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5(b) - Statement of Financial Activities and Financial Equity - Schedule A3 (Income Statement)

The Statement of Financial Activities and Financial Equity provides a summary of the sources, allocations and uses of a regional district's financial resources over the last reporting period.

Revenues and expenditures can generally be recorded by either type (the actual form of revenue or expenditure tool used --- e.g. grants and salaries) or function (the area of operations --- e.g. water and sewer). According to PSAB 1800.31, revenues should be recorded by type and expenditures recorded by function.

The reporting presentation used in LGDE is a hybrid of the type and function presentations. The revenues are accounted for by type (e.g. user fees) with some minor breakdowns by function (e.g. user fees are broken down by water, sewer etc...). Expenditures are accounted for by function (e.g. protective services and solid waste management) with a further breakdown by type (operations, interest and capital). This gives the data user a broader picture of local government operations.

All revenues and expenditures are loosely based on a standardized local government chart of accounts set by Statistics Canada.

a) Structure of the Statement of Financial Activities:

A	Revenues (Schedule A3a)
B	Expenditures (Schedule A3b)
C=A-B	Net Operating Revenues
D	Adjustment to Fund Balances (Schedule A3c)
E=C-D	Changes in Financial Equity

b) PSAB Test:

The Net Operating Revenue ("C" from above) must equal the Change in Net Financial Assets (from the Statement of Financial Position) between the previous accounting period and the current accounting period.

5(b)(i) - Revenue (Schedule A3a)

Definition of Revenue

Revenues are increases in economic resources, either by way of inflows or enhancements of assets or by reduction of liabilities, usually resulting from ordinary activities of the local government. As previously mentioned, revenues are recorded by type (with some minor classifications by function). Revenues are based on the definitions from PS 1800.37, and include, but are not limited to, fees, grants, requisitions and external transfers.

External borrowing (including debenture proceeds), internal transfers from other funds, and any appropriations from prior year surpluses are **not** considered revenue. For more information on internal transfers see the “Breakdown in Fund Balances” Schedule A3c – Line ab).

Revenues are recorded net of any allowances (such as Bad Debt Expenses, Sales Return Allowances, Collection Allowances etc...). Recoveries of costs from allowances, which have previously been established, should be reported as a net increase in revenue.

If there is a change in a financial asset valuation (i.e. the change in the value of a financial asset) such changes should be recognized in the Statement of Financial Activities (PS 1800.46). Either a positive or negative change may be recognized under “Gain or Loss on Disposition or Revaluation of Financial Assets” Schedule A3a – Line f. A revaluation of Physical Assets is not recognized in the Statement of Financial Activities. Instead it is recognized in the Statement of Equity in Physical Assets (Schedule A5 – Line e) as either a reduction or increase to the equity in physical assets.

Definitions

Payments in Place of Taxes (PIP) (Line a)

Crown Properties are exempt from municipal taxation under section 220 of the *Community Charter*. Crown Properties are exempt from rural taxation under section 15 of the *Tax (Rural Area) Act*. These exemptions also apply to school districts through section 131 of the *School Act* and to Regional Districts and Regional Hospital Districts through section 28 of the *Regional Hospital District Act*.

These exempt properties include land and improvements vested in the federal/provincial government or any government agencies and crown corporations.

Both the federal and provincial governments have special legislation to make payments in place of taxation to both municipalities and the surveyor of taxes. The payments in place are then transferred to the regional district under section 807 of the *Local Government Act*.

This line item does **not** include any conditional or unconditional government grants; these grants are recorded as Transfers from Other Governments in the Statement of Financial Activities (Line c – Schedule A3a).

Federal Government/Agencies PIP (Line a1)

This line item equals all payments in place of taxes received from the federal government (and related agencies and crown corporations) in accordance with the federal *Payment in Lieu of Taxes Act*.

Provincial Government/Agencies PIP (Line a2)

This line item equals all payments in place of taxes received from the provincial government (and related agencies and crown corporations) in accordance with the *Municipal Aid Act*.

Other Payments in Place (Line a3)

This includes any other payments in place of taxes received from other public authorities not listed above in Lines a1 or a2.

Service Charges/User Fees (and Other Sale of Services) (Line b)

This includes all revenues levied under section 797.2 of the *Local Government Act* (Fees and Charges). This also includes any sales of other goods and/or services to individuals, organizations, or governments (or their agencies).

Sales to other governments (and agencies) should also include any bulk sales revenue (of goods or services) to the other government whereby the other government supplies the good or service to its citizens (e.g. sale of bulk water by the RD to participating municipalities on a fee basis).

This category may include the following services:

Water Services (Line b1)

-includes supply, treatment and distribution sales revenue

Sewer Services (Line b2)

-includes collection, treatment and disposal sales revenue

Solid Waste Services (Line b3)

-includes garbage pickup, landfill and recycling sales revenue

Parks, Recreation and Culture (Line b4)

Transportation (Line b5)

-includes road maintenance, public transit and snow removal sales revenue --- does not include parking

Other (Line b6)

-includes sales revenue from services not listed above – e.g. protective services, regional planning, housing, licenses, permits, fines (excluding fines relating to the tax requisition process, which are included in Transfers from other Governments (Schedule A3a – Line c)), franchise and concession contracts and rentals.

Transfers from Other Governments (Line c)

A government transfer is a conveyance of money to the local government from another public authority (as defined under section 5 of the *Local Government Act*), where the public authority does not:

- Receive goods or services in return for the conveyance of funds;
- Expect to be repaid for all or a portion of the conveyed funds;
- Expect a financial return on the conveyed funds (e.g. interest or dividends).

