

PSAB/Asset Management

NEWSLETTER NO. 52

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - the new Balance Sheet

By Bruce Ratford, CMA

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We will now start to look at financial reporting in the new accounting environment. This will be done by taking a statement as it was published in 2007, and comparing it to how it might be presented in the new format. Note that in this and the next 5 newsletters, Statement and Schedule numbers with a suffix “A” are presented as they were published, whereas those with the suffix “B” are presented in the new format.

While based on an actual municipal financial report, these statements are provided for illustrative purposes only. They show the financials of a typical upper-tier Ontario municipality, and are presented here to provide some suggestions and guidance in preparing your own financial statements. Any questions with respect to the actual information presented should be addressed directly to the Treasurer of Irgendwo at treasurer@irgendwo.ca.

Please note that this material is prepared to illustrate how the standards of the handbook might be implemented, with respect to an actual financial report. The presentation is not intended to indicate preferred formats, or to prescribe standardized note disclosure, as variations in format and wording will be required to meet the requirements of differing circumstances. The current and new reports do not purport to be best practice or best of breed, just a good example of what you are working towards.

The first statement we will look at is the Consolidated Statement of Financial Position. This presents the assets and liabilities of your municipality, and is analogous to the Balance Sheet of private sector organizations.

The What

The Consolidated Statement of Financial Position reports on the assets belonging to or under the control of the municipality. These are the economic resources controlled by the municipality as a result of past transactions or events and from which future economic benefits are expected to be obtained (PS1000.34). These include financial assets, non-financial assets and tangible capital assets. The statement also reports on the financial liabilities or obligations of the municipality, such as future

payments to suppliers and creditors, as well as major future charges against the municipality as a result of past activity, such as closure and post-closure liability and future employee benefits.

The difference between the financial assets and liabilities gives the “net financial assets” or the “net debt” (discussed in the previous newsletter) of the municipality, depending on whether financial assets exceed liabilities or vice versa, respectively. This has often been called the Municipal Position of the municipality.

The new format Statement adds in non-financial assets to give a more comprehensive bottom-line, the Accumulated Surplus, which is the sum of the net economic resources available to the municipality.

The Why

In terms of the financial reporting model, this statement furnishes two key indicators or messages about the government, the net financial assets or net debt of the municipality, and the accumulated surplus or deficit.

Net financial assets or net debt is a measure of the financial health of the municipality. Net financial assets mean that the government has financial assets in excess of its liabilities, and which can be readily used to provide future goods and services or invest in new TCAs, etc. Similarly, a net debt balance is just that, the amount that the municipality will have to generate from taxation or other sources in future years to cover the liabilities for which it currently does not have sufficient financial assets.

However, some of the liabilities may have been incurred to acquire major capital assets, which will provide services over a number of years. Traditionally, these capital assets were expensed in the year of payment and/or acquisition, so that the Statement of Financial Position would show a reduction in financial assets equal to what was spent, but no recording that an asset was acquired in exchange. If debt was issued for the acquisition, liabilities increased by the amount of the debt, while financial assets did not change, or only marginally. The statements did not report on non-financial assets, such as TCAs.

One buys a TCA to provide services over an extended period of time. The acquisition is a capital investment that will provide a benefit stream over that time frame. With the inclusion of tangible capital assets and of inventories for internal use in the new format of the Statement of Financial Position, we formally recognize in the financial statements that with the payout of cash or the issuance of some kind of debt for a TCA, one has acquired an asset in return, rather than simply made an expenditure. The financial statement will thus reflect this *quid pro quo* from now on.

The inclusion of tangible capital assets and inventories of supplies adds an asset value for which there is no offset, per se, particularly as all of the TCAs in your asset inventories have been expensed. In the private sector, this would result in an upward adjustment of Retained Earnings, as you would be changing previous period expenditures to acquisition of assets. For PSAB, this becomes part of the Accumulated Surplus (Deficit), which will be recorded in your new Statement of Financial Position. The Accumulated Surplus will also include the Net Financial Assets (Debt) of your municipality to give what might be described as a “net financial position”. We will look at the Accumulated Surplus (Deficit) in more detail in Newsletter #56.

