PSAB GAAP

for

Manitoba Municipalities

Reference Manual

The Municipal Reporting Entity
&
Consolidations

March 31, 2008

**This Manual has been developed in partnership between the
Association of Manitoba Municipalities and Manitoba Intergovernmental Affairs**

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PREFACE

This manual has been prepared as a useful and practical reference to help CAOs define the scope of their municipal reporting entity. This manual also provides guidance on how to account for controlled entities and government partnerships.

This manual has been prepared by the Municipal Reporting Entity & Consolidations Working Group and approved by the PSAB Implementation Steering Committee. This manual is not meant to be the final authoritative source on defining the government reporting entity and the accounting for controlled entities and government partnerships. The CICA Handbook is the final authoritative source.

The manual is divided into 4 main sections:

Section 1 - Government Reporting Entity

Section 1 provides an overview of PSAB's recommendations on defining the government reporting entity. This section describes why we consolidate entities under the control of the municipality and how control is defined. The section also provides examples of persuasive indicators of control, as well as more subjective examples of control. Finally the section describes how organizations under the control of a municipality should be accounted for along with the required disclosures in the financial statements.

Section 2 - Government Partnerships

It is a common practice in Manitoba for a municipality to provide services through shared service agreements with other municipalities. Section 2 describes what are government partnerships and the various possible forms and structures they take. Finally the section describes how to account for government partnerships along with the required disclosures.

Section 3 - Basic Principles of Consolidation

Section 3 provides an overview of the basic steps to consolidate a controlled entity or proportionately consolidate a municipality's interest in a government partnership.

Section 4 - Detailed Consolidation Example: The R.M. of Assiniboia

This section demonstrates how the 2008 comparative figures for the 2009 PSAB financial statements will have to be prepared. Using the 2008 audited financial statements of a municipality and the organizations making up the municipal reporting entity, this section provides a detailed case on how to:

1. Consolidate all the funds and reserves of the R.M.;
2. Adjust the 2008 comparatives for tangible capital assets; and
3. Consolidate 5 government partnerships under the shared control of the municipality.

N.B. As part of the training sessions for 2008, the instructors will review this case with the registrants. It is therefore very important that all registrants review the material and prepare questions before attending the training sessions. It is also important that registrants bring copies of the case material with them to the training sessions.

Critical Dates

The audited financial statements of municipalities for the year ended December 31, 2009, are due June 30, 2010. The financial statements should include all the organizations that make up the municipal reporting entity.

By **December 31, 2008** municipalities should determine which organizations should be included in their reporting entity.

These organizations will either have to provide audited financial statements for 2008 and 2009, or at least be prepared to be audited.

Other Sources of Information

CAOs who would like to obtain additional information on the government reporting entity are encouraged to visit the PSAB web-site at:

http://www.psab-ccsp.ca/index.cfm/ci_id/225/la_id/1.htm

and download their free publication ***"20 Questions About the Government Reporting Entity"***.

Training sessions on the municipal reporting entity and consolidations will be made available to all municipalities through the spring and summer of 2008. Check the AMM web-site at http://www.amm.mb.ca/PSAB.html for dates, locations and registration.

If you are uncertain about any issue, users of this manual are encouraged to contact:

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Section 1 – Government Reporting Entity (PS1300)

1.1 What is Meant by the Terms GRE and MRE?

A reporting entity is an organization that is required to prepare audited financial statements for external reporting. All governments (federal, provincial, territorial & local) are reporting entities. For the purposes of financial reporting, the phrase government reporting entity (GRE) refers to the departments, funds, agencies, boards, commissions and not-for-profit organizations that should be included in the government's financial statements.

The municipal reporting entity (MRE) refers to the organizations that should be included in the municipality's financial statements. When referring to municipal governments, the terms MRE and GRE mean the same thing and are interchangeable.

1.2 Why do Municipalities Need to Prepare Consolidated Financial Statements?

Differences in Service Delivery:

Municipalities are responsible for providing certain services to their rate payers but deliver the services in various methods. The method which a municipality chooses to deliver its services should not affect the financial reporting.

Many municipalities are responsible for providing safe, clean drinking water to their rate payers.

Municipality "A" provides this service entirely on its own. The financial statements of Municipality "A" would have infrastructure such as a water treatment plant and the related amortization on its books. If the water treatment plant was financed by debt, then the debt would also be on the municipality's books. Finally all the revenues and expenses related to the provision of the service would also be included in its statements including any surpluses or deficits.

Municipality "B" provides water to its citizens through a water cooperative of which the municipality is a member. Under current accounting practices, Municipality "B" would not be required to proportionately consolidate its interest in the water cooperative. The water treatment plant, amortization, and debt related to the plant would not appear in the municipality's financial statements. These would all be found in the water cooperative's financial statements. Finally any surplus or deficit incurred by the water cooperative would not show up in Municipality "B's" financial statements. Municipality "B's" financial statements would only show purchases of water from the water cooperative.

Unless Municipality "B" does not proportionately consolidate its interest, it would be unfair to compare the financial results between municipalities "A" and "B".

The financial statements currently prepared by municipalities only present a partial view of the overall activities and responsibilities of the municipality. Further there is no comparability with other municipalities that provide the same service using a different delivery method.

Without consolidation it is impossible for a financial statement reader to:

i) Get a complete picture of the activities and responsibilities of the municipality, and
ii) To compare the financial results of one municipality to another that provides the same service under a different delivery method.

Financial Statement Objectives:

Section PS1100 – Financial Statement Objectives sets out the nature of the information needed to meet the requirements of financial statement users. Agreement between users and preparers on the objectives of financial statements is a prerequisite for setting appropriate accounting and reporting standards. Without financial statement objectives there would be no basis for preferring one accounting treatment over another.

Financial Statement Objective #1 states:

> *Financial statements should provide an accounting of the full nature and extent of the affairs and resources which the government controls, including those related to the activities of its agencies and enterprises (PS1100.16).*

The method of service delivery should not affect the financial statements. Only through the consolidation of the entire MRE can financial statement users get the entire scope of activity, assets, and liabilities of the municipality. The consolidation of controlled entities will help councillors understand the full extent of the financial affairs and resources for which they are responsible.

1.3 Defining the Municipal Reporting Entity

Defining the MRE is Critical:

The most important issue presented in this whole manual is determining what to include or exclude in the financial statements of the municipality. The issue of what should be included or excluded in the MRE can have a significant effect on the financial statements.

The Criteria is Control:

The MRE should be comprised of all organizations controlled by the municipality.

> *The government reporting entity should comprise the organizations that are controlled by the government (PS1300.07).*

The challenge is to understand what control means. PSAB decided that a principles based approach to determining what organizations should be included in the GRE was best because of the wide variety of organizations and relationships with governments.

Control is determined by looking at the particular circumstances of each organization. It is necessary to determine the substance of the relationship between the organization and the government. The determination of whether control exists is often a matter of professional judgment based on the definition of control. In some circumstances it will be easy to determine if the municipality has control while in others it may be more difficult.

For example, school divisions in Manitoba are considered to be controlled by the Province and are consolidated into the Province's summary consolidated financial statements. In Saskatchewan, school divisions are not considered to be controlled and are left out of the Province of Saskatchewan reporting entity. The difference in accounting treatment for school divisions is due to differences in their relationship with their provincial government.

The challenge is equally difficult for municipalities in Manitoba. There are however some familiar common organizations, whose relationship with the municipalities is consistent throughout the Province. This would include weed control boards, planning districts, conservation districts, etc. For consistency, the MRE & Consolidations Work Group has decided to guide municipalities in Manitoba by evaluating whether these organizations are controlled and should be consolidated. See Appendix 1.