Transfers can include entitlements, cost sharing agreements and grants (PS 3410.04). Entitlements are transfers to the local government where the local government must meet specific criteria in order to be eligible for the transfer. Cost sharing usually involves a contractual agreement between the local government and the public authority. Any conveyance of funds from the public authority must be based on eligible expenditures under the terms of an agreement. Grants are transfers made at the discretion of the public authority. These three categories of transfers are not mutually exclusive. Example, a Federal/Provincial infrastructure grant is:

- a grant, established under a program, at the discretion of the senior levels of government;
- an entitlement because a local government must first meet an eligibility criterion in order to receive the grant;
- a cost sharing arrangement involving multiple levels of government under terms of a contractual agreement.

Government Transfers do **not** include the following:

- payments in place of taxes - These are included under the “Payments in Place of Taxes” line (Schedule A3a - Line a);
- internal transfers within the local government reporting entity (for more information on the local government reporting entity, please see part three of this Help Manual).

Government transfers are recognized in the financial statements as revenue in the reporting period if:

- the events giving rise to the transfer occurred,
- the amount of the transfer is authorized, eligible, and estimatable (PS 3410.42).

For the purposes of the LGDE reporting forms, all transfers are broken down by the level of government (federal, provincial, regional) and the nature of the transfer (conditional or unconditional). Provincial transfers include monies received from the surveyor of taxes as part of the annual requisitioning process in the electoral areas. Regional transfers include any transfer of funds from other regional districts, municipalities (including requisitions), improvement districts, school boards, regional health boards, native bands etc.

Conditional transfers are used for a specific purpose (e.g. planning grants and infrastructure grants usually involve a specific project or Library grants are for a specific area of local government operations). **Unconditional transfers** are not earmarked for a specific purpose. Thus, the local government has full discretion on the use of funds from an unconditional transfer.

Federal Government/Agencies Unconditional Transfers (Line c1)

"Federal Government Unconditional Transfers" are transfers from the Federal Government (or Federal Agencies) where the regional district has full discretion on the use of funds.

Federal Government/Agencies Conditional Transfers (Line c2)

"Federal Government Conditional Transfers" are transfers from the Federal Government (or Federal Agencies) earmarked for specific programs or projects.

Provincial Government/Agencies Unconditional Transfers (Line c3)

"Provincial Government Unconditional Transfers" are transfers from the Provincial Government (or Provincial Agencies) where the regional district has full discretion on the use of funds. This includes Regional District Basic Grants.

Provincial Government/Agencies Conditional Transfers (Line c4)

"Provincial Government Conditional Transfers" are transfers from the Provincial Government (or Provincial Agencies) earmarked for specific programs or projects.

Electoral Area Requisitions (Line c4a)

These are funds requisitioned annually by the regional district to the surveyor of taxes for collection in electoral areas in accordance with section 806 of the *Local Government Act*.

Other Provincial Conditional Transfers (Line c4b)

This includes all other provincial conditional transfers --- including, but not limited to, planning grants, library grants, restructure grants, and infrastructure grants (e.g. Local Government Grant Program and the Federal Provincial Infrastructure Program).

Important Note Concerning the current Federal/Provincial Infrastructure Works Program.

Under the contract conditions set out in this program, only the provincial government transfers funds to the local government. The province, in turn, requisitions the federal government for its share of the costs. Because the regional district does not receive any money directly from the federal government, all transfers should be recognized as being strictly provincial (not split between the provincial and federal governments).

Regional and Other External Transfers (Line c5)

These are transfers (both conditional and unconditional) from public authorities (other than federal or provincial authorities) and private organizations.

Local Government Requisitions (Line c5a)

These are funds requisitioned annually by the regional district to member municipalities for collection of taxes in municipal areas in accordance with section 805 of the *Local Government Act*.

Member Municipality MFA Debt Payment (Line c5b)

This is money transferred from member municipalities to the regional district for the purpose of discharging debt obligations under section 824 of the *Local Government Act* (Financing Municipal Undertakings).

Other Regional Transfers (Line c5c)

These include any other transfers (not listed above in lines c5a and c5b) from other regional districts, municipalities, school boards, native bands, and improvement districts. These may also include transfers from non-public authorities such as the Federation of Canadian Municipalities (Green Municipal Enabling Fund and the Green Municipal Investment Fund).

Investment Income (Line d)

This line item reports certain revenues resulting from financial assets (on Schedule A2) especially cash and investments (Line a), loans receivable (Line d) and other financial investments (Line e). This usually comprises routine income streams from these investments, including:

- interest and dividends on securities
- interest on loans and advances

This investment income should be adjusted for any amortization of discounts or premiums on the purchase of securities and for any foreign currency adjustments on investment income.

Investment income does not include **one-time gains or losses** from asset disposition (or asset revaluation), **rental income** or **income from government business enterprises**. Gains or losses are recorded on Lines f1 & f2 (for financial assets) or Line g2 (for physical assets); rental income is recorded under Line b6 “Other Sale of Services” and income from government business enterprise is recorded under Line h “Other Revenue” --- all of these line items are on Schedule A3a (Revenue).

Also, do not include any **investment income** on monies held in **restricted or deferred revenue** funds (Schedule A2 – Lines k & l – including DCCs and

sinking funds). This investment income does **not** flow through the Statement of Financial Activities (in accordance with PS 3100.11). Instead the investment income is credited directly to the restricted (or deferred) revenue fund, which is a liability:

DR Cash	xxx
CR Restricted Revenue	xxx

Most revenue in restricted (or deferred) revenue funds is not recognized until actual works are performed.

