5. Financial Schedules

5(a) – Statement of Financial Position Schedule A2 (PS-1800)

The Statement of Financial Position (Balance Sheet) provides an assessment of the assets, liabilities and equity fund balances of a local government at the end of the accounting period. The difference between financial assets and liabilities is a strong measure of the financial condition of a local government (i.e. its ability to meet long-term commitments).

The Statement of Financial Position should also provide information on physical assets. Such information is helpful in assessing a government's debt position and future operating/capital requirements.

Structure of the Statement of Financial Position is as follows:

A) Financial Assets
B) Liabilities
C) Net Financial Assets = A-B
D) Physical Assets
E) Net Total Assets = C+D
F) Equity in Physical Assets
G) Financial Equity
H) Total Equity = F+G

Net Total Assets (E) must equal Total Equity (H).

5(a)(i). Financial Assets

Financial assets are those assets that can provide resources to discharge existing liabilities or finance future operations (PS 1800.15). Essentially, financial assets are either cash or other assets that can be converted to cash on relatively short notice. Financial assets do not include equipment/supply inventories, prepaid expenses or physical assets.

LGDE Line Definitions

Cash and Investments (Line a)
This includes cash and all investments included in section 183 of the *Community Charter*.

If the investments mature within the next fiscal year, they are treated as temporary investments (PS 3030) and valued at the lower of cost or market value.

If the investments are longer than one year, they are treated as portfolio investments (PS 3040) and valued at the lower of cost or permanent impairment. Permanent impairment is defined in PS 3040.11.

Disclosure of investments includes any premium or discount arising from the purchase of the securities. Investment premiums and discounts should be amortized proportionately over the term of the respective investments.

All other investments (not included in section 183) are grouped into "Other Financial Investments" (Line f).

Taxes Receivable (Line b)
Taxes Receivable contains the total of all taxes (property taxes, parcel taxes, business taxes, special area taxes, etc…) levied by the local government plus any penalties, interest and charges that have been added to the tax roll, which remain unpaid at the end of the reporting year.

The balance of total taxes receivable must equal the "Balance of Taxes Receivable" line from the Statement of Taxation (Schedule A4 – Line j).

The total amount of taxes receivable should be net of any allowances for doubtful accounts.

Receivables are broken down into three broad categories:

> **Current (Line b1)**
> All unpaid taxes (plus any accrued interest, penalties and charges) imposed in the **current reporting year**.

Arrears (Line b2)
All unpaid taxes (plus any accrued interest, penalties and charges) imposed in the **previous reporting year**. Specific treatment of taxes in arrears is given under section 245 of the *Community Charter*.
Delinquent (Line b3)
All unpaid taxes (plus any accrued interest, penalties and charges) imposed in the **second previous reporting year**. Specific treatment of delinquent taxes is given under section 246 of the *Community Charter*.

The amounts for each line item above must equal the amounts calculated from the Statement of Taxation (Schedule A4 – Line j).

Special Fees and Charges (i.e. some user fees) may be collected as taxes under section 258 of the *Community Charter*.

The taxes receivable balance (current, arrears and delinquent) should be cleared only when a property owner pays the outstanding taxes or when the property is sold to a purchaser or acquired by the local government through the tax sale process (in accordance with section 254 of the *Community Charter*; Part 11, Division 8 of the *Local Government Act*).

Accounts Receivable (Line c)
These are trade receivables from other parties relating to the sale of local government goods or services (including current year's fees and charges receivable). These receivables are disclosed in accordance with section 3020 of the CICA Handbook. For governments, this will typically include outstanding balances of conditional or unconditional transfers (grants), subsidies, payments in place of taxes (PIPs) and advances which are due or accrued at the end of the reporting year. The amounts disclosed are shown net of any allowances for doubtful accounts and may include any appropriate fines.