The Implications

Current municipal financial statements report primarily on annual revenues and expenditures, with net assets allocated between the Operating Fund, Capital Fund, and Reserves and Reserve Funds, less amounts to be recovered in future years. The most obvious implication is the reporting of non-financial assets for the first time. This is why municipalities have been investing considerable time and effort in developing asset inventories and valuing them as of January 1, 2009. The more insidious implication is that these inventories are going to have to be maintained and updated on an on-going basis in future years, in order to provide sound numbers for each year's financial report.

The other major implication is the reporting of Accumulated Surplus (or Deficit) for the first time. This Surplus (or Deficit) has been **accumulated** over many years, and is not something that happened just this past year. Thus it has no relation to the concept of surplus spelled out in the Ontario Municipal Act (section 290 (4)) in the context of municipal budgeting. It is perhaps the public sector analogue of Retained Earnings on a private sector Balance Sheet representing the municipality's reported net economic resources, which are resources useful for carrying out future economic activities, such as consumption, production and exchange. Because this is a combination of financial and non-financial assets less liabilities, it does not represent a pool of money available for investment, or for declaring a tax holiday. Rather, it represents the capacity to be able to meet future financial and service obligations. Or perhaps not, in the case of an Accumulated Deficit.

The intent is that the reader of your statements will interpret this number as a measure of how well your municipality has managed its financial resources and its tangible capital assets over time. A surplus would suggest that the municipality has a financial cushion for dealing with future needs and emergencies, whereas a deficit implies that the municipality may need to be generating more revenue to cover current and future needs.

The Changes

As an appendix to this newsletter, there are 4 financial documents:

Statement 1A -Consolidated Statement of Financial Position – published format;
Statement 1B - Consolidated Statement of Financial Position – new format;
Schedule 5A/5B - Consolidated Schedule of Deferred Revenues – published format, and
Schedule 6B – Consolidated Schedule of Tangible Capital Assets – new .format

Statement 1A is what was published in Irgendwo's Annual Financial Report, and is probably similar in format to your own 2007 Statement of Financial Position.

Statement 1B is the same statement restated to conform to the guidelines in Handbook Section PS 1200. You will note that most of the statement does not change, down to Line 28, "Net Financial Assets" (or Net Debt, where applicable). Irgendwo has used debt sparingly over the years, and maintained tight control over its capital expenditures so that it has built up substantial financial reserves. The rest of the statement is totally different.

Whereas the Net Financial Assets were identified by “Fund” or location, and the “Municipal Position” reconciled to those figures, the statement will now show the non-financial assets per PS 1200.053 and PS 1200 Appendix B, page 1200(27). The TCA figures are net book value, and are obtained from the Asset Accounting software that the municipality uses. The values shown for Inventories of Supplies and Prepaid Expenses that are now non-financial assets were expensed by Irgendwo in the year purchased/paid for in the published format.

The bottom line is now the Accumulated Surplus (Deficit). Note that if you add Assets and Non-financial Assets, and Liabilities and Accumulated Surplus, the totals balance as in the traditional balance sheet, hence the name. However, the presentation format used for the Statement of Financial Position highlights very graphically the two key performance indicators that the new financial reporting model seeks to provide - the net financial assets or net debt of the municipality, and the accumulated surplus or deficit.

Irgendwo will now include a new schedule (Schedule 7) for reporting on the breakdown of its Accumulated Surplus. This will be discussed at length in Newsletter #56.

Note that tangible capital assets have been reported as a single net figure in the Statement of Financial Position. This is perfectly acceptable for clarity and succinctness in this statement. However, the PSAB Handbook does require more detailed reporting about TCAs. Schedule 6 is a new one that shows how Irgendwo provides this additional information on its tangible capital assets. Notes that are referred to in the Statement of Financial Position will be discussed in Newsletter #57 on Notes to the Financial Statements

Schedule 5A/5B is a supplemental schedule that follows the Notes in Irgendwo’s annual Financial Report. Since deferring revenues is not impacted by the current accounting and reporting changes, there will be no revised format of this Schedule.