Actuarial Adjustments on MFA Debt (Line d1)

Important Note Regarding Municipal debt: This adjustment only applies to MFA debentures for regional services; this does **not** apply to MFA debentures issued on behalf of member municipalities. (For more information, please see below.)

The actuarial adjustments reflect annual investment gains from the sinking funds (and other debt retirement funds) held by the MFA. Because these sinking funds are held by an external body (i.e. the MFA), they are not reported in the local government's Statement of Financial Position. Instead the actuarial adjustment is applied directly against the outstanding debenture debt of the local government (Schedule A2 – Line m1b).

Some local governments have (in the past) netted actuarial adjustments from interest expenditures. This is **not** the recommended application of PSAB or Provincial Reporting Requirements. The actuarial adjustment is a reduction to the principal on long term debt (not interest). By netting these adjustments from interest expenditures, the true interest financing costs of a local government are understated. The recommended approach is to treat actuarial adjustments as a form of notional investment income (used to draw down debt). This agrees with the previous definition of revenue that includes an increase in economic resources by way of a reduction in liabilities. The recommended transaction is as follows:

DR Actuarial Adjustments Receivable	xxx
CR Investment Income	xxx

(Recognition of the Actuarial adjustment when annual invoice is sent from the MFA)

DR Debentures Payable	xxx
CR Actuarial Adjustments Receivable	xxx

(Reduction of long term debt by the actuarial adjustment amount)

Payment Reduction by MFA – In some cases, nearing the end of the debt financing duration, the MFA will reduce or eliminate the semi-annual payment invoices of interest and principal owed by the local government.

However, the long term debt on the Statement of Financial Position must still be drawn down. In this case, the annual actuarial adjustment (plus the amount that normally would have been paid as principal) is included as Investment Income in the “Actuarial Adjustments” line item (Line d1). Any reduction or elimination of interest expenditures is simply shown as a reduction in Interest in the Expenditures Section of the Statement of Financial Activities.

Important Note Regarding Municipal debt: This adjustment only applies to MFA debentures for regional services; this does **not** apply to MFA debentures issued on behalf of member municipalities. The annual actuarial adjustment for MFA debentures on behalf of member municipalities is accounted for as a balance sheet transaction:

DR Long Term Debt (on behalf of member mun)	xxx	
CR Loans Receivable (from mun)		xxx
<i>(For actuarial adjustments on member municipal debt)</i>		

For more information on annual debt payments from member municipalities please see Line c5b – Schedule A3a (Member Municipality Debt Payments) and Line t1 – Schedule A3b (Debt Payments for Member Municipalities).

Other Investment Income (Line d2)

This line item includes all above listed investment income except for actuarial adjustment on MFA debt (from Line d1).

Developer Contributions (Line e)

These are charges imposed on developers to provide certain regional infrastructure (including water, sewer, drainage, parkland and roads).

Developer contributions are only recognized when the actual infrastructure works are performed. Any developer contributions paid in advance of the infrastructure works are placed in restricted revenue in the Statement of Financial Position (Schedule A2 - Lines k2a to k4).

Development Cost Charges – DCCs (Line e1)

This is development revenue recognized under the authority of a DCC bylaw (Part 26, Division 10 of the *Local Government Act*).

Other Developer Contributions (Line e2)

This includes all other developer contributions (other than DCCs). One such contribution is cash in lieu of parkland under section 941 of the *Local Government Act*.

Gain or (Loss) on Disposition or Revaluation of Financial Assets (Line f)

This reports any gains or losses from the disposal or revaluing of financial assets (**not** physical assets which report disposals in Line g and revaluations on the Statement of Equity in Physical Assets (Schedule A5 Line e)).

“Dispose” is defined under section 29 of the *Interpretation Act* to include “assign, give, sell, grant, charge, convey, bequeath, devise, lease, divest, release and agree to do any of those things.” This definition of disposal will apply to these line items except for any types of grants (or other forms of assistance) which are recognized as expenditures and operating leases, where the regional district is acting as the lessor.

Revaluation of financial assets can include permanent impairment and reduction in investment value to the lower of cost or market. This line item does not generally include allowances (e.g. bad debt expenses), which are generally netted off other revenue items (such as sales revenue).

Gain and Loss on Disposition and Revaluation of Financial Assets are broken down into two categories:

Land held For Resale (Line f1)

These are gains and losses from any Property Held for Resale (Schedule A2 – Line f).

Other Gains and Losses (Line f2)

These are gains and losses associated with all other financial assets (except property held for resale). Also, MFA sinking fund surplus received from the MFA should be included here.

Proceeds from Disposition of Physical Assets (Line g)

This reports all proceeds from the disposal of physical assets (not financial assets, which are reported in Line f).

“Dispose” is defined under section 29 of the *Interpretation Act* to include “assign, give, sell, grant, charge, convey, bequeath, devise, lease, divest, release and agree to do any of those things.” This definition of disposal will apply to this line item except for any operating leases where the regional district is acting as the lessor.

A “revaluation” of Physical Assets is not recognized in the Statement of Financial Activities. Instead it is recognized in the Statement of Equity in Physical Assets (Schedule A5 – Line e) as either a reduction or increase in the equity in physical assets.

Proceeds from disposition are broken down into two categories:

Book Value of Asset (Line g1)

This is the recorded value of the physical asset in the Statement of Financial Position at the time of disposition.

It may be asked why we recognize the book value of physical assets that are being disposed but not the book value of the financial assets (Line f). The reason is that when a physical asset is disposed for cash, we are converting a physical asset (e.g. building) into a financial asset (cash). Because of this, we are increasing the Equity in Financial Assets and decreasing the Equity in Physical Assets. Therefore the full increase in the Equity in Financial Assets must be shown in the Statement of Financial Activities (all proceeds from disposition).

