PSAB/Asset Management

NEWSLETTER NO. 57

NOTES TO THE FINANCIAL STATEMENTS
- what will be required?

By Bruce Ratford, CMA

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Probably the most important part of any annual financial report for the reader is the Notes section. While the actual statements provide a current picture of the organization in financial terms, it is a very high-level view. The reader will use the Notes to look for the story behind the numbers in the statements. *"The Notes to the Financial Statements provide some of the most important data in the financial report and can alert readers to the effects of transactions and events that they might otherwise overlook.. This information would include the significant terms and conditions of such circumstances or events and their financial impacts."* ("*20 Questions, p 35"*)

The four financial statements that we discussed in Newsletters #52 to #55 are mandatory, and with a preferred format to facilitate comprehension and comparability. The Notes and their related Schedules are not mandatory for inclusion, though GAAP may require inclusion of certain information in such Notes and Schedules. The main purpose of notes is to provide supplementary information that supports amounts in the financial statements. They are not a substitute for proper accounting and reporting. While there are some general conventions as to content and presentation, what you include and how you present it is still at the discretion of your municipality. And your Notes will be subject to audit, as your auditor signs off on your entire annual financial report - schedules and notes included

The financial statement discussion and analysis (FSD&A) that usually precedes the financial statements will also be reviewed by auditors to make sure it is consistent with information presented in financial statements and notes. They must perform this review if FSD&A accompanies the financial statements. SORP-1, paragraphs 16 to 29 discuss the characteristics that this material should exhibit, such as understandability, relevance, reliability, and comparability, recognizing that at times there may have to be trade-offs between such qualitative characteristics.

This is also an important component of the annual financial report, but we will not discuss this further, as each management discussion is as unique as each management. Be aware that whatever information is provided there may be very useful and full of insight, but may also be taken with a grain of salt, especially by the investment community. It is often viewed as being somewhat biased public relations material, no matter how sincere and informative.

Since supporting schedules are part of the Notes, we have already seen that the change to full accrual accounting will change the Schedules. Irgendwo's #4 and #5 would be essentially unchanged. #1 and #2 become redundant. We suggested a revamping of Schedule #3 in the previous newsletter, and discussed the new Schedule for Accumulated Surplus (#7). In Newsletter #52, we presented another new schedule (#6) for reporting on tangible capital assets. In this newsletter, we will go through the Notes, showing how Irgendwo's Notes will have to be modified for reporting on a full accrual accounting basis.

Again, 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 What

The first non-financial item listed in your Consolidated Statement of Financial Assets will be tangible capital assets. This will likely be a one-liner, with year-end figures that are the sum of the gross cost of all of your capitalized tangible capital assets, less the accumulated amortization to the end of the fiscal year, plus the cost of assets under construction or in the process of acquisition, such as advance payments to a manufacturer of major vehicles, like trains or buses. Contrary to common opinion, Work-in-Progress is not itemized on the Statement of Financial Position. There is simply a bundled net figure for TCAs given there.

Any interested reader will be looking for the details behind the TCA figures, and especially to see what is driving the difference between the totals for the two years. As discussed earlier in Newsletter #52, the answer is to provide a schedule that provides a useful breakdown of the total, and there are two meaningful ways to do this; by broad asset class; and by organizational segment. Reporting by segment is a general requirement starting with the 2008 financial statements, but the Irgendwo statements show this for earlier years, so that you can see what the reporting will look like. Both formats have been included in the new Schedule 6B in the appendix to this newsletter.

The Notes to the Financial Statement will change, but probably not as dramatically as you may suspect. Irgendwo's original published Notes are provided in the appendix too, with changes required noted alongside in the second column. Explanatory comments about the changes appear in *italics* under the respective note.

The Why

Since the Notes are an integral part of your financial reporting, it is clear that the notes will have to reflect the fact that you are now reporting on a full accrual accounting basis. Not least, your Notes should state that fact as one of your accounting policies, at least until modified accrual accounting becomes a distant memory.

The Public Sector Accounting Handbook Section PS 3150.40 to .42 has some fairly specific guidelines as to what your presentation and disclosure for TCAs should look like:

.40 The financial statements should disclose, for each major category of tangible capital assets and in total:

a) cost at the beginning and the end of the period;
b) additions in the period;
c) disposals in the period;
d) the amount of any write-downs in the period;
e) the amount of amortization of the costs of tangible capital assets for the period; and
f) accumulated amortization at the beginning and end of the period.

.41 Major categories of tangible capital assets would be determined by type of asset, such as land, buildings, equipment, roads, water and other utility systems, and bridges.