1.4 What is Control?

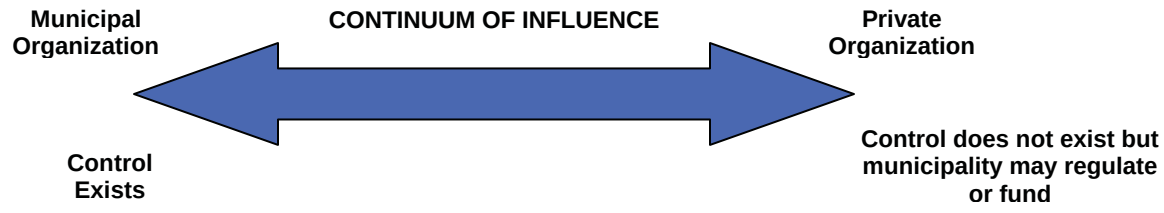
Control is defined as the:

> *"Power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the organization's activities" (PS1300.08).*

Control is a principles based concept. The legal form of the relationship between the municipality and the organization is irrelevant.

Care has to be taken when assessing control as there are differences between control, regulation, and financial dependence.

It helps to understand control as a continuum of influence. At one end, it is evident that the municipality controls the organization. At the other end, it is clearly evident that the municipality has no control whatsoever over the organization. In between the two ends there are varying levels of control.



There are 3 main elements to the definition of control:

a) Control does not depend on actually exercising control. **Having the power to govern is sufficient.**

b) Governing the financial and operating policies does not mean that the municipality needs to manage an organization's activities on a day to day basis. **What is significant is the municipality's authority to determine the operating and financial policies.**

   Having the authority to govern the financial and operating policies could mean that the municipality is running the day to day affairs of the organization or it could mean that the municipality takes a "hands off" approach. The organization only consults with council on significant decisions such as the budget or capital expenditures.

   Financial and operating policies may be governed in different ways:

- Establishing an organization's fundamental purpose and significantly limiting the ability of the organization's future decisions by predetermining its financial and operating policies.
- A municipality may direct the organization's financial and operating policies on an ongoing basis.
- Council may veto, overrule or modify the organization's financial and operating policies.

c) The final element is that **a municipality must expect to benefit or be exposed to a risk of loss from the controlled organization's activities.** The benefits may be financial or non-financial. The benefits or the risk of loss should flow directly from the control relationship and have to accrue to the municipality itself rather than the public at large.

Tip #1:

It may be difficult at times to evaluate if a municipality expects to benefit from the controlled organization's activities. In these cases examine the issue from the other side. "What happens if things go wrong"? If the controlled organization runs into financial difficulty, does the municipality have financial exposure? Will council be required to fund the losses to keep the organization operating? These are examples where the risk of loss flows directly from the organization and accrue to the municipality.

Examples where losses accrue to the public at large would be when an organization decided to increase their user fees or rates. In these cases the risk of loss is accruing to the public at large rather than the municipality.

If council feels that it has no responsibility to keep an organization operating then the municipality has no exposure to future losses.

1.5 What are the Main Indicators of Municipal Control?

There are 4 main indicators of control. You do not need all 4 indicators to be present to decide if a municipality has control. Normally if any of these indicators are present then the municipality likely controls the organization.

1. The municipality has the **power to unilaterally appoint or remove a majority of the members of the organizations governing body**.
2. The government has **ongoing access to the assets of the organization**, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses. For example:
    - can council force the organization to transfer excess cash or other assets to the municipality;
    - upon dissolution of the organization would the assets revert back to the municipality; or
    - similarly, upon dissolution would the municipality be responsible for the liabilities.

3. The municipality **holds the majority of the voting shares** or a "golden share" that confers the power to govern the financial and operating policies of the organization.

   Municipalities don't often have voting shares in their organizations, but possessing the majority of voting shares would be a persuasive indicator of control.

4. The municipality has the **unilateral power to dissolve the organization** and thereby access its assets and become responsible for its obligations. If a council can dissolve an organization without consultation, this ability may be an indicator of control.

1.6 Are There Other Indicators of Municipal Control?

Other indicators of control may exist. Other indicators of control should be evaluated collectively. Together these other indicators **may indicate that control exists**. But unlike the main indicators of control, the evidence for control is persuasive but not conclusive.

a) The municipality has **significant input into the appointment of the members of the governing body** such as appointing a majority of those members from a list of nominees or is heavily involved in the appointments in some other way.

b) The municipality can **appoint or remove the CEO or other key personnel**.

c) Council **establishes or can amend an organization's mission or mandate**.

d) Council **approves the organization's business plans or budgets** with the power to require amendments.

e) Council **establishes borrowing or investment limits** or restricts the organization's investments.

f) Council **restricts the revenue generating capacity** of the organization.

g) Council can **establish or amend organizational policies** such as accounting policies, personnel, compensation, etc.

Example #1:

In April, 1997 council passed a resolution to form a Recreation Board. The terms of reference for the Board are to manage the recreational facilities of the municipality (hockey arena, curling rink, golf course and pool). All the recreational facilities in the municipality were built by the municipality on municipal property. The Board was also assigned the responsibility to recommend to council on capital improvements to the facilities. Finally the Board was responsible for developing and overseeing recreational programs that increase the physical fitness and health of the community at large.

The Board is made up of 6 citizens who are all appointed by council. The Board members must be local citizens that are active in the recreational community. They may be leaders in local minor hockey or part of the curling club, etc. The terms are for 3 years and no Board member may serve more than 3 years without the approval of council.

The Board must annually submit its operating budget to council for approval.

Using the indicators of control, is the Board part of the municipality's reporting entity and provide reasons.

Example #1 - Answer:

The Board is part of the municipal reporting entity because it is controlled by council.

1. Members are appointed by council.
2. The Recreation Board was created by council so it can also be dissolved by council.
3. Terms of reference or mandate was established by council.
4. Council must approve terms beyond the normal 3 years.
5. The Board makes recommendations on capital improvements but council must approve them before any funds are spent.
6. The Board's operating budget is approved by council.
7. The municipality has ongoing use of the Board's major assets and would be responsible for losses.

Example #2:

Using the Recreation Board in Example #1, consider the following changes in fact.

The Recreation Board was created by several local recreational community groups and not the council. Five out of the six Board members are appointed by the local community groups. The Board does receive funding from the municipality but the choice on how to spend the funds is at the Board's discretion. The Board is also free to raise funds from other sources in a manner it decides to use. The Board built most of the major recreational facilities.

The Board must annually present its budget to council to obtain funding but once the funding is received there is no requirement to report to council on the use of the funds.

Using the indicators of control is the Board part of the municipality's reporting entity and provide reasons.

Answer:

The Board is not part of the municipal reporting entity because it is not controlled by council.

1. Majority of the members are not appointed by council
2. Council did not create the Board and therefore does not have the power to dissolve it. Further the Board can establish its own terms of reference or mandate.
3. Budget is not approved by council only the request for funding is approved.
4. Council has no authority to restrict the revenue generating capacity of the Board.
5. Council does not have ongoing use to the Board's assets and is not responsible for any losses.

1.7 What is Not Control?

Temporary Control:

Often during a crisis a municipality may intervene and take control of the organization. Temporary control is not control. Temporary control is short term in nature and it is council's intention to relinquish control after the crisis has passed.

Financial Dependence:

Many organizations may be dependent on council for their funding and have to comply with funding terms. In these situations councils have a significant amount of influence on the organization. However financial dependence on its own is not an indication of control. The organization still has the choice to not accept the funding and close its doors if it chooses to. Many not-for-profit organizations may rely on municipal funding but they are not necessarily controlled by the council.