Accounts Receivable is broken down into two broad categories:
Receivables from Governments (Line c1)
Governments are defined as "Public Authorities" under the Schedule of the *Community Charter*. (Including government agencies, other local government jurisdictions, school & health jurisdictions, etc…)
Receivables from Non-Governments (Line c2)
Include all accounts receivable not relating to a government body.

MFA Deposit Notes (Line d)
These are notes held by the local government and act as security against the MFA Debt Reserve (established under Section 15 of the *Municipal Finance Authority Act*). This amount must equal the amount in the MFA Debt Reserve Fund (Schedule A2 – Line l1).

Loans Receivable (Line e)
A loan receivable is defined under PS 3050.03 to be a, "financial asset of the government (the lender) represented by a promise by a borrower to repay a specific amount, at a specific time, or on demand, usually [but not always] with interest." Loans receivable refer to both loans and advances.

Local governments have the power to lend money (as a form of assistance) under section 24(1)(b) of the *Community Charter*. These loans may be extended to not-for-profit organizations and public private partnerships as well as for heritage conservation projects (under Part 3, Division 2 of the *Community Charter*).

The loans receivable are valued at the lower of cost or net recoverable value. Net recoverable value refers to the value of the loan (the current balance of loan, including accrued interest) net of any valuation allowances (valuation factors listed in PS 3050.33 to .37).

Loans receivable listed under PS 3050.09 (including loans with forgiveness conditions and concessionary terms) should not be included as loans receivable. For more information please review PS 3050.10 to .25. Such loans should be treated as grants and flowed through the Statement of Financial Activities as expenditures.

Other Financial Investments (Line f)
All financial investments not included in Schedule A2-Line a should be included here. These are investments that are not readily convertible to cash, including all portfolio investments (PS 3040) not included in section 183 of the *Community Charter* **plus** investments in government business enterprises (PS 3070) and government business partnerships (PS 3060.32).

Portfolio investments (PS 3040) are valued at the lower of cost or permanent impairment. Permanent impairment is defined in PS 3040.11.

Government business enterprise and government business partnerships are valued using the modified equity method under PS 3070.01 & PS 3060.11 (respectively). Such investments are reported at cost plus the local government's share of the business enterprise's (or partnership's) annual net income, less dividends received.

Disclosure of investments includes any premium or discount arising from the purchase of the securities. Investment premiums and discounts should be amortized proportionately over the term of the respective investments.

Property Held for Resale (Line g)
Property Held for Resale should include inventories of goods, land and improvements intended for sale to outside organizations or individuals. The property should be valued at the lower of cost or net realizable value. Under PS

1800.15, these assets are classified as financial assets because they are convertible to cash.

Items not included in "Property Held for Resale"

- **Goods** (such as supply inventories) that are not intended for outside acquisition should not be included as a financial asset; instead these should flow through the Statement of Financial Activities as expenditures.
- **Land and improvements** not intended for sale to outside parties should be classified as "Physical Assets" in the Statement of Financial Position.

Tax Sale Property (Line g1)

This includes all land and improvements acquired by the local government through the tax sale process under Section 254 of the *Community Charter* and Part 11, Division 8 of the *Local Government Act*. The land and/or improvements are recorded at the lower of cost or net realizable value. "Cost" is determined to be either the amount paid for the property (if the local government acquired the property under section 406 of the *Local Government Act*) or the upset price of the property (if the local government acquired the property under section 407(4) of the *Local Government Act*). The upset price is determined under section 407(1) of the *Local Government Act*.

If the local government acquires the property and does not wish to resell it, the property should be classified as a "Physical Asset" on the Statement of Financial Position.

The taxes receivable balance (current, arrears and delinquent from Lines b1, b2, and b3 – Schedule A2) should be cleared when the tax sale property is sold to a purchaser or acquired by the local government.

Other Property Held For Resale (Line g2)

This includes all inventories of goods, land and improvements (except those acquired through the tax sale process) intended for outside acquisition.

Property costs relating to land and improvements should include acquisition plus any enhancements required to prepare the property for servicing such as basic landscaping.