.42 Financial statements should also disclose the following information about tangible capital assets;

a) the amortization method used, including the amortization period or rate for each major category of tangible capital asset;
b) the net book value of assets not being amortized because they are under construction or development or have been removed from service;
c) the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements;
d) the nature and use of tangible capital assets recognized at nominal value;
e) the nature of the works of art and historical treasures held by the government; and
f) the amount of interest capitalized in the period.

This is what your auditor will be looking for somewhere in your financial reporting, and which should be there, unless not applicable, which should itself probably be indicated. The suggested Schedule 6B is a convenient and concise way of providing much of this information, as it does show the changes that have taken place in the current fiscal year. In future years, last year's changes can be found in last year's report, if a reader wants to see them. The remainder of these reporting requirements can be provided as one or more notes, and Irgendwo does this in Note 2 for accounting policies, and in Note 18 for additional financial information.

The Implications

Schedule 6 is a completely new schedule, but the information should be readily available from your accounting records and from your TCA inventory data. After all, this is what we have been working toward throughout this series of newsletters.

The Notes to the Consolidated Statements will have to be amended to include the information specified in Paragraph PS 3150.42. This may be a major exercise for your 2009 financial report, as it was for this newsletter. However, in future years, the annual effort involved should be similar to what it currently is.

The Changes

As an appendix to this newsletter, there is a relevant financial schedule:

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

Also provided are Irgendwo's Notes as originally published, with changes noted alongside to show what these would look like when reporting using full accrual accounting.

Schedule 6B is completely new, and is designed to provide relevant information on the municipality's tangible capital assets.

The first major section of Schedule 6B is reporting by general asset class across the table, and documents changes in gross book value during the fiscal year, followed by changes in accumulated depreciation going down the table. The second part of Schedule 6B is exactly the same, except the reporting is by organization or business segment across the table, instead of asset class. These business segments are to be the same as those that you will use for reporting on operations by segment, starting in 2008.

Note that in the first part, Work-In-Progress is a separate asset class. In the second part, it is segmented by business segment as well, to show where the capital investment is being spent.

The Notes have been rewritten to reflect the changed accounting and reporting model, and any pertinent comments on the changes can be found there, in *italics*. These are hopefully self-explanatory.

Summary

This completes our discussion of changes to the annual financial report as a result of the change to full accrual accounting. With respect to the Notes to the Consolidated Financial Statements, we have tried to show what stays the same, and what will change. These Notes to the Financial Statements were 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.

Hopefully, these newsletters have shown that while the reporting will be different, it is not that different, and need not be a major time-consuming effort - at least for fiscal 2010 onwards! Preparing your asset records and developing your asset inventories to come up with your TCA valuations was the hard part. For example, it was less than 3 days work to prepare the Irgendwo new format annual financial report from the original published report.

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Our next newsletter will look at the issue of comparative data in financial statements. Why is it a requirement? How can you deal with this in your 2009 statements, when it will be a bit like comparing apples and oranges for 2008? Or apples and Brussels sprouts!

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.

Schedule 6B (1) - Consolidated Schedule of Tangible Capital Assets – new format
- data presented by asset class

THE CORPORATION OF THE DISTRICT MUNICIPALITY OF IRGENDWO

Consolidated Schedule of Tangible Capital Assets

Year ended December 31, 2007

(in thousands of dollars)

Schedule 6

	GENERAL					INFRASTRUCTURE					TOTAL
	Land	Buildings	Vehicles	Computer	Other	Plants and Facilities	Roads	Underground and Other Networks	Bridges and Other Structures	Assets Under Construction	**2007**
	$		$	$	$	$		$	$	$	
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**
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**
Less:											
Disposals during the year	(396)	0	(3,177)	(342)	0	0	(21,455)	(1,610)	0	0	**(26,980)**
Other - donations and transfers	(5,850)	0	0	0	34	0	0	0	0	0	**(5,816)**
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**
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**
Add:											
Ammortization during the yea	0	11,428	15,174	8,748	5,035	7,185	37,038	31,554	9,519		**125,681**
Less:											
Accumulated amortization on disposals	0	0	(1,555)	(342)	0	0	(21,455)	(894)	0	0	**(24,246)**
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**
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**

Schedule 6B (2) - Consolidated Schedule of Tangible Capital Assets – new format
- data presented by business segment