Schedule 6B is a new supplemental schedule that provides the more detailed reporting on tangible capital assets that the PSAB Handbook requires. The Schedule has two similar parts – one reporting by classes or types of TCA, and the other by organization segment, as the Handbook encourages governments to do (PS2700.27). The starting point is the gross book value of the TCAs at the beginning of the current fiscal year. The previous year is provided as a total number for all TCAs. The detailed breakdown for the previous year can be found in the previous year’s financial report.

The top half of each part records acquisitions, dispositions and donations and transfers of assets during the year, to give the year-end gross book values by asset class and organization segment respectively. The lower half provides the similar breakdown for accumulated amortization. One starts with last year’s year-end value, adds in this year’s amortization expense, then subtracts the accumulated amortization relating to assets disposed of during the year, to obtain the accumulated amortization at year-end.

Finally, subtracting accumulated amortization from gross book value gives net book value, the figure that was reported on the Consolidated Statement of Financial Position. While the financial statement reports TCAs as a single line, a schedule like this one provides the reader with a much more detailed picture of how the municipality’s TCA inventories have changed over the course of the year.

We will return to Schedule 6 in Newsletter #57, in relation to the Notes to the Statements.

Summary

This is a quick walk-through of the Consolidated Statement of Financial Position, and the changes that will be required as a result of implementing full accrual accounting, as they relate to this specific Statement. This Statement was covered in some detail at the MFOA/AMCTO Spring 2009 workshops, and the presentation materials can be found on-line at the MFOA/AMCTO PSAB Asset Management website.

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Our next newsletter will look at the next major financial statement, The Consolidated Statement of Operations. This will also include a discussion of what happens with your Schedule 1 - Statement of Operating Fund Activities and Fund Balance, and Schedule 2 – Statement of Capital Fund Activities and Fund Position.

For more information and resources regarding tangible capital asset management, go to [PSAB/Asset Management](#) or contact:

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This Newsletter is published to assist you with your implementation of tangible capital asset accounting and with related matters. The Public Sector Accounting Handbook is the only authoritative primary source on matters relating to GAAP, and you should consult with your auditor to resolve specific issues that you may have.

Statement 1A - Consolidated Statement of Financial Position – published format

**THE CORPORATION OF THE DISTRICT
MUNICIPALITY OF IRGENDWO
Consolidated Statement of Financial Position
December 31, 2007
(in thousands of dollars)**

	2007	2006
ASSETS		
Financial Assets		
Cash	13,051	14,858
Investments (Note 3)	949,602	863,356
Accounts receivable	52,372	69,765
Other assets	916	979
Debenture debt recoverable from local municipalities and school boards (Note 4)	166,133	159,191
	1,182,074	1,108,149
LIABILITIES		
Accounts payable and accrued liabilities	163,118	154,673
Deferred revenue - Schedule 5	257,356	242,701
Other deferred revenue	10,079	8,806
Debenture debt (Note 4)	365,931	372,697
Employee benefits and post employment liabilities (Note 6)	114,228	107,327
Landfill closure and post-closure liabilities (Note 7)	9,864	9,092
	920,576	895,296
NET FINANCIAL ASSETS	261,498	212,853
MUNICIPAL POSITION		
Operating Fund - Schedule 1	0	230
Capital Fund - Schedule 2	164,298	174,929
Reserves and Reserve Funds - Schedule 3 (Note 5)	410,633	358,464
Fund balances	574,931	533,623
Amounts to be recovered in future years (Note 8)		
From Reserves and Reserve Funds	(51,912)	(45,928)
From future revenue	(261,521)	(274,842)
	(313,433)	(320,770)
MUNICIPAL POSITION	261,498	212,853

The accompanying notes and schedules are an integral part of these financial statements.

