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# **PSAB Training Phase II**

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**Association of Manitoba Municipalities  
Manitoba Intergovernmental Affairs  
June to September 2008**

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# Seminar Agenda

## Morning:

- Municipal Reporting Entity
- Government Partnerships
- Why Do We Consolidate?
- Consolidations (including examples)
- Being Prepared is the Key

## Afternoon:

- Obligations
  - Environmental Liabilities
  - Landfill Closure & Post Closure Costs
  - Other Business
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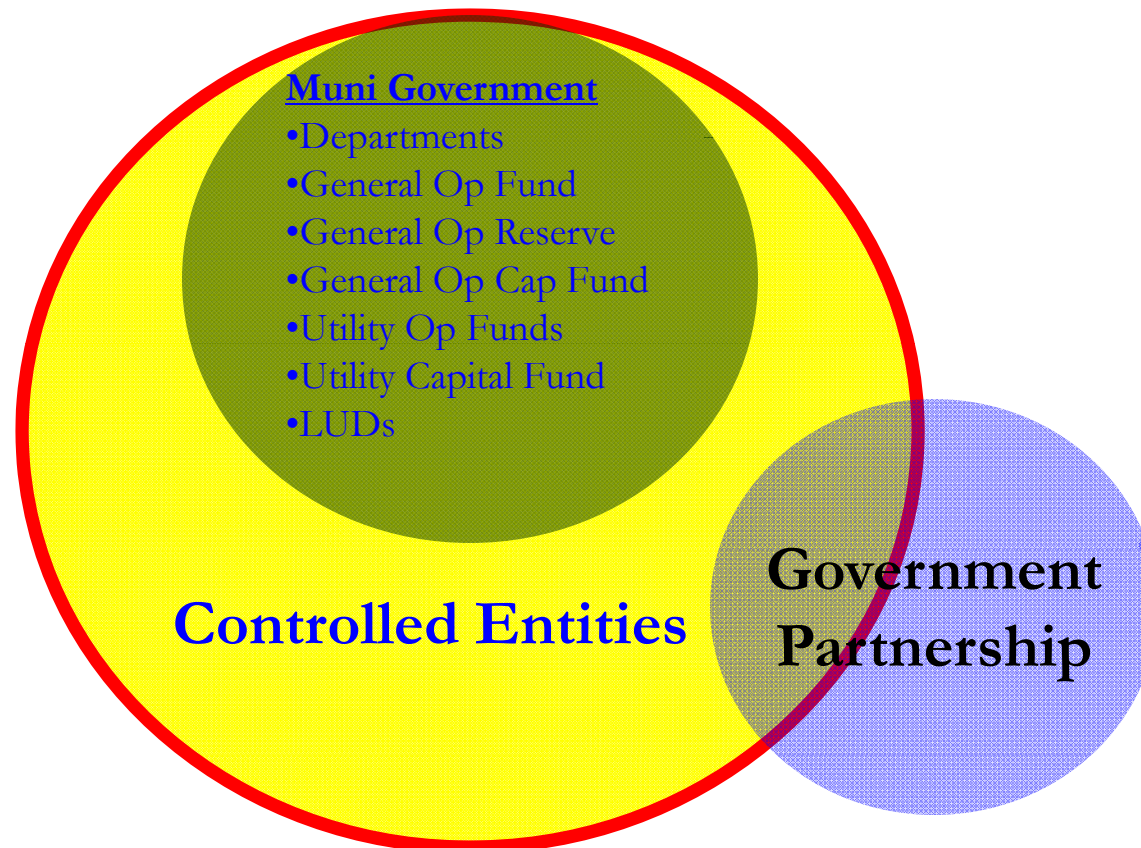
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# MRE – Section 1 of Manual

- Refers to all the funds, agencies, boards commissions & non-profit organizations that should be included in the muni's F/S.
  - MRE should include all the entities controlled by the municipality.
  - Controlled entities s/b fully consolidated.
  - Knowing what to include or exclude is critical as it will affect F/S.
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# Municipal Reporting Entity



- Everything within the red circle is the MRE
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# Municipal Reporting Entity

- Challenge is to understand what control means.
  - PSAB uses a “principles” based approach.
  - Not possible to list controlled entities b/c each government organization is different.
  - CAOs have to apply professional judgment based on the defn of control.
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# MRE – What is Control?

## Control is defined as:

- 1) Power to govern the financial & operating policies of another organization;
  - 2) With the expected benefits or the risk of loss to the government from the organization's activities.
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# MRE – What is Control?

Elements to the definition of control:

- 1) Having the power to govern is sufficient
    - Do not actually need to exercise control.
  - 2) Financial & operating policies
    - Does not mean day to day management.
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# MRE – What is Control?