Municipal infrastructure costs (e.g. water servicing) should be reported as physical assets and therefore not be included in property value.

Other Financial Assets (Line h)

These include any financial asset balances (as defined under PS 1800.15) that are not included in the financial asset categories previously listed. If the balance in this category exceeds 5% of the value of the total financial assets (Schedule A2 – Line i), then the Ministry of Community, Aboriginal and Women's Services reserves the right to request additional information as to the makeup of the "Other Financial Assets" balance.

Total Financial Assets (Line i)

This is the sum of Lines a to h and will be filled in for you.

5(a)(ii) - Liabilities (Sch A2)

Temporary Borrowing (Line j)
This includes Revenue Anticipation Borrowing (under section 177 of the *Community Charter*) and amounts payable for borrowings from banks or other sources for the purpose of temporary financing (generally within a term of one year or less). This should **not** include either short term capital borrowing (S. 178) or interim financing (S. 181) for capital projects which is classified as long-term debt on Line n of this schedule.

Accounts Payable and Accrued Liabilities (Line k)
An **account payable** is a debt for goods or services acquired in the ordinary course of business.

An **accrued liability** (or accrued expense) is an item of expense that has been incurred over the previous reporting period but has not yet been recorded or paid. This includes, but is not limited to, accrued interest on borrowing, rent, grants, and wages.

Government Payables and Accrued Liabilities (Line k1)
This includes balances payable to governments, government agencies (federal, provincial, regional, or municipal), or other public authorities listed under the Schedule of the *Community Charter*, for the purchase of goods or services used by the local government or the citizens at large. Included are outstanding balances of conditional and unconditional grants, taxes owed to a requisitioning authority, subsidies and advances which are due or accrued at the end of the reporting year.

Non-Government Payables and Accrued Liabilities (Line k2)
This includes all accounts payable and accrued liabilities not owed to a government, government agency or other public authority.

Restricted Revenue (Line l)
These are assets and/or revenues that are subject to restrictions through either legislation or agreement. These restrictions limit the use of the assets or revenues to specific purposes not relating the local government's general operating obligations. The restrictions are usually external to the local government (but may be internal in some cases). PS 3100 provides more detail on Restricted Assets and Revenues. This does **not** include most reserve funds established under Part 6 – Division 4 of the *Community Charter*, which are considered a form of equity.

Restricted cash inflows should not be recognized as revenue until the period in which the resources are used for their specified purposes. A cash inflow received before this criterion has been met should be reported as a liability.

MFA Debt Reserves (Line l1)
These debt reserves are as defined under Section 15 of the *Municipal Finance Authority Act*. Their purpose is to provide for any potential MFA shortfalls in payments or sinking fund contributions. The funds are usually refunded to local governments upon retirement of debenture debt.

This line must equal the total of MFA Deposit Notes (Line d – Schedule A2).

Development Cost Charges (Total Line l2)
Water (Line l2a), Sewer (Line l2b), Drainage (Line l2c), Roads (Line l2d), Parks (Line l2e)
Money in development cost charge reserve funds, together with interest on it, may be used only as set out in section 188 of the *Community Charter* and section 935(3) of the *Local Government Act*. The development cost charge (DCC) must be deposited by the local government in a separate special DCC reserve fund established for each purpose for which the local government imposes the charge.

Developer Cash Contribution in Lieu of Parkland (Line l3)
Section 941 of the *Local Government Act* provides that an owner of land that is proposed for subdivision must either provide parkland or money equal to the market value of the parkland that would have been required. This money must be accounted for separately.

Other (Line l4)
For the City of Vancouver and other local governments with internal sinking funds, please include the sinking fund balance in this line item.

Deferred Revenue (Line m)
"Deferred Revenues" are monies received prior to a transaction or event that gives rise to the revenues (e.g. government transfers received prior to revenue recognition criteria being met). An example of deferred revenue is a prepayment by a resident for a local improvement or a specified area borrowing. Such deferred revenue (for local improvements) should be amortized and reported as taxation revenue over the remaining term of the borrowing.