In the case of disposing of a financial asset, we are converting one type of financial asset (e.g. Land held for Resale) into another form of financial asset (e.g. Cash). Thus, the only change in the Equity in Financial Assets is the gain or loss on disposition. Therefore we only recognize the gain or loss in the Statement of Financial Activities.

Gain or Loss on Disposition (Line g2)

This is the gain or loss on the book value of the physical asset at the time of disposition.

Other Revenue (Line h)

This includes all other revenues not listed above and can include (but is not limited to):

- Insurance Proceeds
- Income of Government Business Enterprises

Total Revenue (Line i)

This line item is the sum of all revenues (lines a to h).

5(b)(ii) - Expenditures (Schedule A3b)

Definition of Expenditure

An expenditure is a cost of goods or services acquired from a party outside the local government reporting entity in the last reporting period (including local government transfers to an external party). The government reporting entity is explained in Part 3 of this Help Manual. Expenditures are recognized regardless of whether invoices are received or payments are made and include, but are not limited to, wages, benefits, supplies, interest and capital costs. (PS 1800.41)

Internal transfers between funds and repayment of debt principal are **not** expenditures in the Statement of Financial Activities. Instead, debt principal repayments and breakdown of fund balances are recorded in a separate reconciliation schedule for the Equity in Financial Assets (Schedule A3c).

Amortization of physical assets is also **not** an expenditure that flows through the Statement of Financial Activities. If a local government amortizes its physical assets, the annual amortization costs should flow through the Statement of Equity in Physical Assets as “Other Capital Adjustments” (Schedule A5 – Line e). However, it should be noted that the Municipal Manual currently recommends amortization not be recorded for accounting purposes (Section B). This section may be subject to change in the future.

The acquisition of a financial asset (from section 5(a)(i) of this Help Manual - including land held for resale) is **not** an expenditure. Instead it is considered a simple conversion of one financial asset (e.g. cash) into a different financial asset (e.g. land held for resale). **Important to note:** the acquisition of physical assets (from section 5(a)(iii) of this Help Manual - including land as a physical asset) is considered a capital expenditure in the Statement of Financial Activities. This is because the financial equity must be reduced to reflect the loss of financial assets (e.g. cash), while the equity in physical assets must be increased to reflect the acquisition of the new asset (e.g. land).

Functional Expenditures

For reporting purposes, expenditures are recorded on a functional basis in accordance with PS 1800.31 (i.e. by area of local government operation). These functions approximately parallel the municipal chart of accounts established by Statistics Canada.

Any cost allocation between functional areas is recorded as a net reduction in expenditures from the originating function and a net increase in expenditures in the destination function (e.g. allocation of administration cost to the cost of policing results in a decrease to general administration expense and an increase to police operations expense). This is simply a transfer of expenditures; there is no recognition of revenue.

Further Cost Breakdown by Expenditure Type (Operating, Interest and Capital)

Each functional area is broken down into three activity groupings: Operating, Interest and Capital Expenditures.

Operating Expenditure

Operating expenditures are all costs incurred in the normal course of business that are required to provide a good or service for the regional district. These costs accrue to external parties and will normally include salaries, benefits, contracted services (non-capital), transfers, operating lease payments (non-capital) and material purchases.

Operating costs do **not** include any interest expenditures, capital expenditures or one-time losses. Any one-time losses should be netted from any gains recorded in either Lines f1 or f2 of this schedule (Gain or Loss on Disposition or Revaluation of Financial Assets) or Line g2 of this schedule (Gain or Loss on Disposition of Physical Assets).

Interest Expenditure

This is the annual interest expenditure on debt and capital lease agreements (or other capital agreements). This amount also includes any adjustments for currency translations on debt denominated in a foreign currency.

Multipurpose Facilities - If the debt or capital lease is associated with multiple functions of the local government (e.g. a multipurpose regional facility with a regional office, fire hall and recreation facility), the local government should use its best estimates to allocate the annual interest expenditures to the various functions (e.g. regional office to Line j2, fire hall to Line k2, and recreation facility to Line p2 --- all lines on Schedule A3b). PS 1800.45 states that estimates are allowed in determining certain expenditures.

Actuarial Adjustments - **Do not reduce interest expenditures by actuarial adjustments on MFA debentures.** These adjustments flow through the Statement of Financial Activities as a form of notional investment income. For more information on actuarial adjustments, please see “Actuarial Adjustments (Line d1 – Schedule A3a)” from this Help Manual.

Capital Expenditure

Capital expenditures are costs associated with the acquisition, construction, and development of physical assets in the Statement of Financial Position (Schedule A2 - Lines s to y). “Acquire” as defined under section 29 of the *Interpretation Act* includes: accept; receive;

purchase; be vested with; lease; take possession, control or occupation of; and agree to do any of those things. For the purposes of reporting capital expenditures, the term “lease” refers only to capital leases (**not** operating leases), where the local government is the lessee. For a description of the distinction between operating and capital leases please see the lease liability section of this Help Manual, entitled “Lease Liabilities (Line n)” in section 5(a)(ii) – Liabilities (Sch A2).

Capital expenditures include costs associated with the acquisition of land and the acquisition and/or construction of buildings, engineering structures or equipment.