Regulatory Control:

Governments often regulate organizations to protect the public interest. Governments can impose conditions or sanctions that will affect the operations of the organization but these requirements are not control. The government's interest in these organizations extends only to the regulatory aspects of operations.

Municipalities are responsible for administering the Provincial building codes and conducting inspections. The building inspector may require an organization to perform modifications to the building but the municipality is not in control of the organization.

1.8 Restricted Organizations

If an organization's assets are restricted, can such an organization be controlled by a municipality? The definition of the GRE is based on control and not on the risks and rewards of ownership. The fact that restrictions exist does not change the relationship between a municipality and an organization.

Most municipalities would either have control or shared control of their community development corporation (CDC). The funds provided by the Province for the Community Works Loan program is restricted to providing small loans to businesses for the economic and social benefit of the area. The fact that the CDC has assets which cannot directly accrue to the municipality would not be a valid reason to exclude the CDC out of the MRE. The existence of restricted funds should however be disclosed in the notes to the financial statements.

1.9 Trusts Under Administration

Trusts are property that has been transferred or assigned to a trustee to be administered or directed by a trust agreement or statute. The trustee holds title to the property for the benefit of the beneficiary.

Trusts administered by a government or government organization should be excluded from the government reporting entity (PS1300.40).

Government financial statements should disclose in a note or schedule, a description of trusts under administration by the government or government organization, and a summary of trust balances (PS1300.44)

Cemetery trusts or "perpetual care trusts" is an example of a trust under the administration of a municipality. Cemetery trusts should be left out of the MRE but should be reported in a note or schedule.

1.10 Accounting Treatment for Controlled Organizations

Municipalities should fully consolidate the **financial statements** of all controlled organizations except government business enterprises.

Government business enterprises (GBE) are defined in Appendix 2: Glossary of Terms and Acronyms. GBE should be accounted for by the modified equity method. It is believed that there are no GBE at the municipal level in Manitoba. If someone believes that they have a GBE please inform the Project Manager, PSAB Implementation.

For organizations where another party has a non-controlling interest in the organization, proportionate consolidation is used. A non-controlling interest could include another municipality.

Tip #2:

It is the responsibility of municipalities to prepare the consolidated financial statements and the responsibility of the auditor to ensure that the financial statements present fairly, in all material respects, the financial position of the municipality and the results of operations and cash flow for the year then ended.

However, in 2009, it will be unlikely that all municipalities will be able to prepare their consolidated financial statements on their own.

It is however very important to ensure that both the municipality and its controlled entities are ready for the 2009 audit. **Your auditor will not be able to complete the audit of your municipality unless the controlled entities are ready to be audited. This may prevent the audited financial statements from being filed by the June 30, 2010 deadline.**

A controlled entity would be considered ready for the audit if:

1. Audited financial statements are available for consolidation, or
2. In situations where the controlled entity and the municipality share the same auditor, the controlled entity should be ready to be audited.

Tip #3:

Consider winding down controlled entities in 2008 if there is no statutory requirement for a separate audit. If the controlled entity is wound down in 2008 there will be no requirement to audit the entity and consolidate it into the municipality in 2009.

Many municipal entities are small and will have great difficulty in preparing separate audited financial statements on time for the municipal audit. This could delay the completion of the municipality's audited financial statements.

In 2009 municipalities should consider taking over the accounting for these small entities. The controlled entity could still exist but operate within a budget set by council. The approval, processing, and recording of the expenses can be done by the municipality and recorded directly into its accounting records. Since all the transactions related to the entity would already be included in the municipality's accounting records there would be no need to prepare separate financial statements for the controlled entity.

1.11 Presentation and Disclosure Requirements

Government financial statements should disclose, in notes or schedules, a listing of the major organizations comprising the reporting entity, separately identifying those that are consolidated and those that are accounted for by the modified equity method. (PS1300.39)

Note disclosures for the December 31, 2006 financial statements for the cities of Winnipeg and London have been included as examples. Municipalities in Manitoba will have to present similar disclosure in their financial statements for December 31, 2009.

City of Winnipeg – Dec 31/06

1. Significant Accounting Policies

The consolidated financial statements include the assets, liabilities, reserves, surplus/deficits, revenues and expenses of those City funds and governmental functions or entities which have been determined to comprise a part of the aggregate City operations based upon control exercised by the City except for the City's government businesses which are accounted for on the modified equity basis of accounting. Inter-fund and inter-corporate balances and transactions have been eliminated.

i) Consolidated entities

The organizations included in the consolidated financial statements are as follows:

Centre Venture Development Corporation	Winnipeg Arts Council Inc.
Destination Winnipeg Inc.	Winnipeg Enterprises Corporation
The Convention Centre Corporation	Winnipeg Public Library Board

ii) Government business

The investment in North Portage Development Corporation is reported as a government business partnership and Winnipeg Housing Rehabilitation Corporation as a government business enterprise. These businesses are accounted for using the modified equity method. Under this method, the government businesses' principles are not adjusted to conform with those of the City and inter-corporate transactions are not eliminated.

City of London – Dec 31/06

1. Significant Accounting Policies

These consolidated financial statements reflect the assets, liabilities, sources of financing and expenditures of the operating fund, capital fund, reserve funds and include all the activities of all committees of Council and the boards, municipal enterprises and utilities that are accountable to the Corporation for the administration of their financial affairs and resources and are owned or controlled by the Corporation.

i) Consolidated Entities

The following local boards are consolidated:
London Police Services Board
London Transit Commission
London Public Library Board
London Middlesex Housing Corporation
Old East Village Business Improvement Area
London Downtown Business Association
London Convention Centre Corporation
Covent Garden Market Corporation
Public Utility Commission
Museum London

ii) Equity Accounting

Government business enterprises are accounted for by the modified equity method. The government business enterprises during the year were:

London Hydro Inc.
Fair-City Joint Venture Partnership

Section 2 – Government Partnerships (PS3060)

2.1 What is a Government Partnership?

Government partnerships are very common in Manitoba. Most municipalities provide some form of service to their citizens through a shared service agreement with one or more other municipalities. Government partnerships take many forms. There are a variety of scenarios, terms and conditions.

PSAB's definition of a government partnership is a **contractual relationship between a municipality and a party or parties outside the MRE.** In Manitoba, the other "party or parties" in a government partnership are normally other municipalities.

A government partnership **must have all** of the following characteristics:

a) Partners have common goals for the activity;

b) A financial investment is made by the parties;

c) Control of decisions relating to the partnership is shared; and

d) Significant risks and benefits of the activities are shared equitably by the partners.

Contractual Relationship:

The contractual relationship can be in writing but it does not have to be. The contractual relationship can be an agreement, a by-law establishing the organization, or as a passed resolution of council. The contractual relationship sets out the terms by which the partners share control of the partnership. Activities conducted with no formal contractual agreement, but which meet the definition of a government partnership, is in substance a government partnership.

Common Goals:

In a government partnership the goals of the partners must be common to all partners. If 4 municipalities join together to form a water cooperative and their common goal is to provide safe drinking water to their communities, then the water cooperative would be a government partnership. At a later date, a private sector company, wishing to earn a return on its investment, purchases a 33% interest in the water cooperative. While the goals of the partners are mutually beneficial, they are not common to all the partners. The water cooperative would then no longer be a government partnership and would simply be accounted for as a supplier.

Financial Investment:

A financial investment may be in the form of assets or assuming responsibility for ongoing operating costs. Investment in government partnerships is not limited to activities that generate a financial return. Financial investment in partnerships extends to the production and delivery of goods and services that provide benefits to the community.