Long Term Debt (Line n)
"Long Term Debt" is a long term obligation of the local government resulting through borrowing from an external party with a repayment term of more than one year. This can include, but is not limited to, debenture debt (either issued from the local government or the MFA – under Part 6, Division 3 of the *Community Charter*), serial and mortgage loans (under S. 175), short term capital borrowing (under S. 178) and interim financing of capital projects (under S. 181). All such debt is fully recognized in the Statement of Financial Position. This

amount does **not** include long term obligations under leasing agreements --- for more information on leases please see Line o, Schedule A2.

Some Features of Long Term Debt & Their Accounting Treatment

a) Third Party Borrowing - If a local government borrows or issues debt on behalf of a third party, the borrowing is recognized in the Statement of Financial Position. Such third party borrowing includes, but is not limited to, borrowing for a government business enterprise, borrowing under a gas franchise agreement, and assistance under S.179(1)(b) and (c) of the *Community Charter*. (See PS 3230.05)

b) Sinking Funds – For the City of Vancouver and any local governments that have inherited improvement district debt, there is the possibility that the local government holds sinking funds. These are funds established specifically to retire debenture debt upon maturity. If a municipality has sinking fund debt, the debt should be valued at the gross amount of the long-term debt issued (Line n2, Schedule A2) and the amount of the sinking fund assets should be disclosed as restricted revenue (under Line l4 in schedule A2). See PS 3230.03.

This does **not** include sinking funds held by the MFA.

c) Guarantees – A loan guarantee is a promise to pay all or part of the principal and/or interest on a debt obligation in the event of a default by the borrower. (PS 3310.03)

Such guarantees are permissible if secured by either a bylaw or agreement (under section 24(1)(c) of the *Community Charter*). These guarantees are treated as contingent liabilities in accordance with PS 3310 & Section 3290 of the CICA Handbook.

As contingencies, such liabilities are not recognized in the Statement of Financial Position unless the liability is estimatable and likely to occur. However, detailed information on loan guarantees is collected in Schedules B2a and B2b of the LGDE Reporting Forms.

PS 3230 & 3310 provide more information on the treatment of Long Term Debt and Guarantees.

MFA Debt (Line n1)

Any long term debt, as defined above, issued through the Municipal Finance Authority under their Act. Please see special treatment of MFA Actuarial Adjustments (under section 5(b)(ii) of this Help Manual).

Other (Line n2)
All other long term debt (as defined above), not issued through the MFA (e.g. financing through a commercial financial institution or a government program).

Lease Liabilities (Line o)
Leases are included as "liabilities under agreement" as set out in Section 175 of the *Community Charter*. There are two types of leases, Capital and Operating. A **capital lease** is a lease agreement which transfers substantially all of the benefits and risks of asset ownership to the lessee (i.e. the local government). This is contrasted with an **operating lease** which involves no substantial transfer of risk and reward (e.g. a standard rental agreement).

Capital leases are recognized in the Statement of Financial Position; operating lease payments are recognized as expenditures in the Statement of Financial Activities.

As previously mentioned, a lease is deemed to be capital if there is a substantial transfer of benefits and risks onto the local government. Substantial transfer of benefits and risks is deemed to have occurred if any **one** of the following criteria is met.

- There is a purchase agreement at the end of the lease (or a bargain purchase offer or fair market value offer);
- The lease term is at least 75% of the economic life of the asset;
- The present value of lease payments is at least 90% of the fair market value of the leased asset.

Even if the lease does not meet any one of the above three criteria, the lease may still be classified as capital if there is a deemed transfer of risk resulting from any combination of the following:

- The leased property is deemed to provide an essential service;
- The local government contributed significant financial assistance to the cost of the asset;
- The local government has significant control over the idle capacity of the asset;
- The local government retains control or ownership of the land where the asset is located;
- The local government shares in any gains or losses resulting from the lease;
- The local government is responsible for maintenance and/or insurance of the asset;
- The local government is responsible for any cost overruns relating to the leased asset.