Acquisition of land includes, but is not limited to, the following:

- purchase price for the property
- costs associated with closing the sales transaction (land title fees, legal fees and recording fees)
- assumption of liens, mortgages or encumbrances
- site preparation costs (including grading, drainage, clearing and removal of old buildings)

Acquisition or construction of buildings, engineering structures and equipment includes, but is not limited to, the following:

- purchase price
- direct construction costs (material and labour)
- direct overhead
- professional fees (legal, engineering, architectural, design, surveying)
- planning costs
- freight and handling (including in-transit insurance and duties)
- installation
- trial (test) runs
- interest on interim financing (only when the government’s policy is to capitalize interest costs)

When one physical asset is traded for another – The current book value of the asset being traded away is recognized in Schedule A3a – Line g1, “Book Value of Asset.” The fair market value of the asset being acquired is recorded as a capital expenditure by function (e.g. a fire truck would be recorded in Schedule A3b - Line k3 (Capital Expenditures for Protective Services)). The fair market value should be estimated using either market or appraised values (PS 3150.16). Any difference between the book value of the asset being traded away and the fair market value of the asset being acquired would be recognized as a gain or loss on disposition of physical assets (Schedule A3a – Line g2).

When a physical asset is donated or acquired for a nominal amount – The only amount that should be recognized in the Statement of Financial

Activities is the nominal amount paid to acquire the asset. If there is any revaluation of the physical asset it should be done through the Statement of Financial Position (Schedule A2 - Lines s to y) and the Statement of Equity in Physical Assets (Schedule A5 – Line e).

Improvements to a physical asset – An improvement to a physical asset is recognized as a capital expenditure if it enhances the service potential of the asset (e.g. expanding capacity of roads, sewers, and water lines) or increases its useful life. If an expenditure only maintains the estimated useful life of the asset (or brings it up to normal operating efficiency), it should be treated as an operational expenditure (PS 3150.19).

Capital costs for multipurpose facilities - If the capital cost of a project is associated with multiple functions of the local government (e.g. a multipurpose regional facility with a city hall, police station and recreation facility). The local government should use its best estimates to allocate the capital expenditures to the various functions (e.g. city hall to Line j3 [admin], police station to Line k3 [protective services], and recreation facility to Line p3 [parks, rec & culture] --- all lines on Schedule A3b). PS 1800.45 states that estimates are allowed in determining certain expenditures.

Internal transfers between funds are not expenditures.

Functional Classifications of Expenditures

General Government (Line J)

This line item reports activities that provide for the overall administrative and strategic support of local government operations.

General Administration Operations (Line j1a)

This function reports activities related to the administration of the regional district as a whole, including:

- Central Administration
 - Office of Chief Administrator
 - Corporate Planning
 - Legal Services
 - Support Services
 - Public Relations
 - Elections and Referenda
 - Consulting Services
 - Membership in local government associations
- Central Finance
 - Accounting
 - Auditing
 - Budgeting

- Payroll
- Revenue Collection
- Risk Management
- Grant Management
- Licensing Administration
- Central Human Resources
- Central Information Systems

Legislative Operations (Line j1b)

This reports board-related and legislative activities of a local government. These may include board remuneration and benefits (under section 168 of the *Community Charter* cross-referenced from section 814 of the *Local Government Act*) plus any additional costs associated with the legislative operations of the board.

Other General Government Operations (Line j1c)

This includes all general government activities that are not part of the general government functions defined above.

Total General Government Operations (Line j1)

This is the sum of Lines J1a to J1c.

Interest/Foreign Exchange on Debt (General Government) (Line j2)

This includes all interest and exchange costs on financing related to the general government function. **For more information** on the accounting treatment of interest expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Capital Expenditures (General Government) (Line j3)

This includes all Capital Expenditures relating to the general government function. **For more information** on the accounting treatment of capital expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Protective Services (Line k)

This line item reports activity related to providing for security of the property and citizens of a local government.

Police Operations (Line k1a)

This line item reports all activities related to policing and law enforcement covered under Section 15 of the *Police Act* (plus related provisions under the *Justice Administration Act*), and includes the following:

- maintenance of law and order,
- provision of officers for a police force, and

- provision of detention premises and services.
- Currently, regional districts do **not** have any policing costs.

Fire Protection Operations (Line k1b)

This line item reports all activities related to fire protection, including the following services:

- prevention (including public education),
- protection,
- suppression,
- investigation,
- any additional powers under the *Fire Services Act* and Section 797(1) of the *Local Government Act*.

Bylaw Enforcement Operations (Line k1c)

This line item reports all activities related to enforcing regional district bylaws (under section 794(5) --- cross references to Part 8, Division 1 of the *Community Charter*), including costs associated with:

- staffing bylaw enforcement officers (under section 16 of the *Community Charter*) and
- prosecution of bylaw offences (under section 263 of the *Community Charter*).

Bylaws that require an enforcement mechanism include, but are not limited to, those listed in section 797.1 of the *Local Government Act*, including:

- general regulatory bylaws under section 796.2 of the *Local Government Act*,
- building inspection,
- animal control,
- noise control,
- nuisance control (including littering, noxious emissions and unsightly premises),
- fireworks,
- security and alarm systems, and
- soil/gravel removal and deposit.

Other Protective Services Operations (Line k1d)

This line item reports all other protective services that are not defined under police, fire and bylaw enforcement. This may include, but is not limited to: emergency preparedness and disaster services (under section 6 of the *Emergency Program Act*), emergency radio services and 911 services.

Total Protective Services Operations (Line k1)

This is the sum of Lines k1a to k1d.

