					204,997
Environmental health	24,000				10,000		34,000
Public health & welfare	3,550						3,550
Regional planning	3,622					34,000	37,622
Resource conservation	14,740					2,000	16,740
Recreational & cultural	78,186	31,633				100,000	209,819
Water & sewer	102,100	68,868	950				171,918
Fiscal services:							
Transfer to capital	580,500	(580,500)					-
Debenture charges	21,950		(21,950)				-
Short term interest	4,500		(4,500)				-
Transfer to reserves	50,000			(50,000)			-
Allowance for tax assets	2,731			(2,731)			-
<b>Total Expenditures</b>	<b>\$ 1,333,219</b>	<b>(548,912)</b>	<b>(21,000)</b>	<b>(50,000)</b>	<b>10,000</b>	<b>136,000</b>	<b>\$ 859,307</b>
<b>Net operating surplus</b>	<b>\$ 262,665</b>	<b>548,912</b>	<b>21,000</b>	<b>(150,000)</b>	<b>(10,000)</b>	<b>156,000</b>	<b>\$ 828,577</b>

# Process for Preparing Consolidated Municipal Financial Statements



## Glossary of Terms and Acronyms

### **Terms:**

#### **Assets:**

Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets embody a future benefit that involves a capacity to provide future cash flows, or to provide goods and services.

#### **Expenses:**

Expenses, including losses, are decreases in economic resources, either by way of a decrease in assets or increase in liabilities, resulting from operations, transactions and events of the accounting period. Amortization is an expense. *Expenses do not include the principal portion of debt repayments or transfers to other funds.*

#### **Financial Assets:**

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash, accounts receivable, temporary investments, and portfolio investments. Tangible capital assets are non-financial assets.

#### **Liabilities:**

Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic resources at a specified or determinable date. Liabilities embody a duty of responsibility to others leaving the government little or no discretion to avoid.

#### **Net Book Value:**

The net book value of a tangible capital asset is the cost, less the accumulated amortization and the amount of any write-downs. It is the balance that appears on the statement of financial position.

#### **Net Debt:**

A government is in a net debt position when its liabilities exceed its financial assets.

#### **Net Financial Assets:**

A government is in a net financial asset position when its financial assets exceed its liabilities.

#### **Net Realizable Value:**

Net realizable value is the amount that would be received from selling an asset less any costs related to the sale.

#### **Non Financial Assets:**

Non financial assets are acquired, constructed, or developed assets that do not normally provide resources to pay existing liabilities. Financial assets are normally employed to deliver government services, are consumed in the normal course of business, and are not for sale in the normal course of operations.

#### **Revenues:**

Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from operations, transactions or events of the accounting period.