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

Schedule 6

	General Government	Police	Roads	Transit	Water supply	Water Pollution Control	Solid Waste Mgmt	Emergency Services	Homes for the Aged	Other	**2007**
	$		$	$	$	$		$	$	$	
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**
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**
Less:											
Disposals during the year	(342)	0	(21,455)	(3,177)	(750)	(860)	(396)	0	0	0	**(26,980)**
Other - donations and transfers	34	0	(5,850)	0	0	0	0	0	0	0	**(5,816)**
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**
Assets under construction	0	1,897	18,662	9,557	14,780	17,125	10,005	1,434	0	0	**73,460**
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**
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**
Add:											
Ammortization during the yea	5,142	4,102	40,007	9,140	20,035	27,185	3,657	5,543	9,890	980	**125,681**
Less:											
Accumulated amortization on disposals	(342)	0	(21,455)	(1,555)	(426)	(468)	0	0	0	0	**(24,246)**
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**
NET BOOK VALUE OF 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**

THE CORPORATION OF THE DISTRICT MUNICIPALITY OF IRGENDWO
Notes to the Consolidated Financial Statements
December 31, 2007
(in thousands of dollars)

Published format	New format

1. MUNICIPAL STRUCTURE

The Corporation of the District Municipality of Irgendwo ("the District") came into existence on April 1, 1979 and assumed its responsibilities on January l, 1980, under authority of the *District Municipality of Irgendwo Act*, *1979,* and operates as an upper tier government in the Province of Ontario, Canada.

The District comprises the following local municipalities:

- City of Cualparte
- Town of Barangdimana
- Village of Quelque Place
- Township of Kauki

and is responsible for services within these local municipalities related to the following:

- Protection to persons and property, including Police, Conservation Authorities, Emergency Planning, Fire Co-ordination and 911 emergency telephone services.
- Transportation Services, including all District Roadways and Traffic Control.
- Public Transit Services.
- Environmental Services, including the Water Supply System, Sanitary Sewer System, District Storm Sewer System and Solid Waste Management.
- Health Services, including Public Health Services and Inspections.
- Emergency Medical Services.
- Social and Family Services, including Ontario Works, Services for Seniors, and Children's Services.
- Social Housing Services, including provision of subsidized housing, rent supplement programs and homeless shelters.
- Planning, including official plan administration.
- District Development and Promotion.
- Administration, prosecution and collection of fines under the *Provincial Offences Act* (POA).
- Financial, including all debt issues and property tax policy.

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Background information on the municipality. This will not change.	
2. SUMMARY OF ACCOUNTING POLICIES The consolidated financial statements of the District are representations of management prepared in accordance with generally accepted accounting principles for local government as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The focus of PSAB financial statements is on the financial position of the District and changes thereto. The Consolidated Statement of Financial Position reports financial assets and liabilities. Financial assets are available to provide resources to discharge existing liabilities or finance future operations. Municipal position represents the financial position of the District and is the difference between financial assets and liabilities. This information explains the District's overall future revenue requirements and its ability to finance activities and meet its obligations. *These concepts will not change as a result of the change to full accrual accounting.*	
	[required for the first reporting year] *Effective January 1, 200x, the District changed its accounting and financial reporting to conform to the revised guidelines in the Public Sector Accounting Handbook on financial reporting presentation (Section PS 1200) and tangible capital accounting (PS 3150). Current year data is presented on the new basis. Prior year data has been restated on the same basis wherever possible, to be comparable with the current year data. The most significant change is the reporting on tangible capital assets for the first time, and the inclusion of the Consolidated Statement of Change in Net Assets.*
(a) Reporting Entity i. The consolidated financial statements reflect financial assets, liabilities, revenues and expenditures of the Operating Fund, Reserves, Reserve Funds, and Capital Fund of the District. These consolidated financial statements include the Irgendwo District Police Services Board and the Irgendwo District Local Housing Corporation as these entities are controlled by the	*The first sentence becomes:* *The consolidated financial statements reflect financial assets, liabilities, operating revenues and expenditures, Reserves, Reserve Funds, and changes in investment in tangible capital assets of the District.*

Published format	New format
District. Operations of other social housing providers are not consolidated in these financial statements as the District does not exercise control over them. Funding paid to these providers is recorded as Social Housing expenditures in the Consolidated Statement of Financial Activities and Fund Balances. ii. Trust Funds administered by the District are not included in these consolidated financial statements. Trust Funds are disclosed separately in the Trust Funds Statement of Financial Activities and Fund Balances and the Trust Funds Statement of Financial Position.	
(b) Basis of Accounting i. Accrual Basis of Accounting Expenditures and related sources of financing are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which transactions or events occurred that gave rise to the revenues; expenditures are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due. Transactions between funds are recorded as interfund transfers in the supporting schedules, and are eliminated on the Consolidated Statement of Financial Position and the Consolidated Statement of Financial Activities and Fund Balances.	*The highlighted sentence becomes redundant, as a municipality will no longer be reporting on a "Fund" basis in its financial statements,, even though it may choose to budget and account on a fund accounting basis, as is current (pre-2009) practice.*
ii. Tangible Capital Assets The historical cost and accumulated depreciation of tangible capital assets are not reported for municipal purposes. Tangible capital assets are reported as expenditures in the Consolidated Statement of Financial Activities and Fund Balances in the year of acquisition.	*The current note is inoperative, and is replaced with:* *ii Non-financial assets* *Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year,*