Interest/Foreign Exchange on Debt (Protective Services) (Line k2)

This includes all interest and exchange costs on financing related to the protective services function. **For more information** on the accounting treatment of interest expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Capital Expenditures (Protective Services) (Line k3)

This includes all Capital Expenditures relating to the protective services function. **For more information** on the accounting treatment of capital expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Solid Waste Management/Recycling (Line l)**Operations (Solid Waste Management/Recycling) (Line l1)**

This line item reports all annual operating costs related to solid waste management (under the *Waste Management Act* and sections 797(1) and 797.1(4) of the *Local Government Act*). The definition of solid waste includes, but is not limited to:

- garbage,
- litter,
- refuse,
- biomedical wastes, and
- special wastes (as defined under section 1 of the *Special Waste Regulation* (BC Reg 63/88)) (e.g. industrial wastes – PCBs, dioxins, petrochemicals, pesticides, herbicides, asbestos etc...).

Annual operating costs relating to solid waste management include, but are not limited to, the collection, storage, handling, treatment, transportation, discharge and destruction of solid waste, specifically:

- preparation of solid waste management plans,
- maintenance and operation of sanitary landfill sites,
- maintenance and operation of waste incinerators,
- maintenance and operation of recycling facilities,
- maintenance and operation of vehicles and equipment used in the collection and disposal of solid waste, and
- solid waste landfill closure and post-closure costs incurred in the current year (for a more detailed explanation, see – in this Help Manual – “Landfill Closure/Post Closure Liability” Schedule A2, Line o1).

Interest/Foreign Exchange on Debt (Solid Waste Management) (Line l2)

This includes all interest and exchange costs on financing related to the solid waste management services function. **For more information** on the accounting treatment of interest expenditures, please see the detailed

information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Capital Expenditures (Solid Waste Management) (Line l3)

This includes all capital expenditures relating to the solid waste management services function. **For more information** on the accounting treatment of capital expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”). This line item includes, but is not limited to, landfill sites, incinerators, recycling facilities and collection vehicles.

Health, Social Services and Housing (Line m)

Operations (Health, Social Services and Housing) (Line m1)

This line item reports all annual operating costs related to social services, public health and environmental health (**excluding** – water, sewer, garbage, and drainage), specifically:

- health support for indigents,
- financial support for medical practitioners,
- family counselling,
- parent and child development,
- victim services,
- alcohol and drug programs,
- drop in centres,
- day care and after school care, and
- public housing operations (social housing and not-for-profit rental housing).

Interest/Foreign Exchange on Debt (Health, Social Services and Housing) (Line m2)

This includes all interest and exchange costs on financing related to the health, social and housing services functions. **For more information** on the accounting treatment of interest expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Capital Expenditures (Health, Social Services and Housing) (Line m3)

This includes all capital expenditures relating to the health, social and housing services functions. **For more information** on the accounting treatment of capital expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Development Services (Line n)

Operations (Development Services) (Line n1)

This line item reports all annual operating costs related to resource conservation, industrial development, and community planning and development, specifically:

- land use planning (Part 26 of *the Local Government Act*),
- zoning,
- subdivision and development planning,
- planning research and studies,
- economic development projects,
- agricultural development,
- conventions and tourism, and
- resort business improvement areas (sections 797.1(3)(b) of the *Local Government Act* and section 215 of the *Community Charter*).

Interest/Foreign Exchange on Debt (Development Services) (Line n2)

This includes all interest and exchange costs on financing related to the development services function. **For more information** on the accounting treatment of interest expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Capital Expenditures (Development Services) (Line n3)

This includes all Capital Expenditures relating to the development services function. **For more information** on the accounting treatment of capital expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Transportation and Transit Services (Line o)

Operations (Transportation and Transit) Line (o1)

This line item reports all annual operating costs related to transportation and transit services, including operating and maintenance costs of the following:

- transit vehicles and other equipment (e.g. buses, support vehicles, trolley systems, and speciality vehicles for seniors and the disabled),
- transit buildings (e.g. offices, yards, workshops, garages),
- transportation administration,
- roads (generally not applicable to RDs), sidewalks, street lighting and signage,
- motor vehicle inspection,
- snow removal, and
- parking facilities.

*** If **drainage** and storm sewer infrastructure are part of the transportation function, include all operating and maintenance costs relating to the upkeep of the system.

*** **Do not include** airports or wharves; these are included as parts of “Other Services.”

Interest/Foreign Exchange on Debt (Transportation and Transit) (Line o2)

This includes all interest and exchange costs on financing related to the transportation services function. **For more information** on the accounting treatment of interest expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Capital Expenditures (Transportation and Transit) (Line o3)

This includes all capital expenditures relating to the transportation services function. **For more information** on the accounting treatment of capital expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Parks, Recreation and Culture (Line p)**Operations (Parks, Recreation and Culture) (Line p1)**

This line item reports all annual operating costs related to activities that provide recreational and cultural services.

Parks

This is the annual operating and maintenance costs associated with green space, trails, beaches, playing fields, golf courses, ski areas and public squares.

Recreation

This is the annual operating and maintenance costs associated with regional recreation boards, and facilities including: swimming pools, skating rinks, curling rinks, gymnasiums, racquet courts, and exercise areas.

Culture

This is the annual operating and maintenance costs associated with cultural boards and facilities including: libraries, galleries, museums, community halls, performing arts theatres and heritage conservation programs.

Interest/Foreign Exchange on Debt (Parks, Rec and Culture) (Line p2)

This includes all interest and exchange costs on financing related to the parks, recreation and cultural services function. **For more information** on the accounting treatment of interest expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Capital Expenditures (Parks, Recreation and Culture) (Line p3)

This includes all Capital Expenditures relating to the parks, recreation and cultural services function. **For more information** on the accounting treatment of capital expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Water Services (Line q)

Operations (Water Services) (Line q1)

This line item reports all annual operating costs related to supplying, storing, treating and transporting potable and irrigation water in accordance with the provincial *Water Act*, *Health Act*, and the Safe Drinking Water Regulation (BC Reg 230/92). Water operating expenditures can include purchases of water supply from an adjoining jurisdiction.