Shared Control:

Shared control means that the partners make decisions relating to the financial and operating activities of the partnership in accordance with the contractual arrangement. None of the

partners should be in control of the partnership. As soon as there is a partner with unilateral control, there can be no shared control and therefore no government partnership.

Shared Risks and Benefits:

In a government partnership there must be an equitable sharing among the partners of the significant risks and benefits. The **equitable** sharing of risks and benefits does not necessarily mean that the partners must **equally** share the risks and benefits.

Purchase/Sale Transactions:

The purchase or outsourcing of government services to the private sector and other municipalities are not government partnerships.

> A municipality has outsourced garbage pickup to a private contractor. The municipality would not be in a partnership with the contractor. The municipality and contractor are simply in a buyer/vendor relationship. The municipality and the contractor do not share common goals. Further the municipality is not responsible for any losses, nor does it share in any profits.
>
> The substance of the relationship between the municipality and contractor is simply that of purchaser/vendor. The purchase of service should be accounted for as an expense.

If your municipality pays operating grants, for services such as fire protection or the use of recreational facilities, to another municipality or their controlled organizations, you are not in a partnership unless:

1. Your municipality has a voice in the decisions affecting the services (i.e. shared control); and
2. Your municipality shares the risks and benefits on an equitable basis with the other municipality.

2.2 Forms and Structures of Government Partnerships

Government partnerships do not have to be legal partnerships. Government partnerships do not even have to be operated out of a separate organization.

Operations under Shared Control:

Operations under joint control involve the use of assets and other resources of the partners. The partners operate under an agreement. An example would be a landfill operation where the R.M. provides the land and equipment and the town provides cash.

Assets under Shared Control:

In some partnerships the partners may acquire or build one or more assets for the benefit of more than one municipality. The partners may even be co-owners of the asset. There is often a public board or commission appointed by the partners to operate the assets. This is a very common arrangement for recreational facilities and fire departments.

Organizations under Shared Control:

An organization under shared control is a type of government partnership which involves the establishment of a separate organization like a corporation. Each partner has a financial investment in the partnership but the organization owns the assets and incurs their own liabilities and expenditures. Examples would include water cooperatives, planning districts, and weed control boards.

2.3 Accounting For Government Partnerships

Municipal financial statements should recognize the municipality's interest in government partnerships, except for government business partnerships, using the proportionate consolidation method.

Government business partnerships (GBP) are defined in Appendix 2: Glossary of Terms and Acronyms. GBP should be accounted for by the modified equity method. It is believed that there are no GBP at the municipal level in Manitoba. If someone believes that they have a GBP please inform the Project Manager, PSAB Implementation.

2.4 Presentation and Disclosure Requirements

Municipal financial statements should disclose in the notes or schedule:

a) A description of the nature and purpose of the government partnership;

b) List of the partnerships, the municipality's share and how it accounted for the partnership (proportionate consolidation or modified equity method);

c) Condensed supplementary financial information:

- Assets and liabilities by main classification;
- Net assets
- Total revenues and expenditures
- Operating results
- Adjustments to reconcile the amounts included in the financial statements
- Transactions and balances between the partnership and the government (modified equity method); and

d) Share of any commitments and contingencies

Note disclosure for the December 31, 2006 financial statements for the City of Peterborough has been included as an example:

City of Peterborough – Dec 31/06

1. Significant Accounting Policies

i) Basis of Consolidation

The City has several partnership agreements in place with The Corporation of the County of Peterborough and as such, consistent with generally accepted accounting treatment for government partnerships, the following local boards are accounted for on a proportionate consolidation basis whereby the City's pro-rata share of each of the assets, liabilities, revenues and expenditures (including capital expenditures) are combined on a line by line basis in the financial statements. These include:

1. Fairhaven (66%) (2005 - 66%)
2. Peterborough County-City Health Unit (57%) (2005 – 57%)
3. Greater Peterborough Area Economic Development Corporation (60%) (2005 – 60%)
4. Peterborough County-City Waste Management Facility (50%) (2005 – 50%)

Interdepartmental and inter-organizational transactions and balances between these organizations are eliminated.

7. Partnerships with the County of Peterborough

iv) Peterborough County – City Waste Management Facility

On July 1, 2002, the City and County of Peterborough entered into an agreement to jointly develop and operate a waste disposal facility. The Facility will receive non-hazardous waste from the County and City in accordance with the acceptable regulations and the Certificate of Approval issued by the Ministry of the Environment and Energy to develop, operate and close the Facility. All revenues and cost related to the development, management, closure, post-closure care and monitoring of the Facility are shared equally by both organizations.

Included in the Statement of Financial Position is an amount due to the County of $45,091 (2005 - $606,772).

	2006		2005	
Financial Activities	**Total**	**City Portion**	**Total**	**City Portion**
Current Fund	**$**	**$**	**$**	**$**
Revenues	4,127,000	2,063,750	3,903,331	1,965,166
Expenditures	2,315,159	1,157,579	2,137,732	1,068,866
Net revenues	**1,812,341**	**906,171**	**1,1792,599**	**896,300**

Section 3 – Basic Principles of Consolidation (PS2500)

3.1 Being "Prepared" is the Key for 2009

The Working Group understands that many CAOs and municipal staff are uncomfortable at the thought of preparing consolidated financial statements. Some municipalities will be able to prepare their own consolidated financial statements. All municipalities can however be prepared for 2009.

There are two things that all municipalities can do to minimize their audit fees and ensure that their consolidated financial statements are completed by June 30, 2009:

1. Have audited financial statements for your controlled entities and government partnerships available for consolidation.

   In many circumstances, municipalities use the same auditors for their controlled entities. If you will not have audited financial statements available, then ensure that your controlled entities are also ready to be audited at the same time as your municipality.

2. Ensure that you have considered **all** your agencies, boards, commissions, cooperatives and non-profit entities for possible consolidation into your municipal financial statements. You may have audited financial statements for all the controlled entities that you have identified, but the audit of your municipality may be delayed if you failed to identify one or several organizations as a controlled entity.

By December 31, 2008 all municipalities should have identified all the entities that should be included in their reporting entity. It is crucial that you complete your listing of controlled entities by December 31, 2008 as these controlled entities will have to be audited for the 2009 comparatives.

This manual includes **Appendix 2 – A Checklist for Identifying Controlled Entities and Government Partnerships**. For all your entities you should go through the checklist to identify possible entities that should be included in your MRE.

If you are uncertain about including some organizations, your municipal auditor is a key resource as he is likely quite familiar with your municipal entities. You can also contact the Project Manager, PSAB Implementation but please complete the checklist yourself before calling.

3.2 Basics Steps in Full Consolidation

Municipal financial statements should consolidate controlled entities on a line by line basis using a uniform basis of accounting after eliminating any inter-organizational transactions and balances.

The steps are as follows:

i) Restatement:

Restate the financial statements of the controlled entity in accordance with the accounting policies of the municipality (i.e. PSAB);

ii) Elimination:

Eliminate the controlled entity's balances and transactions with the municipality; and

iii) Combination:

Combine the assets, liabilities, revenues, and expenses of the controlled entity, on a line by line basis, with those of the municipality.