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	and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the Change in Net Financial Assets for the year. *(a) <u>Tangible capital assets</u>* *Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:* *Land improvements – 15 years* *Buildings 10 to 50 years* *Transit buses – 18 years* *Machinery and equipment – 10 years* *Vehicles – 5 to 10 years* *Computer hardware and software – 5 to 10 years* *Water and waste plants and networks* *- underground networks – 50 to 100 years* *- sewage treatment plants and lift statement – 50 to 75 years* *- water pumping stations and reservoirs – 50 to 75 years* *- flood stations and other infrastructure 50 to 75 years* *Transportation:* *- - roads – 10 to 50 years* *- bridges and structures – 25 to 75 years* *Leased assets – 5 to 40 years* *One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available*

Published format	New format
	for productive use, at which time they are capitalized. *Active landfills are amortized annually on the basis of tonnage tipped during the year, as a percentage of the estimated total capacity of the facility. The estimated costs to close and maintain currently active landfill sites are based on estimated future expenses in current dollars, adjusted for estimated inflation, and are charged to expense as the landfill sites capacity is used.* *The District has a capitalization threshold of $25,000, so that individual TCAs of lesser value are expensed, unless they are pooled because, collectively, they have significant value, or for operational reasons. Examples of pools are desktop computer systems, cars, utility poles and defibrillators.* *(b) <u>Contribution of tangible capital assets</u>* *Tangible capital assets received as contributions are recorded at their fair value at the date of receipt, and that fair value is also recorded as revenue. Similarly, transfers of assets to third parties are recorded as an expense equal to the net book value of the asset as of the date of transfer.* *(c) <u>Leases</u>* *Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.* *(d) <u>Inventories</u>* *Inventories held for consumption are recorded at the lower of cost or replacement cost.*

Published format	New format

iii. Pension and Employee Benefits

The District accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan. The OMERS plan specifies the retirement benefits to be received by employees based on length of service and pay rates.

Employee benefits include vacation entitlement, sick leave benefits and certain post employment benefits. Vacation entitlements are accrued as entitlements are earned. Sick leave benefits and other post employment benefits are subject to actuarial valuations and are accrued in accordance with the projected benefit method, prorated on service and management's best estimate of salary escalation and retirement ages of employees. Any actuarial gains and losses related to past service of employees are amortized over the expected average remaining service life of the employee groups.

iv. Deferred Revenue

Government transfers of gas taxes and development charges collected under the *Development Charges Act, 1997* are reported as deferred revenue in the Consolidated Statement of Financial Position. These amounts will be recognized as revenues in the period in which related expenditures are incurred.

v. Investments

Investments consist of bonds and money market notes and are recorded at the lower of cost plus accrued interest and market value.

vi. Government Transfers

Government transfers are recognized in the period in which the events giving rise to the transfers occur, providing the transfers are authorized, eligibility criteria are met, and reasonable estimates of the amounts can be made. Significant transfers recognized as revenue include Social Assistance, Children's Services, Health Services, Services for Seniors and Emergency Medical Services cost shared programs. Significant transfers recognized as expenditures include Social Assistance payments to individuals and payments to Social Housing providers.

vii. Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

These accounting policies will not be affected by the change to full accrual accounting.

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3. INVESTMENTS

Investments have a book value of $949,881 (2006 – $863,642) and a market value of $949,602 (2006 – $863,356).

This information will not be impacted by the change to full accrual accounting
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4. DEBENTURE DEBT

Interest rates for the debenture debt range from 3.75 percent to 10 percent, with maturities between September 2008 and October 2028. Local municipalities and school boards assumed responsibility for payment of principal and interest charges. The District is contingently liable for these debentures.

(a) Debenture debt reported on the Consolidated Statement of Financial Position is made up of the following:

	2007	2006
Total debenture debt incurred	**$ 365,931**	$ 372,697
Less debenture debt recoverable from local municipalities and school boards	**(166,133)**	(159,191)
Net Regional debenture debt	**$ 199,798**	$ 213,506

(b) The net District debenture debt principal repayments required over the next five years are as follows:

Published format	New format

	2007	2006
Total debenture debt incurred	**$ 365,931**	$ 372,697
Less debenture debt recoverable from local municipalities and school boards	**(166,133)**	(159,191)
Net Regional debenture debt	**$ 199,798**	$ 213,506

These payments are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

(c) Total interest charges for net District debenture debt reported on the Consolidated Statement of Financial Activities and Fund Balances are $11,705 (2006 - $12,060).