Statement 1B - Consolidated Statement of Financial Position – new format

1 THE CORPORATION OF THE DISTRICT
2 MUNICIPALITY OF IRGENDWO
3 Consolidated Statement of Financial Position
4 December 31, 2007
5 (in thousands of dollars)

	2007	2006
ASSETS		
Financial Assets		
Cash	13,051	14,858
Investments (Note 3)	949,602	863,356
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Other assets	916	979
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	1,182,074	1,108,149
LIABILITIES		
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Other deferred revenue	10,079	8,806
Debenture debt (Note 4)	365,931	372,697
Employee benefits and post employment liabilities (Note 6)	114,228	107,327
Landfill closure and post-closure liabilities (Note 7)	9,864	9,092
	920,576	895,296
NET FINANCIAL ASSETS	261,498	212,853
NON-FINANCIAL ASSETS		
Tangible capital assets - net (Schedule 6)	3,576,122	3,540,910
Inventories of supplies	13,731	14,000
Prepaid expenses	3,969	2,982
	3,593,822	3,557,892
ACCUMULATED SURPLUS (Schedule 7)	3,855,320	3,770,745

38 The accompanying notes and schedules are an integral part of these financial statements.

Schedule 5A - Consolidated Schedule of Deferred Revenues – published format
Schedule 5B - Consolidated Schedule of Deferred Revenues – new format (no differences)

1 **THE CORPORATION OF THE DISTRICT**
2 **MUNICIPALITY OF IRGENDWO**
3 **Consolidated Schedule of Deferred Revenue**
4 **Year ended December 31, 2007**
5 (in thousands of dollars)

Schedule 5

	BALANCE, BEGINNING OF YEAR	INCREASE IN DEFERRED REVENUE				DEFERRED REVENUE EARNED			BALANCE, END OF YEAR
		Interest	Government transfers	Development charges collected	Total	To Operations	To Capital Acquisitions	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Development Charges									
Residential & Commercial									
Sanitary sewerage	52,501	1,852	0	13,905	15,757	3,816	6,571	10,387	57,871
Water supply	104,919	3,285	0	18,260	21,545	4,039	7,077	11,116	115,348
Roads	54,534	1,502	0	16,958	18,460	0	14,187	14,187	58,807
Transit	4,856	166	0	1,555	1,721	0	1,295	1,295	5,282
Residential									
Waste	4,666	204	0	0	204	0	4,870	4,870	0
Police	5,053	234	0	665	899	0	0	0	5,952
Homes for the Aged	858	42	0	267	309	237	0	237	930
Development Charge Study	213	10	0	32	42	63	0	63	192
Tri-District Transit	2,831	135	0	2,009	2,144	0	4,975	4,975	0
Emergency Medical	1,269	61	0	303	364	0	0	0	1,633
Services									
Federal Gas Tax	8,614	266	6,597	0	6,863	0	8,112	8,112	7,365
Provincial Gas Tax	2,387	196	6,090	0	6,286	1,759	2,938	4,697	3,976
Total	242,701	7,953	12,687	53,954	74,594	9,914	50,025	59,939	257,356

Schedule 6B - Consolidated Schedule of Tangible Capital Assets – new format

1 **THE CORPORATION OF THE DISTRICT**
2 **MUNICIPALITY OF IRGENDWO**
3 **Consolidated Schedule of Tangible Capital Assets**
4 **Year ended December 31, 2007**
5 (in thousands of dollars)