A simplified example of the consolidation of a library board under the control of a municipality is given below:

	Library Board F/S Dr(Cr)	Restatement Entries Dr(Cr)	Elimination Entries Dr(Cr)	Library Balances for Consolidation Dr(Cr)	Municipality Unconsolidated F/S Dr(Cr)	Consolidated F/S Dr(Cr)
Cash	1,800			1,800	3,000	4,800
A/R	800			800	600	1,400
Due from Library Board			(2,000)	(2,000)	2,000	-
A/P	(200)			(200)	(400)	(600)
Due to Muni	(2,000)		2,000	-		-
Surplus (Def)	1,200			1,200	(2,200)	(1,000)
Grant Rev	(4,000)		4,000	-		-
User Fees	(1,000)			(1,000)	(500)	(1,500)
Tax Rev				-	(10,000)	(10,000)
Supplies	400	(400)		-		-
Wages	3,000	(3,000)		-		-
Protective Services				-	3,500	3,500
Recreation & Culture		3,400	(4,000)	(600)	4,000	3,400

1. Restatement Entries – Library Board

	Dr.	Cr.
Dr. Recreation & Culture	3,400	
Cr. Supplies		400
Cr. Wages		3,000

To restate Library Board expenses

2. Elimination Entries – Library Board

	Dr.	Cr.
Dr. Due to Muni	2,000	
Cr. Due from Library Board		2,000

To eliminate inter-company balance

	Dr.	Cr.
Dr. Grant Revenue	4,000	
Cr. Recreation & Culture		4,000

To eliminate the annual grant (inter-company transaction) from the municipality

The above example is simple but it clearly illustrates the 3 separate steps:

- Restatement of the entity financial statements;
- Elimination of entity balances and transactions with the municipality; and
- Combination of the entity balances with the municipality's financial statements on a line by line basis.

3.3 Basic Steps in Proportional Consolidation

The basic steps in proportional consolidation are the same as full consolidation except that you only combine the municipality's interest in the assets, liabilities, revenues and expenses with the municipality's unconsolidated financial statements.

i) Restatement:

Restate the financial statements of the government partnership in accordance with the accounting policies of the municipality (i.e. PSAB);

ii) Elimination:

Eliminate the government partnership's balances and transactions with the municipality; and

iii) Combination:

Using the municipality's pro-rata share, combine the assets, liabilities, revenues, and expenses of the government partnership, on a line by line basis, with those of the municipality.

Continuing with the above example of the library board, assume that instead of having control of the board, the municipality only has a 50% interest.

	Library Balances for Proportional Consolidation Dr(Cr)	Municipality's Interest - 50% Dr(Cr)	Municipal Unconsolidated F/S Dr(Cr)	Balances for the Consolidated F/S Dr(Cr)
Cash	1,800	900	3,000	3,900
A/R	800	400	600	1,000
Due from Library Board	(2,000)	(1,000)	2,000	1,000
A/P	(200)	(100)	(400)	(500)
Due to Muni	-	-		-
Surplus (Def)	1,200	600	(2,200)	(1,600)
Grant Rev	-	-		-
User Fees	(1,000)	(500)	(500)	(1,000)
Tax Rev	-	-	(10,000)	(10,000)
Supplies	-	-		-
Wages	-	-		-
Protective Services	-	-	3,500	3,500
Recreation & Culture	(600)	(300)	4,000	3,700

In this example, the consolidated surplus has increased from $1,000 for full consolidation to $1,600 under proportional consolidation. This is because the library board has a deficit of $1,200. Under proportional consolidation we are only including half the deficit of $600 in the consolidated financial statements. The other partner(s) are responsible for the other 50% of the deficit.

3.4 Consolidation Templates

The Working Group has developed a couple of templates, prepared in Excel, to facilitate the preparation of the municipal consolidated financial statements.

1. **Entity Worksheet:** This worksheet should be used to **prepare** the entity for consolidation with the municipality. The worksheet is used to enter **restatement and elimination entries.** There are a number of balance checks built in the worksheet to ensure that all your entries are entered correctly.

   The Entity Worksheet can be used for full and proportionate consolidation. The proportion of assets, liabilities, revenues and expenses can be consolidated simply by adjusting the municipality's interest in cell B5.

   An Entity Worksheet should be prepared for each entity being consolidated with the municipality.

2. **Consolidation Worksheet:** This worksheet has 2 main purposes. The "Muni" tab can be used to consolidate the municipality's various funds if your accounting software does not already do this. Your "consolidated fund" balances are transferred by links to the "Consolidation" tab for consolidation with the organizations in the MRE.

   The second purpose is to **combine** the balances for consolidation from the controlled organizations and government partnerships. You should enter your balances for consolidation from the Entity Worksheet into the Consolidation Worksheet. The consolidated balances, at the far right of the worksheet, are the balances that you should use to prepare the municipality's consolidated financial statements.

   You can combine as many entities as required simply inserting new columns between the "Municipality – Unconsolidated" and the "Balances B/F Adjustments" columns.

A detailed example on how to use both templates is provided in **Section 4** of the manual. Both templates can be downloaded from the AMM PSAB web-site at http://www.amm.mb.ca/PSAB.html .

3.5 Statements at Different Dates

Controlled entities and government partnerships often have year ends other than December 31st. This would however not be a valid reason to exclude them from the MRE.

> *When, for purposes of consolidation, it is not possible to use governmental unit financial statements for a period that substantially coincides with that of the government's summary financial statements, this fact, and the period covered by the governmental unit financial statements used, should be disclosed (PS2500.20).*
>
> *When the fiscal periods of a government reporting entity and a governmental unit are not the same, events relating to or transactions of the governmental unit that have occurred during the intervening period and significantly affect the financial position or results of*

operations of the government reporting entity should be recorded in the government's summary financial statements (2500.21).

Example:

Municipality "A" controls entity "B". Municipality "A" has a December 31st year end while entity "B" has a June 30th year end. Entity "B's" only asset is a receivable of $100,000 from a major customer. The audit report for entity "B" was dated October 31, 2007. Subsequent to 31st of October, the major customer went bankrupt. Entity "B" feels that collecting anything on the receivable is extremely doubtful. It is February 2008. The CAO of municipality "A" is preparing to consolidate entity "B". What should the CAO do?

Answer:

On the entity worksheet, the CAO should restate the receivable balance to nil.

Dr. Bad debt expense	$100,000	
Cr. Amount receivable		$100,000

To adjust the receivable to its net realizable value

Therefore there are no longer any asset balances from entity "B" to consolidate.

Tip #4:

If you have too many controlled entities and partnerships consider changing their year ends. If your controlled entities all have December 31st year ends it may be difficult to get them all ready for consolidation into the municipality's financial statements.