PSG-2 and PSG-3 of the Public Sector Accounting Handbook contain information on defining leased tangible capital assets, and sale-leaseback transactions.

MFA Leases (Line o1)
All leases currently negotiated through the Municipal Finance Authority of British Columbia.

Other Leases (Line o2)
These are any other capital leases undertaken by the municipality.

Future Obligations (Line p)
Refers to future landfill and employee obligations.

Landfill Closure/Post Closure Liability (Line p1)
If the municipality operates a solid waste landfill site, the liability associated with the closure and post closure of the site should be recognized in the Statement of Financial Position. The liability to be recognized should be based on the following formula:

$$[A \times (B/C)] - D$$

Where:
A = The present value of the estimated total closure and post closure expenditures for landfill site
B = Total used capacity of the landfill
C = Total capacity of the landfill site (both used and unused)
D = Total closure & post closure liabilities/expenditures recognized to date.

Closure expenditures include the construction of facilities for:

- Drainage
- Leachate
- Water quality monitoring
- Gas recovery and monitoring

Post closure expenditures are associated with the operating, maintenance and monitoring costs of the closed facilities.

For more information on closure and post closure liabilities, please see PS 3270.

Future Payroll Obligations (Line p2)
This line item deals with those operating areas outlined in Sections PS 1800.25, PS 3250 and PS 3255: post-employment benefits, compensated absences, termination benefits and retirement benefits

Pension Costs and Obligations
For employees covered under the Municipal Pension Plan (or any other plan covered under the *BC Public Sector Pension Plans Act*), there is no requirement to record a pension liability in the

Statement of Financial Position. This is because the pension plans are pooled and administered by a party external to the municipality as either a multi-employer plan or multiple-employer plan (under PS 3250.105).

If the municipality administers its own **defined benefit plan**, a pension liability must be recognized in accordance with PS 3250.015 to PS 3250.094.

If the municipality administers it own **defined contribution plan**, the annual contributions should be recognized in the Statement of Financial Activities. A liability is only recognized if there is a shortfall between what the municipality is required to contribute under the plan and what it actually contributed in the reporting period.

Accounting guideline (PSG-1) provides further guidance in reporting for employee pension obligations for local governments.

Payroll Liabilities

This provides the general principles governing the accounting for post-employment benefits, compensated absences and termination benefits for local governments.

> **Post employment benefits** are benefits paid after employment but before retirement of employees including long-term disability, short-term disability, Workers' Compensation, severance benefits, salary continuation, supplemental unemployment benefits, job training & counselling, and continued health and insurance benefits. (PS 3255.02a)
>
> If the above benefits are either accumulated or vested benefits (as defined under PS 3255.12 & .13) the local government should recognize a liability for each year of employee service under the plan using methodology under PS 3250. However, if the benefits are not accumulated or vested, the local government should only recognize a liability when an event occurs that obligates the local government to pay out the benefits.
>
> **Compensated absences** are paid benefits for employee absences including: parental leave, accumulated sick days, sabbaticals, and unrestricted time off for previous service. (PS 3255.02b)

If the above benefits are either accumulated or vested benefits (as defined under PS 3255.12 & .13) the local government should recognize a liability for each year of employee service under the plan using methodology under PS 3250. However, if the benefits are not accumulated or vested, the local government should only recognize a liability when an event occurs that obligates the local government to pay out the benefits.

Termination benefits are contractual (and some non-contractual) benefits required under downsizing or termination arrangements. The non-contractual termination benefits are only those that are offered over a short period of time (less than one year) in exchange for an employee's voluntary or involuntary termination. (PS 3255.02c)

A local government should recognize a liability for termination benefits only when the local government is committed to terminate the employment of an individual or group either voluntarily or involuntarily.