Schedule 6

	GENERAL					INFRASTRUCTURE					TOTALS	
	Land	Buildings	Vehicles	Computer	Other	Plants and Facilities	Roads	Underground and Other Networks	Bridges and Other Structures	Assets Under Construction	2007	2006
	\$		\$	\$	\$	\$		\$	\$	\$		\$
COST												
Balance, beginning of year	176,158	407,217	223,123	90,574	78,534	384,897	1,422,470	2,351,683	462,019	69,579	5,666,254	5,440,868
Add:												
Additions during the year	1,488	14,117	15,767	6,816	14,263	4,736	53,546	35,755	19,074	3,881	169,443	195,743
Less:												
Disposals during the year	(396)	0	(3,177)	(342)	0	0	(21,455)	(1,610)	0	0	(26,980)	30,443
Other - donations and transfers	(5,850)	0	0	0	34	0	0	0	0	0	(5,816)	(800)
BALANCE, END OF YEAR	171,400	421,334	235,713	97,048	92,831	389,633	1,454,561	2,385,828	481,093	73,460	5,802,901	5,666,254
ACCUMULATED AMORTIZATION												
Balance, beginning of year	0	186,105	96,869	44,017	37,654	154,128	728,963	721,210	156,398	0	2,125,344	1,975,314
Add:												
Amortization during the year	0	11,428	15,174	8,748	5,035	7,185	37,038	31,554	9,519		125,681	122,718
Less:												
Accumulated amortization on disposals	0	0	(1,555)	(342)	0	0	(21,455)	(894)	0	0	(24,246)	27,312
BALANCE, END OF YEAR	0	197,533	110,488	52,423	42,689	161,313	744,546	751,870	165,917	0	2,226,779	2,125,344
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	171,400	223,801	125,225	44,625	50,142	228,320	710,015	1,633,958	315,176	73,460	3,576,122	3,540,910

Schedule 6B - Consolidated Schedule of Tangible Capital Assets – new format (continued)

31 **THE CORPORATION OF THE DISTRICT**
32 **MUNICIPALITY OF IRGENDWO**
33 **Consolidated Schedule of Tangible Capital Assets**
34 **Year ended December 31, 2007**
35 **(in thousands of dollars)**

Schedule 6

	General Governmen	Police	Roads	Transit	Water supply	Water Pollution Control	Solid Waste Mgmt	Emergency Services	Homes for the Aged	Other	2007	2006
	\$		\$	\$	\$	\$		\$	\$	\$		\$
COST												
Balance, beginning of year	107,437	77,217	2,031,230	130,574	1,405,678	1,609,788	67,470	51,683	102,019	13,579	5,596,675	5,371,289
Add:												
Additions during the year	1,488	3,613	55,767	6,816	44,263	45,982	4,005	2,798	705	125	165,562	195,743
Less:												
Disposals during the year	(342)	0	(21,455)	(3,177)	(750)	(860)	(396)	0	0	0	(26,980)	30,443
Other - donations and transfers	34	0	(5,850)	0	0	0	0	0	0	0	(5,816)	(800)
ASSETS IN SERVICE - YEAR-END	108,617	80,830	2,059,692	134,213	1,449,191	1,654,910	71,079	54,481	102,724	13,704	5,729,441	5,596,675
Assets under construction	0	1,897	18,662	9,557	14,780	17,125	10,005	1,434	0	0	73,460	69,579
ALL ASSETS, END OF YEAR	108,617	82,727	2,078,354	143,770	1,463,971	1,672,035	81,084	55,915	102,724	13,704	5,802,901	5,666,254
ACCUMULATED AMORTIZATION												
Balance, beginning of year	20,890	33,450	701,282	54,112	578,908	640,142	28,998	20,965	41,223	5,374	2,125,344	1,975,314
Add:												
Ammortization during the ye	5,142	4,102	40,007	9,140	20,035	27,185	3,657	5,543	9,890	980	125,681	122,718
Less:												
Accumulated amortization on disposals	(342)	0	(21,455)	(1,555)	(426)	(468)	0	0	0	0	(24,246)	27,312
BALANCE, END OF YEAR	25,690	37,552	719,834	61,697	598,517	666,859	32,655	26,508	51,113	6,354	2,226,779	2,125,344
TANGIBLE CAPITAL ASSETS	82,927	45,175	1,358,520	82,073	865,454	1,005,176	48,429	29,407	51,611	7,350	3,576,122	3,540,910