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## **5(d) – Statement of Equity in Physical Assets (Schedule A5)**

The Equity in Physical Assets equals the portion of Physical Assets (Line z – Schedule A2) that is owned by the local government free of any external financial encumbrances.

The purpose of this schedule is to reconcile any changes in physical equity for the current reporting period to the Statement of Financial Position. These changes are usually the result of the normal financial activities of the local government.

The bottom line from this schedule must reconcile with the Equity in Physical Assets line from the Statement of Financial Position (Line ab – Schedule A2).

### **Capital Expenditures (Line a)**

This line is a formula cell that links to the capital expenditures from the Statement of Financial Activities. This line equals the sum of Lines j3, k3, l3, m3, n3, o3, p3, q3, r3, and s3 from Schedule A3b.

Capital expenditures represent an increase in the book value of physical assets through the acquisition, construction and development of new physical assets. Therefore they also represent an increase in the value of the Equity in Physical Assets. This line will also capture any capital expenditures by way of long-term capital lease agreements.

### **Less: Proceeds from Issue of Debt (Line b)**

Local governments are not allowed to run sustained deficits in accordance with section 165(5) of the *Community Charter*. Therefore any long-term debt of a local government is to support capital asset financing.

This line item represents the portion of capital expenditures, for the current reporting period, that were financed through new debt. Since debt represents an external encumbrance on the physical assets, it also represents a reduction in the equity in physical assets.

This line item is a formula cell that links to the Fund Balances section of the Statement of Financial Activities (Line y – Schedule A3c).

### **Plus: Principal Payments and Actuarial Adjustments (Line c)**

Principal payments (including the principal portion of annual capital lease payments) and actuarial adjustments represent a reduction in the long-term liabilities in the Statement of Financial Position (Lines n & o – Schedule A2).

Therefore, these payments and adjustments represent a reduction in the external encumbrances on physical assets --- thus, an increase in the Equity in Physical Assets.

This line item is a formula driven cell that links to the sum of Debt Principal Payments and Actuarial Adjustments from the Statement of Financial Activities (Lines w & x – Schedule A3c).

**Less: Book Value of Disposed Physical Assets (Line d)**

This line item represents the book value of Physical Assets disposed of during the current reporting period. This represents a reduction in the Equity in Physical Assets because the local government will have reduced its physical asset balance on the Statement of Financial Position (Line z – Schedule A2). The local government simply owns fewer assets.

This is a formula cell that links to the Statement of Financial Activities (Line g1 – Schedule A3a).

**Plus: Other Capital Adjustments (Line e)**

This line item reflects any other adjustments to the Equity in Physical Assets balance over the current reporting period. These are adjustments not reflected in Lines a to d. Also, this does not include any prior period adjustments, which are captured in Line h.

The most common adjustment would be a one-time write down in the value of the physical asset in accordance with PS 3150.33. However, this should **not** include the actual disposition of physical assets, which are included above in Line d.

Amortization of Physical assets is another possible entry. However, it should be noted that the Municipal Manual currently recommends amortization **not** be recorded for accounting purposes (Section B). This section is currently under review.

If the value in this line reduces the Physical Equity, enter a negative number. If the value in this line increases the Physical Equity, enter a positive number.

**Change in Physical Equity (Line f)**

This line item represents the net change in the Physical Equity of the local government over the reporting period (not including any prior period adjustments).

This is a formula driven cell and equals:

*Line a (Capital Expenditures) – Line b (Proceeds from Issue of Debt) + Line c (Principal Payments & Actuarial Adjustments) - Line d (Book Value of Disposed Physical Assets) +Line e (Other Capital Adjustments).*

**Equity in Physical Assets at the Start of the Year (Line g)**

This line item represents the physical equity balance at the beginning of the accounting period. These numbers should be taken from the ending balance of last year's LGDE form.

**Prior Period Adjustments (Line h)**

A prior period adjustment is a restatement of prior year's financial statements due to either a change in accounting policy or correction of a prior period error (PS 2120.35).

All prior period adjustments to the physical equity should be shown on this line item. **Aside:** any prior period adjustments that affect the Financial Equity are dealt with in the Statement of Financial Activities (Schedule A3c – Line ac2).

Any prior period adjustments that result in a reduction to the opening balance of the Physical Equity should be entered as a negative value.

**Caveat:** The Ministry may request further detailed information on the prior period adjustments if the total amount in this line exceeds **5%** of the opening fund balance in Line g – Schedule A5.

**Revised Physical Equity Balance at the Start of the Year (Line i)**

This line item is the total value of the Physical Equity at the start of the accounting period, including any prior period adjustments. This is a formula cell and equals:

*Line g (Equity in Physical Assets at Start of Year) plus Line h (prior period Adjustments)*

**Equity in Physical Assets at End of Year (Line j)**

This line item represents the Physical Equity at the Start of the Year (including prior period adjustments) (Line i) **plus** any Changes in Physical Equity for the current reporting period (Line f).

The amount in this line item should reconcile with the Equity in Physical Assets in the Statement of Financial Position (Line ab - Schedule A2).

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