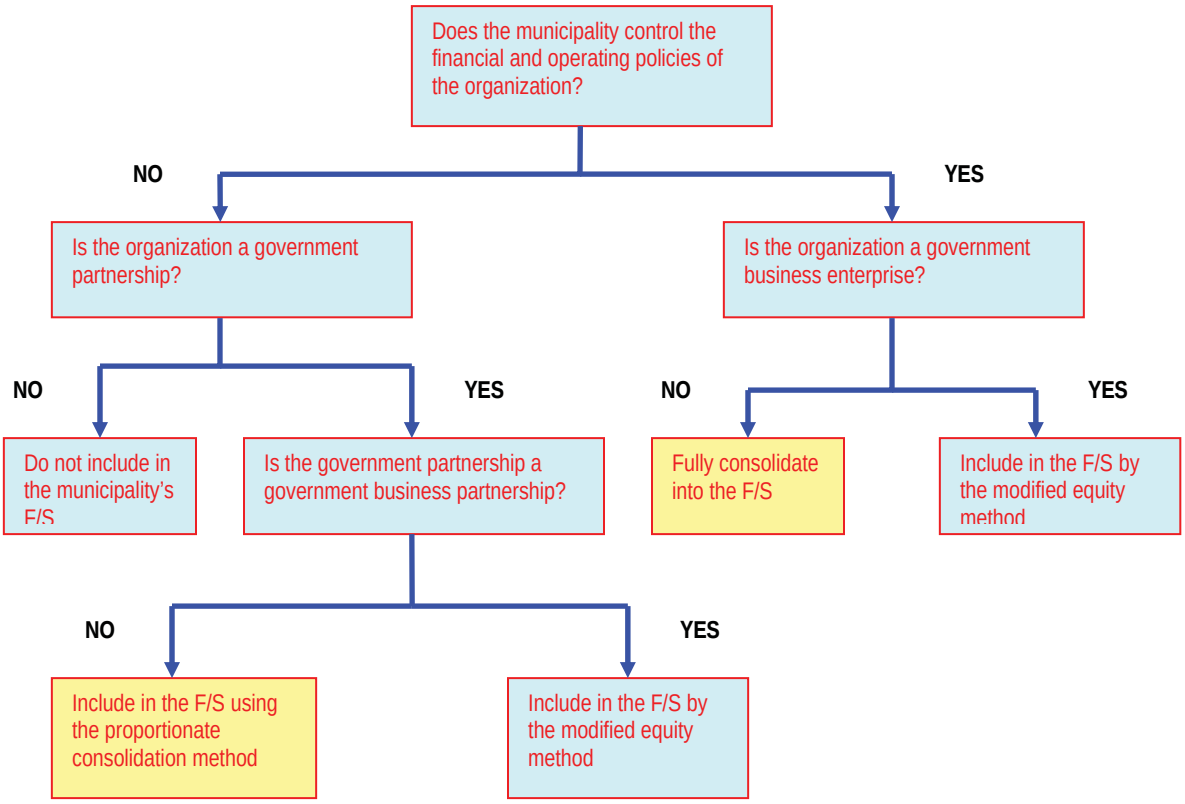
For 2009, consider changing some of your December 31st year ends to September or October. This will give you some additional months to complete their audits and have audited financial statements for consolidation into the municipality.

You cannot change the year end of your municipality or any other entities with statutory audit dates.

There is a downside to this however. You will have a short year end for 2009 thus you may have two year ends (2008 & 2009) to complete within a short period of time.

3.6 Government Reporting Entity Decision Tree

The following decision tree summarizes the decision process on whether to include or exclude an entity in the MRE and how to account for it. **Determining if a municipality has control is often a difficult decision that requires professional judgment.** After that decision is made, PSAB is very clear on how the municipality should account for the entity.


Does the municipality control the financial and operating policies of the organization?
NO
YES
Is the organization a government partnership?
Is the organization a government business enterprise?
NO
YES
NO
YES
Do not include in the municipality's F/S
Is the government partnership a government business partnership?
Fully consolidate into the F/S
Include in the F/S by the modified equity method
NO
YES
Include in the F/S using the proportionate consolidation method
Include in the F/S by the modified equity method

Section 4 – Example of a Detailed Consolidation: The R.M. of Assiniboia

4.1 The R.M. of Assiniboia

N.B. The financial statements for the R.M. of Assiniboia and its government partnerships can be downloaded from the AMM PSAB web-site at http://www.amm.mb.ca/PSAB.html . The entity worksheet and consolidation worksheets can also be downloaded from the site.

Background:

The R.M. of Assiniboia (RM) is an average size municipality in Manitoba and is incorporated under the *Municipal Act (1997)*. The RM operates a water utility for the small community of Hinton. Hinton is a local urban district (LUD) of the RM. The Town of Belle Fourche (Town) is the commercial centre of the RM and is itself incorporated under the *Municipal Act (1997)*.

The audited December 31, 2008 financial statements are completed and have been filed with the Department of Intergovernmental Affairs. The 2008 financial statements have been prepared in accordance with generally accepted accounting practices for municipalities in Manitoba. All accruals have been recorded at December 31, 2007 and 2008 except for any potential environmental liabilities. Tangible capital assets were not recorded in the accounting records until January 1, 2009.

It is now September 2009. The CAO Linda Anderson has attended the training sessions on the MRE and Consolidations.

The 2009 financial statements will be prepared in accordance with PSAB. Linda Anderson wants to prepare the 2008 comparatives for the 2009 PSAB financial statements. Linda has the following additional information to work with:

R.M. of Assiniboia - TCA:

In March 2008, Linda listed and completed the valuation of her TCA at December 31, 2007. During fiscal 2008, Linda tracked the additions, disposals and amortization outside her accounting records by using the TCA Continuity Schedule.

At January 1, 2008 the total net book value (NBV) of the R.M. TCA was $15,895,400. TCA additions during 2008 were $268,868. The amortization expense was $255,110:

- General government - $ 5,635
- Protective services - $ 4,800
- Transportation services - $145,550
- Recreation services - $ 24,450
- Water & sewer services - $ 78,675

The RM leases a grader from Caterpillar Financial Services. The lease is treated as an operating lease in the 2008 financial statements. See the notes to the 2008 financial statements. At the start of the lease the fair market value (FMV) of the grader was $250,000. The grader has a useful life of 15 years. The lease agreement does not state an implicit rate of interest but the municipality's cost of borrowing for a new debenture would be 6.5%.

The minimum monthly lease payments are $3,557 per month. The first lease payment is due at the start of lease (November 8, 2006). A guaranteed residual value of $78,585 is due at the end of the lease (November 8, 2011). Linda calculates that the net present value (NPV) of minimum lease payments at the start of the lease is $239,516. The RM intends to take ownership of the grader at the end of the lease. Linda feels that the grader lease should be treated as a capital lease. The grader is not included in her TCA listing at January 1, 2008. Linda uses a NPV calculator and determines that the balance of the lease obligation should be:

	Lease Obligation	**Accrued Interest**
Dec 31/07	$206,895	$ 847 ($206,895 x 6.5% x 23/365)
Dec 31/08	$176,634	$ 723 ($176,634 x 6.5% x 23/365)

Belle Fourche – Assiniboia Fire Protection District:

The Town of Belle Fourche and the RM have formed a fire protection district. The cost of the new fire hall, fire truck and equipment was split 50/50. The fire hall is located in Belle Fourche. Both municipalities own title to the assets and have already included them in their TCA. The Town and RM each appoint 3 representatives to the 6 member board of the Fire Protection District. The Town (83.5%) and the RM (16.5%) each provide annual operating grants to the Fire Protection District. The Fire District's December 31, 2008 financial statements are prepared in accordance with not-for-profit GAAP.

Assiniboia Waterbury Belle Fourche Waste Management Facility

The RM, the Town and the neighboring R.M. of Waterbury have been operating a joint waste management facility (Class 2) since January 1, 2000. Each municipality appoints 2 members to the Board of Directors. Each municipality provides an annual operating grant to the Waste Management Facility (Belle Fourche – 37.9%; Assiniboia – 34.5%; Waterbury – 27.6%)

The December 31, 2008 financial statements of the Waste Management Facility are prepared under not-for–profit GAAP. Closure costs have not been accrued.

It was estimated that the landfill had the capacity to keep operating for 20 years. The NPV of the future closure cost at December 31, 2007 and 2008 was estimated at $600,000. The cumulative capacity used at December 31/07 was 45% and 50% at December 31/08.

Assiniboia Waterbury Sperling Weed Control Board

The R.M.s of Assiniboia, Waterbury and Sperling have formed a weed control district under *The Noxious Weeds Act*. The Weed Control District is governed by a 3 member Weed Control Board. Each municipality gets to appoint 1 representative to the Weed Control Board. Each municipality provides an annual operating grant to the Weed Control District (Assiniboia – 35%; Waterbury – 30%; Sperling – 35%). The Weed Control District's December 31, 2008 financial statements are prepared in accordance with not-for-profit GAAP.

