

# Regional District LGDE Help Manual

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## 6. Debt Schedules

This part of LGDE tracks the total debt level of a local government that arises from adopted bylaws in accordance with sections 405 (short-term capital borrowing) and 823 (loan authorization bylaw) of the *Local Government Act*. This part of LGDE also tracks any other long-term commitments that may not be included in the Statement of Financial Position.

### **6 (a) Analysis of Authorized Debt and Short Term Capital Borrowing – Schedule B1**

This schedule provides a check of the amount of debt reported in long-term liabilities on the Statement of Financial Position as well as providing detail regarding the total amount of authorized but unissued borrowing.

#### **Total Debt Issued (Line a)**

Totals long-term debt issued by the regional district and MFA. This is a formula cell and equals the total from Lines a1, a2, a3, a4 and a5 of Schedule B1.

#### **Unmatured Long Term Debt Issued by the Local Government (Line a1)**

For regional districts, this line item should equal the unmaturred portion of debt issued under the authority of a loan authorization bylaw (S. 823) but **not** issued through the MFA. This would generally include borrowing under the authority of a loan authorization bylaw that is done through a government loan program (e.g. CMHC loans and Downtown Revitalization loans).

Also, if a local government has inherited improvement district debt, the remaining balance of this debt may be included in this line.

#### **Unmatured Long Term Debt Issued by the MFA for RD (Line a2)**

This line item should equal the unmaturred portion of debt issued through the MFA for regional district services under section 819. This is strictly limited to debenture issues under the authority of a loan authorization bylaw and any interim capital financing through the MFA.

This should not include debt issued on behalf of member municipalities (section 824), which is recorded in Line a3.

#### **Unmatured Long Term Debt Issued by the MFA for Member Municipalities (Line a3)**

This line item should equal the unmaturred portion of regional debt issued through the MFA for member municipalities under section 410 of the *Local Government Act*. This is strictly limited to debenture issues under the authority of a municipal loan authorization bylaw and any interim capital financing through the MFA.

#### **Capital Lease Liabilities (Line a4)**

This amount should equal the total capital leases summarized in Line n of schedule A2 (Statement of Financial Position). For more information about capital leases and their treatment, see section 5(a)(ii) - Liabilities (Schedule A2).

**Short Term Capital Borrowing Issued (Line a5)**

Include in this line the total amount borrowed under section 405 of the *Local Government Act* less the balance repaid to date. Do not include any amounts authorized under section 822 that are not actually borrowed (this is addressed in Line b3).

**Total Debt Authorized but Unissued (Line b)**

This line item is the total debt authorized by loan authorization/STCB bylaws but not issued by security issuing bylaws. This is a formula cell that totals lines b1, b2 and b3.

**Authorized but Unissued Long Term Debt for RD (Line b1)**

Authorized but unissued borrowing occurs where a regional district has the authority to borrow for regional services under bylaw (section 406 of the *Local Government Act*), but has not yet issued securities under section 403 of the *Local Government Act* or received a loan under a government loan program. This amount represents legally authorized, but unutilized, borrowing authority of the local government.

**Authorized but Unissued Long Term Debt for Member Municipality (Line b2)**

This is borrowing authority for member municipalities established under a municipal loan authorization bylaw (section 179 of the *Community Charter*), which has not yet gone to security issuing through the regional district under section 410 of the *Local Government Act*.

**Authorized but Unissued Short Term Capital Borrowing (Line b3)**

This line represents the total regional borrowing authority approved by bylaw under section 405 of the *Local Government Act* that has not yet been borrowed under Line a5 (Short Term Capital Borrowing). As the debt has not yet been incurred, it is not captured in the Statement of Financial Position.

**Total Debt (Line c)**

This is the total of all authorized debt whether issued or not (equal to Line a plus Line b).

**Reconciliation**

This is strictly for the portion of debt that has been issued for the purposes of regional district services under section 403 of *The Local Government Act*. Debt issued for Member Municipalities is excluded from this section.

**Long Term Debt at Beginning of Year (Line d)**

This is the total of all authorized debt at the beginning of the year. It should equal the value calculated for line i in the previous year's LGDE.

**Proceeds from Issue of Debt (Line e)**

Local governments are not allowed to run sustained deficits in accordance with section 374 of the *Local Government Act*. Therefore any long-term debt of a local government is to support capital asset financing.

This line item represents the portion of purchases of tangible capital assets (Form A5 line b), for the current reporting period, that were financed through new debt.

This line item represents the value of financial proceeds from borrowing received by the municipality from the MFA (or other financing organizations) during the accounting period. In accordance with PS 1200.090 the LGDE package differentiates the reporting methods for revenue and the financial proceeds from borrowing (including debenture issues). Borrowing proceeds do not flow through the Statement of Operations (Schedule A3).

### **Debt Repayment (Line f)**

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

In accordance with PS 1200.089, debt repayment is not considered an “Expense” and therefore does not flow through the Statement of Operations (Schedule A3).

**DO NOT ENTER THIS LINE ITEM AS A NEGATIVE NUMBER** – enter it as a positive number and the program will subtract it from Debt at the Beginning of the Year Line d.

### **Actuarial Adjustments (Line g)**

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

Since the actuarial adjustment represents a direct reduction of long term debt, like principal payments, each installment of the actuarial adjustment reduces the long-term debt and therefore represents a reduction in the external encumbrances on the local government’s assets.

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

<b>DR</b> Actuarial Adjustments Receivable	xxx	
<b>CR</b> Investment Income (Actuarial adjustment)		xxx

**DR** Debentures Payable xxx  
**CR** Actuarial Adjustments Receivable xxx

Payment Reduction by MFA – In some cases, nearing the end of the debt financing duration, the MFA will reduce or eliminate the semi-annual payment invoices of interest and principal owed by the local government. However, the long-term debt on the Statement of Financial Position must still be drawn down. In this case, the annual actuarial adjustment (plus the amount that normally would have been paid as principal) is included as Investment Income in the “Actuarial Adjustments” line item (Line g). Any reduction or elimination of interest expenses is simply shown as a reduction in Interest in the Expenses Section of the Statement of Operations.

**Long Term Debt at End of Year (Line h)**

This line is auto-calculated as the sum of lines d and e less the sum of lines f and g. The amount must equal the sum of Lines a1, a2, a4 and a5 above.