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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* --- cross referenced from section 814(2) *Local Government Act*.

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 e).

Accounts Receivable (Line b)

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, 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 b1)

Governments are defined as "Public Authorities" under section 5 of the *Local Government Act*. (Including government agencies, other local government jurisdictions, school & health jurisdictions, etc...)

Receivables from Federal/Provincial Government and Agencies (Line b1a)

These are trade receivables from the federal or provincial government (or related agencies and crown corporations).

Receivables from Local Government and Agencies (Line b1b)

These are receivables owed from other government entities that are not provincial or federal (this may include municipalities, improvement districts, first nations, school boards and health regions).

Receivables from Non-Governments (Line b2)

Include all accounts receivable not relating to a government body.

MFA Deposit Notes (Line c)

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 k1).

For Member Municipalities (Line c1)

This is the value of notes held as security against the MFA debt reserve for borrowing done on behalf of member municipalities (in accordance with sections 15(2)(b)&(3) of the *Municipal Finance Authority Act*). This amount should equal the balance in the MFA Debt Reserve Fund for Member Municipalities (Schedule A2 – Line k1a).

For RD Services (Line c2)

This is the value of notes held as security against the MFA debt reserve for direct regional district service borrowing (in accordance with sections 15(2)(a)&(3) of the *Municipal Finance Authority Act*). This amount should equal the balance in the MFA Debt Reserve Fund for RD Services (Schedule A2 – Line k1b).

Loans Receivable (Line d)

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.

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 are 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 an expenditure.

Loans Receivable from Municipalities for MFA Debt (Line d1)

This is the outstanding balance of all resolutions passed by member municipalities in order to secure regional district borrowing from the MFA under sections 182 of the *Community Charter* and 824 of the *Local Government Act*. This amount should equal the balance of long term debt on behalf of member municipalities (Schedule A2 – Line m1a). This amount is drawn down annually by the value of the principal payments and actuarial adjustments on the debt of the member municipalities.

Other Loans Receivable (Line d2)

These are loans issued by the regional district as a form of assistance (under section 185(1)(b) of the *Local Government Act*). These loans may be extended to not-for-profit organizations and public private partnerships as well as for heritage conservation projects (under Part 5, Division 4 of the *Local Government Act*).

Other Financial Investments (Line e)

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* (cross-referenced from section 814 of the *Local Government Act*) **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 enterprises 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 f)

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.

Other Financial Assets (Line g)

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 h), 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 h)

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

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

Temporary Borrowing (Line i)

This includes Revenue Anticipation Borrowing (under section 821 of the *Local Government Act*) and amounts payable for borrowings from banks or other sources for the purpose of temporary financing (generally with a term of one year or less). This should **not** include either short term capital borrowing (S. 822) or interim financing for capital projects which is classified as long term debt on Line m of this schedule.

Accounts Payable and Accrued Liabilities (Line j)

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 j1)

This includes balances payable to governments, government agencies (federal, provincial, or municipal), or other public authorities listed under section 5 of the *Local Government Act*, for the purchase of goods or services used by the regional district or the citizens at large. Included are outstanding balances of conditional and unconditional grants, subsidies and advances which are due or accrued at the end of the reporting period.

Non-Government Payables and Accrued Liabilities (Line j2)

This includes all accounts payable and accrued liabilities not owed to a government, government agency or other public authority.

Restricted Revenue (Line k)

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 also be internal). PS 3100 provides more detail on Restricted Assets and Revenues. This does **not** include most reserve funds established under Section 814 of the *Local Government Act*, 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 k1)

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 c – Schedule A2).

MFA Debt Reserves for Member Municipalities (Line k1a)

This is the value of the MFA debt reserve for borrowing done on behalf of member municipalities (in accordance with section 824 of the *Local Government Act* and sections 15(2)(b)&(3) of the *Municipal Finance Authority Act*). This amount should equal the balance in the MFA Deposit Notes for Member Municipalities (Schedule A2 – Line c1).

MFA Debt Reserves for RD Services (Line k1b)

This is the value of the MFA debt reserve for direct regional district service borrowing (in accordance with sections 15(2)(a)&(3) of the *Municipal Finance Authority Act*). This amount should equal the balance in the MFA Deposit Notes for RD Services (Schedule A2 – Line c2).

Development Cost Charges (Total Line k2)

Water (Line k2a), Sewer (Line k2b), Drainage (Line k2c), Roads (Line k2d), Parks (Line k2e)

Money in development cost charge reserve funds, together with interest on it, may be used only as set out in 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 k3)

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 Restricted Revenue (Line k4)

This includes any other restricted revenue sources not listed above in lines k1 to k3.