This note up to this point will not be impacted by the change to full accrual accounting.

Published format	New format
Of the total charges shown above, $6,984 (2006 - $7,317) was paid from general revenues of the District, $1,427 (2006 - $1,645) was recovered from the water supply operation and $3,294 (2006 - $3,098) was recovered from the sanitary sewerage operation. These amounts are included on the Consolidated Statement of Financial Activities and Fund Balances, classified under the appropriate functional expenditure headings.	*Name of the statement changed:* Of the total charges shown above, $6,984 (2006 - $7,317) was paid from general revenues of the District, $1,427 (2006 - $1,645) was recovered from the water supply operation and $3,294 (2006 - $3,098) was recovered from the sanitary sewerage operation. These amounts are included on the *Consolidated Statement of Operations*, classified under the appropriate functional expenditure headings.
5. RESERVES AND RESERVE FUNDS Reserves and Reserve Funds set aside for specific purposes by Council are comprised as follows:	*This Note has been replaced by Schedule 3B.*

Published format			New format
	2007	2006	
	$	$	
Reserves			
Working capital	**31,435**	29,791	
Property tax assessment appeals	**12,840**	12,520	
Equipment replacement	**18,231**	13,578	
District roads	**4,211**	4,030	
Contingencies	**400**	400	
Sick leave gratuity payments	**39,123**	34,862	
Capital	**50,045**	47,133	
Homes for the aged	**1,133**	1,133	
Employee benefits	**5,161**	4,283	
Irgendwo Centre for the Arts	**1,991**	1,585	
Total	**164,570**	149,315	
Total Reserve Funds (Schedule 4)	**246,063**	209,149	
Total Reserves and Reserve Funds (Schedule 3)	**410,633**	358,464	

6. EMPLOYEE BENEFITS AND POST EMPLOYMENT LIABILITIES

The District provides certain employee benefits that require funding in future periods. These benefits include extended health and dental, sick leave, and benefits mandated under the *Workplace Safety and Insurance Act*. The accrued benefit liability and expense amounts are based on the results determined by an actuary as at December 31, 2007, based on the actuarial valuation performed as at December 31, 2006. These benefits are comprised of:

Published format	New format	
	2007	2006
Sick leave benefits	**$ 59,626**	$ 57,066
Post employment benefits	**41,813**	39,195
Workplace safety and insurance benefits	**12,789**	11,066
Total employee benefits and post employment liabilities	**114,228**	107,327
Less: post retirement liability recognized for existing retirees	**(10,457)**	(9,155)
Total employee benefits and post employment liabilities to be recovered in future years	**$ 103,771**	$ 98,172

Significant management assumptions used in the actuarial valuations are:

Discount rate	5-6 percent
Inflation rate	2-3 percent
Dental benefit cost escalation	5 percent
Medical benefit cost escalation	10 percent reducing to 5 percent over 15 years

(a) Sick Leave Benefits

Employees accrue sick leave benefits for future use. In addition, certain sick leave benefit plans provide for accumulation of unused benefits and employees may become entitled to a cash payment when they leave the District's employment. Liabilities for these two components of sick leave benefits are determined by actuarial valuations, the results of which are:

Published format	New format	
	2007	2006
Liability for sick leave benefits		
Accrued benefit obligation - beginning of year	**$ 54,651**	$ 50,738
Increase due to assumption of transit	**-**	1,261
Current period benefit cost	**4,463**	5,090
Interest on accrued benefit obligations	**2,733**	2,950
Actuarial gains	**-**	(1,302)
Benefit payments	**(4,455)**	(4,086)
Accrued benefit obligation - end of year	**57,392**	54,651
Unamortized actuarial gains	**2,234**	2,415
Liability for sick leave benefits	**$ 59,626**	$ 57,066
Sick leave benefit expense		
Current period benefit costs	**$ 4,463**	$ 5,090
Interest on accrued benefit obligations	**2,733**	2,950
Amortization of actuarial gains	**(181)**	(92)
Total sick leave benefit expense	**$ 7,015**	$ 7,948

The actuarial gains are amortized over the expected average remaining service life of 11 to 13 years.