Other Liabilities (Line q)
"Other" liabilities should report balances that are not included in any of the previously listed liability categories. This may include the total amount of excess collections on requisitioned property taxes which must be applied to taxes levied in the year following the reporting year.

TOTAL LIABILITIES (Line r)
The sum of all liability categories (Line j to Line q).

Net Financial Assets (Liabilities) (Line s)
Total financial assets less total liabilities (Line i minus Line r).

5(a)(iii) - Physical Assets (Sch A2)

Physical Assets are discussed in PS 3150 (Tangible Capital Assets). This section of PSAB only applies to federal and provincial governments; however, it does provide a good framework for local government treatment of physical assets. As a result, the province recommends applying PS 3150 to the treatment of physical assets (with the exception of amortization, which is still **not** recommended in accordance with Section B of the Municipal Manual --- this section of the manual will be reviewed in the near future). A Physical Asset is a property to be used on a continuing basis for a municipal purpose and has a useful life of greater than one year. Such assets are not intended for sale in the ordinary course of operations.

Valuation - Physical assets (whether tax supported or funded through government transfers) are generally reported at cost. Government transfers for the acquisition of real property should be reported as capital revenue. Physical assets that are donated should be reported at estimated fair market value at the time of donation.

Capital Leases – All land and improvements acquired through the capital leasing process (PSAB Guideline number 2) should be included in physical assets.

Disposition - Disposal of physical assets may occur by sale, destruction, loss or abandonment.

Write Downs - When a physical asset no longer provides the local government with a good and/or service, or its value is less than the net book value, the cost of the asset should be written down to reflect the reduction in the asset's value. Such a write down should not be reversed.

Any physical assets (including works in progress) should be classified in the appropriate categories below.

Parkland (Line t)
This is land held or dedicated for green space or park usage, playing fields and public squares.

Other Land (Line u)
Improved or unimproved land owned by the local government (including rights-of-way and other easements). This also includes municipal forest reserve land under Section 306 of the *Local Government Act*. Do not include land held for resale because it is a financial asset and should be included in Schedule A2 - Line g.

Buildings (Line v)
Fixed structures owned by the local government and designed to house people and/or equipment including (but not limited to): offices, garages, fire stations, warehouses and portable buildings.

Equipment/Furniture/Vehicles (Line w)
These are generally movable assets used in performing municipal work, including motors, control devices, appliances, furniture and work & transit vehicles. Such items should be inventoried each year.

Do not include hand or portable tools, plus any equipment that has an immaterial value or short useful life. Such equipment and tools are expensed through the Statement of Financial Activities in the year acquired.

Engineering Structures (Line x)
These are fixed municipal structures (other than buildings) used in performing municipal works, including: road systems and water, sewage, and drainage lines.

> **Water (Line x1)**
> Water works systems are systems for water supply including source, treatment, storage, transmission and distribution facilities, where water is furnished or offered for domestic/commercial purposes (as defined under Section 1 of the BC Safe Drinking Water Regulation --- BC Reg 120/2001). These include (but are not limited to) mains, distribution lines, intakes, wells, reservoirs, pressure reducing valves (PRVs), pumphouses and treatment and disinfection facilities.
>
> **Sewer (Line x2)**
> A sewage system means any facility or work that gathers, treats, transports, stores, utilizes or discharges municipal sewage or reclaimed water (as defined under Section 1 of the *Waste Management Act* Municipal Sewage Regulation --- BC Reg 129/99). These include (but are not limited to) mains, collector lines, pumps, outfalls and facilities for storage, treatment, reuse/recycling and disposal.
>
> This may also include storm sewer infrastructure if it is not separate from the sanitary sewer system.
>
> **Drainage (Line x3)**
> These include dikes, ditches, pumps, and watercourses as set out in Section 69 of the *Community Charter*, or any other works related to drainage of surface water.
>
> If such works can not be segregated from existing sewer or transportation works, they should be left in those categories and their value recognized in

that fashion. This category may be revisited at a later date dependent on the results of the data collection.