Belle Fourche & Assiniboia Regional Library

The Town and RM operate a regional library. The Town and RM each appoint 4 members to the board of directors (8 out of 12). The Province of Manitoba appoints the other 4 members. The majority of the Library's funding is from annual operating grants from the Town (40%), RM

(24%) and the Province (36%). The Library's December 31, 2008 financial statements are prepared under not-for-profit GAAP.

Belle Fourche & District Community Development Corporation

The Town and RM formed a CDC back in the 90's to foster economic development in the region and administer the Province's Community Works Loan Program. Current funding for the CDC is split 50/50 between the Town and the RM. The Town and RM each appoint 2 councillors to the CDC's 4 member board of directors. The CDC's December 31, 2008 financial statements are prepared in accordance with Canadian GAAP.

What Linda Must Complete:

Linda will use the 2008 audited financial statements of the municipality and its government partnerships to prepare her comparative figures for the 2009 PSAB financial statements. She will specifically:

1. Use the Consolidation Worksheet to consolidate all the funds and reserves of the municipality at December 31, 2008.

2. On the Consolidation Worksheet, Linda will enter her TCA transactions and balances including the capital lease for the grader.

3. Prepare an Entity Worksheet for each government partnership to be consolidated. The balances for consolidation from the Entity Worksheets will be carried forward to the Consolidation Worksheet.

4. Prepare a summary (consolidated) statement of financial position for the municipality at December 31, 2008.

5. Prepare a summary (consolidated) statement of operations for the year ended December 31, 2008.

N.B. As part of the training sessions for 2008, the instructors will review this case with the registrants. It is therefore very important that all registrants review the material and prepare questions before the training sessions. It is also important that registrants bring copies of the case material with them to the training sessions.

4.2 Prepare Your Own 2008 Comparatives?

Similar to the R.M. of Assiniboia, all municipalities in Manitoba will eventually have to prepare their 2008 comparatives from the 2008 audited financial statements filed with the Department. The 2008 audited financial statements of the municipality, prepared under the current accounting principles, will have to be converted into a PSAB compliant format by:

1. Consolidating all the funds and reserves of the municipality at December 31/08;
2. Entering the TCA balances, additions, disposals, and amortization for the year ended December 31, 2008;
3. Adjusting the financial statements for environmental liabilities, including landfill closure and post closure costs; and

4. Consolidating the statements of financial position and operations of all the entities under the control or shared control of the municipality.

Municipalities will not be required to prepare their 2008 comparative figures until they are working on their 2009 financial statements. The December 31, 2009 financial statements do not need to be completed and filed with the Department until June 30, 2010. However municipalities are encouraged to complete their 2008 comparatives as soon as possible.

Any municipality that wants to prepare their 2008 comparatives prior to December 31, 2009 can send them to the Department for review. The statements will only be reviewed to see if they are properly prepared. Readily apparent errors will be noted and reported to you.

It is important to realize that this review by the Department should not be considered an audit or verification of your 2008 comparatives. The 2008 comparatives will still have to be verified by your auditor.

Remember that the Departmental review of your 2008 comparatives is completely voluntary but we can only accept submissions until December 31, 2009. Your submission should include:

1. Copies of the 2008 financial statements of all the entities consolidated, or proportionately consolidated, with the municipality;
2. A completed "Entity Worksheet" for every organization that is being consolidated or proportionately consolidated;
3. A completed "Consolidation Worksheet" with:
    - All the funds and reserves of the municipality consolidated at December 31, 2008;
    - All the required adjustments for TCA entered and posted;
    - If the information is available, all the required adjustments for environmental liabilities and landfill closure and post closure costs: and
    - All the balances for consolidation transferred from the "Entity Worksheets".
4. A completed statement of financial position at December 31, 2008.
5. A completed statement of operations for the year ended December 31, 2008.

You do not need to send copies of your municipality's 2008 audited financial statements as the Department will already have copies on file.

All information should be sent by email and email attachments to the PSAB Project Manager at michel.st.amant@gov.mb.ca . Copies of the entity financial statements can be faxed to (204) 948 - 2780.

Appendix 1

Municipal Organizations
Do I Consolidate or Not Consolidate?

There are so many different forms of arrangements between municipalities, government organizations, and partnerships. The contractual terms and relationships between them are as varied as the number of municipalities. It is therefore impossible to build a complete list of entities that should be included in the MRE or left out.

For every government organization and partnership, the CAOs will have to judge themselves if the entity should be consolidated, proportionately consolidated, or left out of the MRE entirely. The criteria used for the decision is control. CAOs have to ask themselves:

1. Does the municipality control the organization?
2. If the municipality doesn't have control, does the organization meet the definition of a government partnership:
    - Contractual relationship
    - Common goal
    - Financial investment
    - Shared control
    - Shared risk and benefits

There are however some government organizations whose relationship with the municipality is consistent throughout the Province. The relationships to the municipalities are documented in legislation or program guidelines.

Local Urban District (LUD):

Act:	*The Municipal Act*
Terms:	• The committee of a LUD is a committee of the council • The committee of a LUD is responsible for: i) Preparing and adopting a service plan ii) Submitting the service plan to council iii) Exercise the powers delegated to it by the council • Before adopting its service plan, the LUD must consult with the council
Conclusion:	LUDS are controlled by their municipal councils.
Recommendation:	LUDS should be fully consolidated into the municipality's financial statements.

Appendix 1

Municipal Organizations
Do I Consolidate or Not Consolidate?

Mobility Disadvantaged Transportation Program (MDTP):

Guidelines:	Department of Intergovernmental Affairs
Terms:	• Sponsoring municipal government(s) may operate the service directly. • Sponsoring municipal government(s) may choose any form of organization it wishes in order to administer and monitor the operation of the program. • The sponsoring municipal government(s) will be responsible for any deficit. • Some municipalities run their MDTP through their Regional Health Authorities (RHA).
Conclusion:	Agencies, boards or commissions (ABC) operating a MDTP are likely under the control or shared control of one or more municipalities. No municipality would want to be responsible for losses without having control of the ABC operating the program. Municipalities do not control the RHAs.
Recommendation:	An ABC operating a MDTP program and controlled by a single municipality should be fully consolidated. Where 2 or more municipalities have sponsored an ABC to operate the MDTP, the municipality's interest should be recognized using the proportionate consolidation method. MDTP programs run by RHAs should not be consolidated however the municipalities should disclose in their financial statements that they are guaranteeing the losses.

Pembina Valley Water Cooperative (PVWC)

Act:	The Cooperatives Act
Terms:	• To provide the finest quality drinking water from the rivers of the valley to 18 member municipalities in the area. • Member municipalities have invested infrastructure in PVWC and have ongoing financial commitments with the cooperative. • All 18 member municipalities are represented on the Board and all have an equal vote relating to the financial and operating activities of the cooperative. • The significant risks and rewards are equitably shared between the 18 member municipalities.
Conclusion:	PVWC is a government partnership.
Recommendation:	The 18 member municipalities should proportionately consolidate their interest in PVWC. It is recommended that each municipality's interest should be based on their percentage volume of PVWC's total sales. Member municipalities of other water cooperatives in Manitoba should also proportionately consolidate their interest in the cooperative.

Appendix 1

Municipal Organizations
Do I Consolidate or Not Consolidate?