Interest/Foreign Exchange on Debt (Water Services) (Line q2)

This includes all interest and exchange costs on financing related to the water services function. **For more information** on the accounting treatment of interest expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Capital Expenditures (Water Services) (Line q3)

This includes all capital expenditures relating to the water services function. **For more information** on the accounting treatment of capital expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”). Capital expenditures include, but are not limited to, the acquisition and construction of mains, distribution lines, intakes, wells, reservoirs, pressure reducing valves (PRVs), pumphouses and treatment and disinfection facilities.

Sewer Services (Line r)

Operations (Sewer Services) (Line r1)

This line item reports all annual operating costs related to gathering, treating, transporting, storing, utilizing or discharging sewage or reclaimed water in accordance with the *Waste Management Act* Municipal Sewage Regulation (BC Reg 129/99) and Sewage Disposal Regulation (BC Reg 411/85). Sewer operating expenditures can include the purchasing of sewage treatment capacity from an adjoining jurisdiction.

Interest/Foreign Exchange on Debt (Sewer Services) (Line r2)

This includes all interest and exchange costs on financing related to the sewer services function. **For more information** on the accounting treatment of interest expenditures, please see the detailed information at

the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Capital Expenditures (Sewer Services) (Line r3)

This includes all capital expenditures relating to the sewer services function. **For more information** on the accounting treatment of capital expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”). Capital expenditures include, but are not limited to acquisition or construction of mains, collector lines (including combined sanitary-storm sewer lines), pumps, outfalls, manhole covers, and facilities for storage, treatment, reuse/recycling and disposal (including treatment plants, lagoons and sludge handling facilities).

Other Services (Line s)

Operations (Other Services) (Line s1)

This line item reports all annual operating costs related to any regional district function not previously listed in Lines j to r (Schedule A3b). Such services may include cemeteries, airports, wharves & docks, and other utilities (e.g. telephone, gas, electricity etc.) including any financing for such utilities under section 797.1(3)(a) of the *Local Government Act*.

Interest/Foreign Exchange on Debt (Other Services) (Line s2)

This includes all interest and exchange costs on financing related to the other services functions. **For more information** on the accounting treatment of interest expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Capital Expenditures (Other Services) (Line s3)

This includes all capital expenditures relating to the other services functions. **For more information** on the accounting treatment of capital expenditures, please see the detailed information at the start of Section 5(b)(ii) of this Help Manual (entitled “Expenditures – Schedule A3b”).

Debt Payments for Member Municipalities (Line t1)

This includes the semi-annual payments to the MFA on behalf of member municipalities for the financing costs of their debt (in accordance with section 824 of the *Local Government Act*). This is a formula driven cell that links to Line c5b – Schedule A3a (Transfers from Member Municipalities for MFA Debt Payment). If, for some reason, these two cells should not equal, make an adjusting entry in “Other Adjustments” (Line t2 – Schedule A3b).

Other Adjustments (Line t2)

This includes other expenditures that do not easily fit into any of the above functional categories. **Note:** Do not include losses from asset disposition or

reevaluation on this line. Instead include any gains and losses together on either Lines f1 or f2 (for financial assets) or Line g2 (for physical assets) on Schedule A3a.

Caveat: The Ministry may request further detailed information on “Other Services” (Line s) or “Other Adjustments” (Line t2) if the total amounts in these lines exceed **5%** of total regional district expenditures.

Total Expenditures (Line u)

This line item is the sum of all regional district expenditures (Lines j to t2) including operating, interest and capital.

Net Operating Revenue (Line v)

This line item is equal to the total revenues (Line i – Schedule A3a) less the total expenditures (Line u – Schedule A3b) for the local government over the last reporting period. **Remember:** The Net Operating Revenue should equal the change in Net Financial Assets from the previous reporting period to the current reporting period (i.e. change in [Line r – Schedule A2] from the previous year’s LGDE to the current year’s LGDE).

5(b)(iii) - Financial Equity - Fund Balances (Schedule A3c)

The purpose of this schedule is to provide the necessary adjustments to the Net Revenue (from the Statement of Financial Activities) in order to reconcile the Net Operating Revenue to the Financial Equity in the Statement of Financial Position (Line ab – Schedule A2). **Aside:** Related to this Financial Equity Schedule (A3c) is Schedule A5, which reconciles the financing and capital investment activities to the Equity in Physical Assets (Line aa – Schedule A2).

In accordance with PS 1800.63, the “Fund Balances” part of the Statement of Financial Activities should disclose the financial equity changes in the operating, reserve and capital funds over the reporting period. These changes may occur through internal charges, fund transfers, appropriations and financial reporting adjustments. **For the purposes of the LGDE reporting forms, we are only concerned with the net change in fund balances and not the net transfers between individual funds.**

Net Operating Revenue (Line v)

This is a linked cell from Line v in Schedule A3b (Expenditures Statement). It is equal to the total annual revenues less the total annual expenditures.

Lines w, x, y and z

These line items all reflect net adjustments between the “Financial Equity” and the “Equity in Physical Assets” due to different components of capital financing (e.g. debt issue and repayment). ***Important Note:*** the capital financing in these lines only applies to RD debt for RD services it **does not** apply to RD financing on behalf of member municipalities.