(b) Post Employment Benefits

The District provides continued benefits to qualifying employees following retirement. Benefit entitlement ceases at age 65, with exception of Police Service employees whose entitlement ceases at age 70. The results of the update of the most recent actuarial valuation are as follows:

Published format	New format

	2007	2006
Liability for post employment benefits		
Accrued benefit obligation - beginning of year	**$ 45,613**	$ 29,837
Increase due to assumption of transit	**-**	8,773
Current period benefit cost	**1,886**	1,655
Interest on accrued benefit obligations	**2,277**	2,315
Actuarial losses	**-**	4,733
Benefit payments	**(2,044)**	(1,700)
Accrued benefit obligation - end of year	**47,732**	45,613
Unamortized actuarial losses	**(5,919)**	(6,418)
Liability for post employment benefits	**$ 41,813**	$ 39,195

	2007	2006
Post employment benefit expense		
Current period benefit costs	**$ 1,886**	$ 1,655
Interest on accrued benefit obligations	**2,277**	2,315
Amortization of actuarial losses	**499**	140
Total post employment benefit expense	**$ 4,662**	$ 4,110

The actuarial losses are amortized over the expected average remaining service life of 11 to 15 years.

(c) *Workplace Safety and Insurance Benefits (WSIB)*

The District is a Schedule II employer under the *Workplace Safety and Insurance Act* and follows a policy of self-insurance for employees. Accordingly, the District assumes liability for awards made under the Act, reimbursing the Workplace Safety and Insurance Board for costs relating to its workers' claims. The results of the update of the most recent actuarial valuation are as follows:

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	2007	2006
Liability for WSIB		
Accrued benefit obligation - beginning of year	**$ 13,123**	$ 13,963
Increase due to assumption of transit	**-**	179
Current period benefit cost	**3,340**	2,325
Actuarial gains	**-**	(1,941)
Interest on accrued benefit obligations	**675**	851
Benefit payments	**(2,597)**	(2,254)
Accrued benefit obligation - end of year	**14,541**	13,123
Unamortized actuarial losses	**(1,752)**	(2,057)
Liability for WSIB	**$ 12,789**	$ 11,066
WSIB expense		
Current period benefit costs	**$ 3,340**	$ 2,325
Interest on accrued benefit obligations	**675**	851
Amortization of actuarial losses	**305**	500
Total WSIB expense	**$ 4,320**	$ 3,676

The actuarial gains/losses are amortized over the mean term of the liabilities, which is 10 years

This note will not require any changes as a result of the change in accounting model.

7. LANDFILL CLOSURE AND POST CLOSURE LIABILITIES

The District owns and operates two active landfill sites and five closed landfill sites. The total estimated cost (using a discount factor of 6 percent less an estimated inflation factor of 3 percent) for closure and post closure care is $10,626 (2006 - $9,515). The amount reported on the Consolidated Statement of Financial Position is $9,864 (2006 - $9,092) and the amount remaining to be recognized is $762 (2006 - $423).

The District is responsible for post closure care at the closed sites, which includes monitoring of ground and surface water, leachate and gas, ongoing maintenance and annual reporting, for a period of 40 years. Closure costs include final cover and vegetation, drainage control features, leachate control or monitoring systems, water quality monitoring systems, gas monitoring and recovery, land acquisition (buffer zones), site remediation, and site closure reports.

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The liability for closure and post closure care is recognized as capacity of each site is used. For closed sites, 100 percent of the liability is recognized. A recent comprehensive review revised the estimated remaining capacity of the two active sites to 756,000 cubic metres (2006 – 186,000 cubic metres) of disposal capacity, based on the Provisional Certificate of Approval. At current volumes, an additional 86 years (2006 – 21 years) of capacity remains.

This note will not require any changes as a result of the change in accounting model.

8. AMOUNTS TO BE RECOVERED IN FUTURE YEARS

Future years recoveries represent the requirement of the District to raise funds in subsequent periods to finance unfunded liabilities.

	2007	2006
Unfunded employee benefits and post employment liabilities	**$ 103,771**	$ 98,172
Solid waste landfill closure and post closure liability	**9,864**	9,092
Net Regional debenture debt	**199,798**	213,506
Total future years recoveries	**313,433**	320,770
Funding available from Reserves and Reserve Funds		
Sick leave reserve	**39,123**	34,862
Workers' compensation reserve fund	**12,789**	11,066
	51,912	45,928
Amounts to be recovered from future revenue	**$ 261,521**	$ 274,842

A portion of the amounts to be recovered in future years will be recovered from deferred revenues earned.

This note will not require any changes as a result of the change in accounting model.