Deferred Revenue (Line l)

"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 service area borrowing [under Sections 805.1(1)(b) and 806.1(2)(a)]. 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 m)

"Long Term Debt" is a long term obligation of the regional district 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 (issued from the MFA – under Sections 824 and 825 of the *Local Government Act*), serial and mortgage loans (under S. 820), short term capital borrowing (under S. 822) and interim financing of capital projects (under S. 819). 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 n, 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. (See PS 3230.05)

b) Sinking Funds – In some unusual cases a regional district may have some old debenture debt that was not issued through the MFA; in these cases, there is the possibility that the regional district holds sinking funds. These are funds established specifically to retire debenture debt upon maturity. If a regional district has sinking fund debt, the debt should be valued at the gross amount of the long-term debt issued (Line m2, Schedule A2) and the amount of the sinking fund assets should be disclosed as restricted revenue (under Line k4 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 185(1)(c) of the *Local Government Act*). 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.

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

MFA Debt (Line m1)

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).

MFA Debt on behalf of Municipalities (Line m1a)

This is the outstanding balance of all debt issued by the regional district on behalf of member municipalities under section 824 of the *Local Government Act*. This amount should equal the balance of loans receivable from member municipalities (Schedule A2 – Line d1). This amount is drawn down annually by the value of the principal payments and actuarial adjustments on the debt of the member municipalities.

MFA Debt on behalf of Regional Services (Line m1b)

This is the outstanding balance of all debt issued by the regional district for regional services under section 819 of the *Local Government Act*. This amount is drawn down annually by the value of the principal payments and actuarial adjustments on the debt relating to these services.

Other (Line m2)

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 n)

Leases are included as “liabilities under agreement” as set out in Section 175 of the *Community Charter* cross-referenced from section 819 of the *Local Government Act*. 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 n1)

All capital leases currently negotiated through the MFA.

Other Leases (Line n2)

These are any other capital leases undertaken by the regional district.

Future Obligations (Line o)

Refers to future landfill and employee obligations.

Landfill Closure/Post Closure Liability (Line o1)

If the regional district 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 o2)

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 regional district as either a multiemployer plan or multiple-employer plan (under PS 3250.105).

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

If the regional district administers its 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 regional district 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 noncontractual) benefits required under downsizing or termination arrangements. The noncontractual 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 p)

"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 taxes which must be applied to requisitions in the year following the reporting year.

TOTAL LIABILITIES (Line q)

The sum of all liability categories (Line i to Line p).

Net Financial Assets (Liabilities) (Line r)

Total financial assets less total liabilities (Line h minus Line q).

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 local 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 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 s)

This is land held or dedicated for green space or park usage, playing fields and public squares.

Other Land (Line t)

Improved or unimproved land owned by the local government (including rights-of-way and other easements). Do not include land held for resale because it is a financial asset and should be included in Schedule A2 - Line f.

Buildings (Line u)

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 v)

These are generally movable assets used in performing local government 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 w)

These are fixed local government structures (other than buildings) used in performing local government works, including: road systems and water, sewage, and drainage lines.

Water (Line w1)

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 w2)

A sewage system means any facility or work that gathers, treats, transports, stores, utilizes or discharges 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 w3)

These include dikes, ditches, pumps, and watercourses as set out in Sections 540 and 541 of the *Local Government Act*, or any other works related to drainage of surface water.

If such works cannot 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 w4)

Unlike municipalities, regional districts are not responsible for rural roads. Therefore, this number should equal zero.

Other (Line w5)

Any other engineered structure not included in the previous categories; this may include fences and other security systems.

Other Physical Assets (Line x)

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 y)

The summation of all physical assets (Lines s through x).

NET TOTAL ASSETS (Liabilities) (Line z)

The sum of the Net Financial Assets (Line r) and the Total Physical Assets (Line y). Must equal total equity (Schedule A2 - Line ac).

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

The total equity position is equal to the Net Total Assets of a regional district [Net Financial Assets (Line r) plus Total Physical Assets (Line y)]. 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 aa)

The Equity in Physical Assets recognizes all transactions and balances relating to the acquisition, construction, removal, improvement and/or disposition of physical assets (Lines s to x – 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 ab)

This is equity supported by the financial assets of the regional district (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, Reserve 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 Part 6, Division 4 of the *Community Charter* cross-referenced from section 814 of the *Local Government Act*, and is meant for capital purposes.

1) Financial Equity in Operating Fund (Line ab1)

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. If any of the liabilities (especially the unfunded liabilities) have not been allocated to a fund, the balance of those liabilities should be netted from the operating fund.

2) Financial Equity in Reserve Fund (Line ab2)

This is all reserve fund balances under Part 6, Division 4 of the *Community Charter* cross-referenced from section 814 of the *Local Government Act* (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 k 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 ab3)

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 aa). The equity in physical assets is supported by the physical assets in the capital funds of a local government (e.g. building 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 ab2).

TOTAL EQUITY (Line ac)

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

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