Debt Principal Payment (Line w)

A principal payment is a repayment of the principal component of regional district debt (this can include the principal portion of MFA debenture debt, bank loans, serial debt (e.g. mortgages), capital leases, and other capital financing arrangements under agreement). **This line item does not include interest payments or MFA actuarial adjustments. Also, this does not include debt principal payments to the MFA on behalf of member municipalities.**

In accordance with PS 1800.41, debt repayment (for regional services) is not considered an “expenditure” and therefore does not flow through the Statement of Financial Activities above the Net Revenue line (Line v – Schedule A3b). However, the repayment of principal on debt does represent a net outflow of cash from the local government and thus a net reduction in the financial equity. Therefore, debt principal payments are treated as a net reduction when reconciling the Net Operating Revenue (Line v) to Financial Equity (Line ab – Schedule A2).

DO NOT ENTER THIS LINE ITEM AS A NEGATIVE NUMBER – enter it as a positive number and the program will subtract it from the Net Operating Revenue.

The principal payments will automatically link to the Statement of Equity in Physical Assets (Schedule A5 – Line c), because it represents a decrease in financial equity and an increase in equity in physical assets. Each principal payment installment on long term debt represents a reduction in the external encumbrances on the regional district's physical assets. Therefore, the equity in physical assets should increase.

Actuarial Adjustments (Line x)

This line item represents the annual actuarial adjustments on MFA debenture debt (**for regional services only – do not** include actuarial adjustments on debt for member municipalities). Actuarial adjustments are classified as a form of notional investment income under Line d1 (Schedule A3a – Revenue).

Since the actuarial adjustments represent a direct reduction on long term debt, it should reflect a reduction in financial equity and an increase in physical equity. Like principal payments, each installment of the actuarial adjustment reduces the long term debt, representing a reduction in the external encumbrances on the local government's physical assets. Therefore, the equity in physical assets should increase.

This line item is linked (with the principal payments from Line w) to the Statement of Equity in Physical Assets (Schedule A5 - Line c).

Proceeds from the Issue of Debt (Line y)

This line item represents the value of financial proceeds from borrowing received by the regional district from the MFA (or other financing organizations) and the value of any new capital leases entered into during the accounting period. **Do not include any proceeds from borrowing on behalf of member municipalities.**

In accordance with PS 1800.37, "Revenue" does not include financial proceeds from borrowing (including debenture issues). Thus, borrowing proceeds do not flow through the Statement of Financial Activities above the Net Operating Revenue line (Line v – Schedule A3b). However, borrowing proceeds do represent a net cash inflow to the local government from financing activities and thus should increase the financial equity.

This line item links to the Statement of Equity in Physical Assets (Line b – Schedule A5).

Other Adjustments (Line z)

This includes any other adjustments to the Net Operating Revenue (Line v – Schedule A3b) in order to reconcile to the financial equity (Line ab – Schedule

A2). This line item does **not** include principal payments, actuarial adjustment or debt proceeds. It also **does not include any prior period adjustments**. Prior period adjustments are discussed in Line ac2 – Schedule A3c).

If these adjustments represent a reduction from the Net Operating Revenue (Line v), enter the value as a negative number.

Changes in Fund Balances (Line aa)

This line item represents the net change in the financial equity of the local government over the last accounting period (not including any prior period adjustments).

This is a formula driven cell and equals:

Line v (Net Op Revenue) – Line w (Principal Payments) – Line x (Actuarial Adjustments) + Line y (Debt Proceeds) + Line z (Other Adjustments)

Breakdown of Fund Balances by Financial Equity Category (Line ab)

In accordance with PS 1800.63, the “Fund Balances” part of the Statement of Financial Activities should disclose the financial equity changes in the operating, reserve and capital funds over the reporting period. These changes may occur through internal charges, fund transfers, appropriations and financial reporting adjustments. **For the purposes of the LGDE reporting forms, we are only concerned with the net change in fund balances and not the net transfers between individual funds.** Therefore, this line item merely apportions the total Change in Fund Balances from Line aa (Schedule A3c), between operating, reserve and capital funds. If the net change to any of the three funds is negative, enter a negative number.

The total of the three funds from Line ab should equal the total Change in Fund Balances from Line aa.

Revised Financial Equity Balance at the Start of the Year (Line ac)

This line item is the total value of the financial equity (by fund --- operating, reserve and capital) at the start of the accounting period, including any prior period adjustments. This is a formula cell and equals:

Line ac1 (Financial Equity Balance at Yr Start) plus Line ac2 (Prior Period Adjustments)

Financial Equity Balances at the Start of the Year (Line ac1)

This line item represents the financial equity balances in each of the three funds (operating, reserve and capital) at the beginning of the accounting period. These numbers should be taken from the ending balance of last year’s LGDE forms. The operating fund should be disclosed net of any unfunded amounts. **Important Note:** In the case of any unfunded balances not allocated to a particular fund (especially unfunded liabilities), the amount of these unfunded balances should be netted from the operating fund opening balance.

Prior Period Adjustments (Line ac2)

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 financial equity should be shown on this line item (according to fund type --- operating, reserve, and capital). **Aside:** any prior period adjustments that affect the Equity in Physical Assets are dealt with in Schedule A5 – Line h.

Any prior period adjustments that result in a reduction to the opening balance of the financial 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 balances in Line ac1 – Schedule A3c.

Financial Equity Balance at End of Year (Line ad)

This line item represents the Equity in Fund Balances at the Start of the Year (including prior period adjustments) (Line ac) **plus** any Changes in Fund Balances for the current reporting period (Line ab).

The amount in this line item should reconcile with the Financial Equity in the Statement of Financial Position (Lines ab1, ab2, and ab3 in Schedule A2).

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