Planning Districts:

Act:	*The Planning Act – Part 3 – Planning Authorities*
Terms:	• The planning district must be directed by a board of directors consisting of councillors appointed by each member municipality. • The board of directors of a planning district must include at least 1 director from each member municipality. • Member municipalities of a planning district must agree on the proportion of funding, if any, that each municipality must contribute to meet the expenses of the district.
Conclusion:	Planning districts are government partnerships.
Recommendation:	Municipalities should recognize their interest in planning districts using the proportionate consolidation method.

Weed Control Board:

Act:	*The Noxious Weeds Act*
Terms:	• A municipality may, by-law establish a Weed Control District and provide for the appointment of a Weed Control Board. • A municipality may make an agreement with any other municipality in establishing a Weed Control District and appointing a Weed Control Board. • The municipal council may appoint one or more directors, who may or may not be members of the council, to represent the municipality on a Weed Control Board.
Conclusion:	Weed Control Boards are either controlled by their municipality or are government partnerships.
Recommendation:	Weed Control Boards controlled by a single municipality should be fully consolidated. Where 2 or more municipalities have formed a Weed Control Board, the municipality's interest should be recognized using the proportionate consolidation method.

Appendix 2

Checklist for Identifying Controlled Entities & Government Partnerships

Controlled Entities		
Main Indicators of Control *– If you answer yes for any of the questions from 1 to 8, then the entity is likely controlled and should be consolidated.*		**Y/N**
1.	Does council have the power to unilaterally appoint or remove a majority of the members of an organizations governing body?	
2.	Can council force the organization to transfer excess cash or other assets to the municipality?	
3.	Upon dissolution of the organization would the assets revert back to the municipality?	
4.	Upon dissolution of the organization would the municipality be responsible for the liabilities?	
5.	If the entity is a corporation, does the municipality hold the majority of the voting shares?	
6.	If the entity is a corporation, does the municipality have a "golden share" that confers the power to govern the financial and operating policies of the organization?	
7.	Was the organization created by a resolution of council?	
8.	Does council have the unilateral authority to dissolve the organization?	
Persuasive Indicators of Control *– If you answer yes for one of the questions from 9 to 17, council may control the entity but the evidence is persuasive but not conclusive. The evidence should be evaluated collectively. The more questions answered "yes", the more likely control exists.*		**Y/N**
9.	Does council have a significant input into the appointment of the members of the governing body such as appointing a majority of the members from a list of nominees or is heavily involved in the appointments in some other way?	
10.	Can council appoint or remove the CEO of the organization or other key personnel?	
11.	Did council establish or can it amend an organization's mission or mandate?	
12.	Does council approve the organization's business plan or budget?	
13.	Can council make changes to the organization's business plan or budget?	
14.	Is council required to approve all borrowing of the organization or restrict borrowing in some other way?	
15.	Is council required to approve all major capital expenditures or investments or restrict them in some other way?	
16.	Does council restrict the revenue generating capacity of the organization?	
17.	Does council establish or can it amend the organizational policies such as accounting policies, personnel, compensation, etc.	

Appendix 2

Checklist for Identifying Controlled Entities & Government Partnerships

Government Partnerships		
If you have concluded that your municipality does not control the entity, it may be a government partnership. If the answers to questions 1 to 5 are all yes, then you likely have a government partnership. Government partnerships should be included in the municipal reporting entity through proportional consolidation.		**Y/N**
1.	Is there a contractual relationship between your municipality and other parties outside your reporting entity? In Manitoba "other parties" are normally other municipalities. Contractual relationships are normally in writing but they do not have to be. The contractual agreement can be an agreement, a by-law establishing the organization, or a passed resolution in council. Activities conducted with no formal contractual agreement, but which meet the definition of a government partnership (questions 2 to 5), is in substance a government partnership.	
2.	Do the partners have common goals for the partnership?	
3.	Have the partners made a financial investment in the partnership? A financial investment may be in the form of assets or assuming responsibility for ongoing operating costs.	
4.	Do the partners have shared control over the financial and operating decisions of the partnership? If one partner has unilateral control then there is no shared control between partners.	
5.	Are the significant risk and benefits of the partnership shared in an **equitable** fashion? The **equitable** sharing of risks and benefits does not mean that the partners share the risks and benefits **equally**.	

Glossary of Terms and Acronyms

Terms:

Control:
Control by a government is defined as having the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the organization's activities.

Elimination Entries:
Elimination entries are adjustments made to an organization's financial statements for consolidation with the government's financial statements. Elimination entries are done to eliminate balances and transactions with the government.

Fair Market Value:
Fair market value is the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act.

Government Business Enterprise:
A government business enterprise is an organization under government control and is:

a) A separate legal entity with the power to contract in its own name and that can be sued;

b) Has been delegated the financial and operating authority to carry on a business;

c) Sells goods and services to individuals and organizations other than the government reporting entity; and

d) Can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources other than the government reporting entity.

Government business enterprises should be included in the financial statements under the modified equity method.

Examples of GBE at the Provincial level include:

- Manitoba Hydro
- Manitoba Public Insurance Corporation
- Workers Compensation Board
- Manitoba Liquor Control Commission
- Manitoba Lotteries Corporation

The Working Group believes that there are no organizations controlled by a municipality that meets the definition of a GBE. If anyone is aware of a municipal GBE please inform the Project Manager, PSAB Implementation.

Government Business Partnership:
A government business partnership is a government partnership that has all of the following characteristics:

a) Is a separate legal entity with the power to contract in its own name and that can be sued;

b) Has been delegated the financial and operating authority to carry on a business;

c) Sells goods and services to individuals and organizations other than the partners as its principal activity; and

d) Can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources other than the partners.

The characteristics of a government business partnership (GBP) are the similar to a government business enterprise (GBE) except that a GBE is controlled by the government. A GBP is a government partnership whose partners only have shared control.

Government business partnerships should be included in the financial statements under the modified equity method.

The Working Group believes that there are no government partnerships at the municipal level that meets the definition of a GBP. If anyone is aware of a municipal GBP please inform the Project Manager, PSAB Implementation.

Government Partnership:
A government partnership is a contractual relationship between a government and a party or parties outside the government reporting entity. A government partnership must have all of the following characteristics:

a) Partners have common goals for the activity;

b) A financial investment is made by the parties;

c) Control of decisions relating to the partnership is shared; and

d) Significant risks and benefits of the activities are shared equitably by the partners.

Government Reporting Entity:
The term government reporting entity refers to the departments, funds, agencies, boards, commissions and not-for-profit organizations that should be included in the government's financial statements. A government reporting entity comprises all organizations controlled by the government.

Municipal Reporting Entity:
Municipal reporting entity refers to all the funds, agencies, boards, commissions and not for profit organizations that should be included in the municipality's financial statements. When referring to municipalities it means the same thing as the government reporting entity.

Net Present Value:
Net present value is the net value on a given date of a future payment, or series of future payments, discounted to reflect the time value of money. The time value of money is based on the premise that an investor prefers to receive a payment of a fixed amount today, rather than an equal amount in the future, all else being equal.

Restatement Entries:
Restatement entries are adjustments made to an organization's financial statements to conform with the accounting policies used by the government and can therefore be consolidated into the government's financial statements.

Appendix 3

Glossary of Terms and Acronyms

Summary Financial Statements:
Summary financial statements refer to the financial statements prepared by governments for external reporting. Summary financial statements are prepared on a consolidated basis and present the financial information of the entire government reporting entity at a summary level.

Three Letter Acronyms (TLA):

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ABC	-	Agencies, Boards and Commissions
FMV	-	Fair Market Value
GBE	-	Government Business Enterprise
GBP	-	Government Business Partnership
GRE	-	Government Reporting Entity
LUD	-	Local Urban District
MRE	-	Municipal Reporting Entity
NPV	-	Net Present Value