9. EXPENDITURES BY OBJECT

The Consolidated Statement of Financial Activities and Fund Balances and Schedules 1 and 2 present the consolidated

Starting in 2008, this information would be presented in a segmented format, by business segments, as used in Schedule 6B. This was not required for 2007. Thus this note ultimately will be replaced by an

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expenditures by function. The following classifies those same expenditures by object.	*additional schedule, Schedule 8 - Consolidated Schedule of Segment Disclosure – Service. The reference to Schedules 1 and 2 would no longer apply, as the reporting would relate to Operations only, and not include any capital expenditures, except those that are being expensed to Operations in the year.*

	2007	200
	$	$
Salaries, wages and employee benefi	**385,546**	372,709
Operating materials and supplies	**99,779**	100,548
Contracted services	**89,927**	84,968
Rents and financial expenses	**15,555**	14,583
External transfers	**123,830**	116,909
Capital expenditures	**170,886**	197,123
Debenture interest	**11,705**	12,060
Total expenditure by object	**897,228**	898,900

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10. PENSION CONTRIBUTIONS The District contributed $21,066 (2006 - $18,881) to OMERS on behalf of 4,519 employees for current service. Contributions by employees were a similar amount. The District's contributions are included on the Consolidated Statement of Financial Activities and Fund Balances classified under the appropriate functional expenditure headings.	*The highlighted wording becomes:* *"Consolidated Statement of Operations"*

11. CONTRACTUAL OBLIGATIONS

(a) Tri-District Sanitary Sewerage System

In 1997, the District Municipality of Irgendwo and the District Municipalities of Paimanta and Guanay jointly purchased certain sanitary sewerage systems from the Province of Ontario and entered into a joint operating agreement, whereby Irgendwo operates and

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maintains these facilities. Each co-owner is responsible for its share of operating costs based on actual sewerage flows.

(b) *Lease Commitments*

The District has commitments under various building lease agreements expiring in 2008 to 2012. These operating leases require approximate annual rental payments for the next five years as follows:

2008	$ 2,205
2009	1,794
2010	1,566
2011	898
2012	275
Total	$ 6,738

(c) *Capital Works Commitments*

The District has contractual obligations for capital works of approximately $24,439 (2006 - $62,652). Financing for these commitments has been approved by District Council.

This note will not require any changes as a result of the change in accounting model.

12. CONTINGENCY

The District has been named as defendant in certain legal actions in which damages have been sought. The outcome of these actions is not determinable as at December 31, 2007, and accordingly, no provision has been made in these financial statements for any liability that may result.

This note will not require any changes as a result of the change in accounting model. One might argue that they should be disclosed, but the worst-case outcomes would collectively not be material, whereas to disclose the amounts in the statements may prejudice the District's bargaining position.

Published format	New format
13. SOCIAL HOUSING REFORM ACT Effective January 1, 2001, under the provisions of Bill 128 the Province of Ontario transferred the social housing units of the	*The last sentence becomes:* *Accordingly, the properties have been reported as tangible capital assets on the IDLHC's financial statements at the appraised value*

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Ontario Housing Corporation located in the District to the Irgendwo District Local Housing Corporation (IDLHC), under the provisions of the *Ontario Business Corporations Act,* with the District Municipality of Irgendwo as the sole shareholder. Financial activities of the IDLHC are reported in these consolidated financial statements. Income producing properties acquired as a result of the transfer were originally financed by the Province of Ontario through general obligation provincial debentures. At the time of the transfer of ownership of the IDLHC to the District, the Province did not transfer the responsibility for the repayment of the debentures. Accordingly, neither the value of the income producing properties nor the value of the related provincial debentures was recorded on the IDLHC's financial statements.	*of each property as of the date of transfer, less accumulated amortization since that date. The current net value of the general obligation provincial debentures has not been reported, as the debentures are not a liability of the Corporation.*

14. PROVINCIAL OFFENCES ADMINISTRATION

Effective December 4, 2000, the District assumed responsibility for administering collection of revenues arising under the *Provincial Offences Act* ("POA") from the Ministry of the Attorney General. The District performs court support, administration and collection functions for all related fines and fees and prosecutes matters under the POA. The POA is a procedural law for administering and prosecuting provincial offences, including those committed under the *Highway Traffic Act, Compulsory Automobile Insurance Act, Trespass to Property Act, Liquor Licence Act,* municipal by-laws and minor federal offences. Offenders may pay their fines at any Provincial Offences court office in Ontario, at which time the receipts are recorded in the Integrated Courts Operation Network system ("ICON"). The District recognizes fine revenue when the receipt of funds is recorded in ICON, regardless of the location where payment is made.