Roads (Line x4)
These include the value of all public roads vested with the municipality under section 35 of the *Community Charter*, including arterial roads, secondary roads, bridges and rights-of-way.

Other (Line x5)
Any other engineered structure not included in the previous categories; this may include fences and other security systems.

Other Physical Assets (Line y)
This category covers any items not included in the above descriptions but fitting the general requirements of tangible capital assets. This may also include such intangible capital assets as goodwill.

Total Physical Assets (Line z)
The summation of all physical assets (Lines t through y).

NET TOTAL ASSETS (Liabilities) (Line aa)
The sum of the Net Financial Assets (Line s) and the Total Physical Assets (Line z). Must equal total equity (Schedule A2 - Line ad).

5(a)(iv) - Equity (Sch A2)

The total equity position of a local government is equal to the Net Total Assets of a municipality [Net Financial Assets (Line s) plus Total Physical Assets (Line z)]. The equity position of a local government is broken down into two broad categories **Equity in Physical Assets** and **Equity in Financial Assets**.

Equity in Physical Assets (Line ab)
The Equity in Physical Assets recognizes all transactions and balances relating to the acquisition, construction, removal, improvement and/or disposition of physical assets (Lines t to y – Schedule A2). For a more detailed description of the items which make up the Equity in Physical Assets, please see Schedule A5 "Statement of Equity in Physical Assets." Usually, the Equity in Physical Assets is approximately equal to the value of the Physical Assets less the value of any Long-Term Debt or Capital Leases. This line item must reconcile to the bottom line from the "Statement of Equity in Physical Assets" (Schedule A5 – Line j).

Equity in Financial Assets (Line ac)
This is equity supported by the financial assets of the municipality (including any financial assets in a capital fund). This amount must equal the Total Financial Equity line from the **Statement of Financial Activities and Financial Equity** (Schedule A3c - Line ad).

In accordance with PS 1800.57, Financial Equity is divided into the three funds of the local government (Operating, Reserves and Capital). As a note, **Reserve Funds do not include Reserve Accounts**. A Reserve Account is merely a form of appropriated surplus (usually established by council resolution). A Reserve Fund, on the other hand, is established by bylaw, under section 188 of the *Community Charter*, and is meant for specified purposes.

1) Financial Equity in Operating Fund (Line ac1)
This is generally the accumulated fund surpluses in the operating funds of the local government (including any **appropriated surplus** and **reserve accounts** established through council resolutions). This does not include Reserve Funds. Any unfunded balances should be netted from the operating fund.

2) Financial Equity in Reserve Fund (Line ac2)
This is all reserve fund balances under section 188 of the *Community Charter* (except sinking funds, MFA reserve funds and DCC funds, which are all classified as restricted revenue under the liabilities portion of the Statement of Financial Position --- see Line l in Schedule A2). Also, do not include either trust funds or MFA sinking funds because these are outside the reporting entity of the local government (PS 1300).

3) Financial Equity in the Capital Fund (Line ac3)
In some cases, a local government may place cash in its capital funds. This may occur if there is a cash repayment from an MFA deposit or sinking fund. Also, sometimes a local government will transfer conditional capital grant monies to its capital fund. The Financial Equity in Capital Funds measures equity position in the capital funds that is supported by financial assets.

It is important not to confuse this line item with the Equity in Physical Assets (Line ab). The equity in physical assets is supported by the physical assets in the capital funds of a local government (e.g. buildings and equipment); while the Financial Equity in the Capital Fund is supported by the financial assets in the capital funds (e.g. cash and receivables).

The Financial Equity in the Capital Fund is not restricted by bylaw. If any of the equity is restricted by bylaw, it should be classified as Financial Equity in Reserve Funds (Line ac2).

TOTAL EQUITY (Line ad)
This is the sum of the Equity in Physical Assets (Line ab) and Equity in Financial Assets (Line ac). This amount must equal Net Total Assets (Schedule A2 - Line aa).

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