



TOWNSHIP OF EDWARDSBURGH CARDINAL ACTION ITEM

Committee: Administration and Finance

Date: May 10, 2021

Department: Finance

Topic: 2021 PSAB Budget Addendum Report

Purpose: To identify the impact on the Township's accumulated surplus after reconciling the 2021 budget with PSAB (Public Sector Accounting Board) requirements of accounting for non-financial assets and liabilities.

Background: Ontario Regulation 284/09 allows municipalities to continue to prepare their annual budgets without including amortization expenses for tangible capital assets. The regulation requires municipalities to prepare a PSAB Budget Addendum report and adopt this report by resolution.

The consolidated accumulated surplus shown on the financial statements of the Township represents net resources available to provide future services. It does not represent cash.

Although the Township's budget excludes amortization expense for tangible capital assets, provisions are made for contributions to capital reserves to fund capital expenses. The Township's 2021 amortization expense is estimated at \$1.806 million, which will reduce the Township's accumulated surplus.

By definition, amortization expense is the attribution of capital cost over the useful life of the asset. However, amortization is also an indicator of the future annual financial commitment of existing asset replacements. Although, replacement cost of assets would be higher than the amortization, which is based on historical cost. Given this fact, it is reasonable to expect that as the Township's asset inventory and associated amortization expenses continue to grow, deficits may occur. As such, the consideration of a dedicated capital levy in future years may be needed to ensure that the Township's tangible capital assets are being replaced in a timely manner without large fluctuations in the tax rate or the issuance of debt.

In addition to the excluded amortization expense: the following items that are included in the cash based budget are to be excluded from the PSAB budget:

- a. Principal paid on debt
- b. Transfers to reserve accounts

- c. Transfers from reserve accounts
- d. Tangible Capital asset acquisitions/costs

Under PSAB reporting, the principal payments on long term debt are not expensed but are treated as a reduction to the long term liability which increases the accumulated surplus by \$202,503.00.

The 2021 budgeted Tangible capital asset acquisitions/costs are \$1.906 million which is higher than the estimated amortization. In PSAB reporting these costs are not considered expenses so must be deducted.

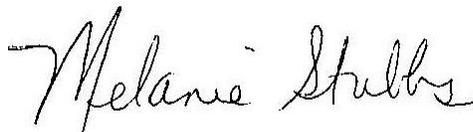
Reserve related adjustments- under PSAB method, contributions to reserves are not considered an expense and contributions from reserves are not considered revenue.

The reconciliation estimates the change in the accumulated surplus of the Township portion to be \$754,162.00 when the PSAB amounts are included in the year end audited statements. The attached report outlines the estimated changes made to convert the balanced 2021 consolidated budget which shows an increase in the Township's consolidated (which includes RSL & the Port) accumulated surplus of \$3,786,162.00

Policy Implications: Ontario regulation 284/09 requires a report of the excluded PSAB amounts be prepared and adopted by Council

Financial Considerations: There is no financial impact with this report as it does not affect the operating surplus/deficit. The intent is to describe the conversion of the approved cash based budget format to a PSAB budget format, which complies with Public Sector Accounting Board (PSAB) requirements

Recommendation: That Committee recommends that Council adopt the 2021 PSAB Budget Addendum report which meets the requirements of Regulation 284/09



Treasurer



CAO