Gross revenues, consisting of fines levied under parts I and III (including delay penalties), for POA charges total $5,900 (2006 - $5,540). Net revenues amount to $1,364 (2006 - $1,397). Local municipalities share 60 percent of net revenues and the District retains 40 percent or $546 (2006 - $558).

This note will not require any changes as a result of the change in accounting model.

15. TRUST FUNDS

Trust Funds administered by the District, totaling $798 (2006 - $814), are presented in a separate financial statement of trust fund financial position, financial activities and fund balances. As such, balances are held in trust by the District for the benefit of others have not been

<table>
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<tr><td colspan="2">included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Financial Activities and Fund Balances.

This note will not require any changes as a result of the change in accounting model.</td></tr>
<tr><td>16. BUDGET AMOUNTS

The operating and capital budgets, as approved by District Council, for 2007 are reflected on the Consolidated Statement of Financial Activities and Fund Balances, Consolidated Schedule of Operating Fund Financial Activities and Fund Balance, and the Consolidated Schedule of Capital Fund Financial Activities and Fund Balance. The budgets established for Capital Fund operations are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with current year’s actual amounts. As well, the District does not budget activity within Reserves and Reserve Funds, with the exception being those transactions, which affect either the Operating or Capital Funds. Budget figures have been reclassified for the purposes of these financial statements to comply with PSAB reporting requirements.</td><td>This note becomes:

The operating budget approved by District Council, for 2007 is reflected on the Consolidated Statement of Operations. The budgets established for capital investment in tangible capital assets are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with current year’s actual expenditure amounts. As well, the District does not budget activity within Reserves and Reserve Funds, with the exception being those transactions, which affect either operations or capital investments. Budget figures have been reclassified for the purposes of these financial statements to comply with PSAB reporting requirements.</td></tr>
<tr><td colspan="2">17. GUARANTEES

In the normal course of business, the District enters into agreements that meet the definition of a guarantee. The District's primary guarantees subject to the disclosure requirements include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements.

These indemnification agreements may require the District to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the District from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which stems from the unpredictability of future events and the unlimited coverage offered</td></tr>
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to counterparties. Historically, the District has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the Consolidated Statement of Financial Position with respect to these agreements. *This note will not require any changes as a result of the change in accounting model.*	
18. TANGIBLE CAPITAL ASSETS For fiscal years beginning on or after January 1, 2009, the District will be required to report the historical cost and the accumulated depreciation of tangible capital assets in its consolidated financial statements in accordance with The Public Sector Accounting Handbook section PS 3150 – Tangible Capital Assets. The District is currently working towards obtaining the necessary information in order to comply with PS 3150. For 2007, Public Sector Guideline 7 requires the disclosure of tangible capital asset information in the notes to the consolidated financial statements to the extent that reliable information is available. The District is currently working on obtaining the information to implement PS 3150, but as at December 31, 2007 the District does not have detailed tangible capital asset information to disclose.	*This note was a report on the progress to date implementing tangible capital asset accounting. To report in this format, the implementation is a fait accompli, so this note becomes redundant. However, Handbook paragraph PS 3150.42 calls for additional disclosures relating to tangible capital assets, which can be included here:* *Schedule 6 provides information on the tangible capital assets of the District by major asset class and by business segment, as well as for accumulated amortization of the assets controlled. The reader should be aware of the following information relating to tangible capital assets.* *i.Contributed tangible capital assets* *The District records all tangible capital assets contributed by an external party at fair value on the earlier of the date received or of the transfer of risk and responsibility. Typical examples are roadways, water and sewer lines installed by a developer as part of a subdivision agreement. There were no such transfers in 2007 (2006 - $0).* *ii. Tangible capital assets recognized at nominal value* *Certain assets have been assigned a nominal value of one Canadian dollar (CAD1.00), because of the difficulty of determining a tenable valuation. The most significant such assets are the District's road allowances. The 2007 road network had 837segments (2006 – 832), each of which has been assigned a value of a dollar for the road allowance itself. Others include historical equipment and buildings inherited from*

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	the District's predecessor. The total number of assets so valued in 2007 was 896 (2006 – 890). *iii. Works of Art and Historical Treasures* *The District has been given a number of paintings and other pieces of artwork that are displayed prominently in the District headquarters building. Altogether, there are 45 pieces that are insured for $927 (2006 - $891).* *iv. Capitalization of interest (per PS 3150.17)* *The District has a policy of capitalizing borrowing costs incurred when financing the acquisition of a tangible capital asset, for those interest costs incurred up to the date the asset goes into use.. There was no interest capitalized in 2007 (2006 - $0).*

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

This note will not require any changes as a result of the change in accounting model.