Elements to the definition of control (cont'd):

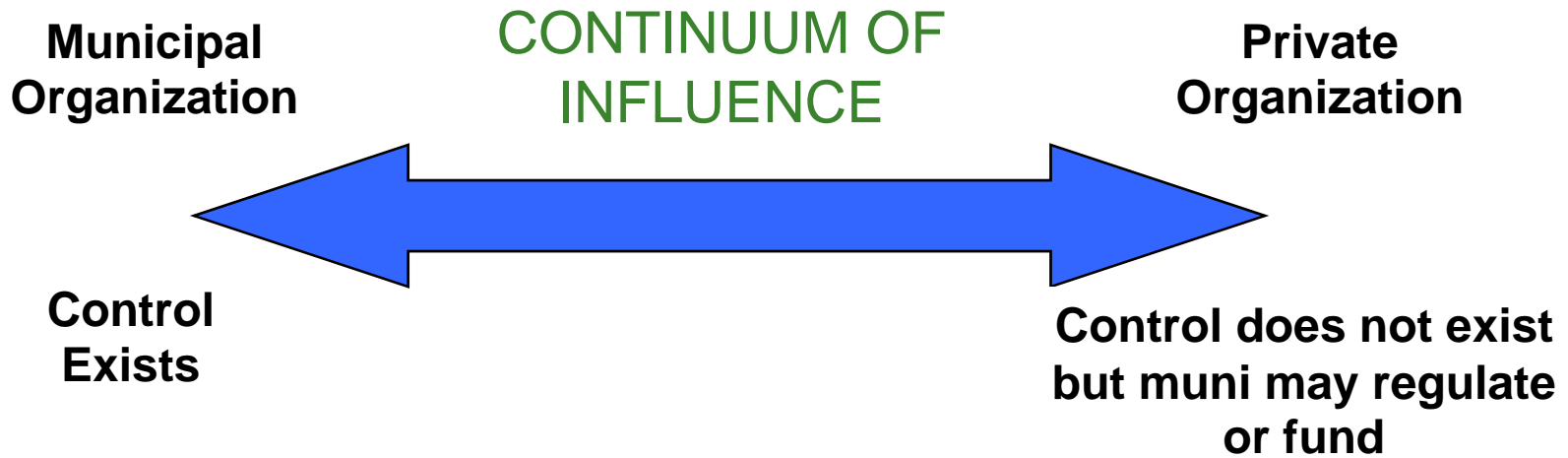
## 3) Expected benefits or risk of loss:

- Benefits may be financial or non financial
  - Most benefits are service oriented
    - ❖ Handi-transit
    - ❖ Library board
    - ❖ Recreation commission
  - Risk of loss accrue to the government?
    - ❖ Fund losses
    - ❖ Assume debt
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# MRE – What is Control?

Control is often not a black/white issue:



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# MRE – What is Control?

- Main Indicators of Control:
    - 1) Unilaterally appoint or remove a majority of the governing body
    - 2) Ongoing access to the assets or responsibility for the debt and deficits
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# MRE – What is Control?

- Main Indicators of Control (cont'd):
    - 3) Hold a majority of the voting shares (i.e. CDC)
      - Most entities are organizations w/o share capital
    - 4) Unilateral power to dissolve the organization
  - Muni likely has control if any (1) of these indicators exist.
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# MRE – What is Control?

- **Persuasive indicators of control:**
    - 1) Significant input into the appointment of governing body
    - 2) Appoint or remove key personnel of organization
    - 3) Establish or amend an organization's mandate or mission
    - 4) Approve and make changes to the organization's budget
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# MRE – What is Control?

- **Persuasive indicators of control (cont'd):**
    - 5) Establish borrowing or investment limits
    - 6) Restrict revenue generating capacity
    - 7) Establish or amend organizational policies
  - Consider the indicators collectively.
  - “Preponderance of Evidence” would indicate control.
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# MRE – What is not Control?

- **Financial dependence** on the muni, on its own, is **not** an indication of control.
  - **Regulatory control** (e.g. building & fire inspections) is **not control**.
    - Control only extends to the regulatory aspects of the operations.
  - **Temporary control** is **not control**.
    - Short term in nature
    - Council intends to relinquish control.
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# MRE – Trusts?

- Trustee holds title but administers the property on behalf of the beneficiaries in accordance with an agreement.
  - E.g. Cemetery Trust
  - Trusts s/b be excluded from the MRE.
  - Trusts administered by a muni s/b disclosed in a note or schedule to the F/S.
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# MRE – Restricted Organizations?

- Some assets of organizations are often restricted for specific purposes.
  - E.G. – Community Work Loan Funds at Community Development Corporations.
  - Restricted to providing small loans for businesses.
  - CWL Funds may have to be paid back.
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# MRE – Restricted Organizations?

- Inclusion in the MRE is based on control and not ownership.
  - Restricted organizations s/b included in MRE.
  - Restricted funds s/b disclosed in notes to F/S.
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# What is Control - Examples?

1. Local community groups using the town hall appoint the board of governors?

A N/A – Not an indication of control

2. Recreation board operates the hockey arena and curling rink. Both buildings are owned & were built by the muni?

A Main Indicator of control

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# What is Control - Examples?

3. Emergency women's shelter submits budget to council for funding. No requirement to report on the use of the funds?

A N/A – Not an indication of control.

4. Council sets the operating hours for the hockey arena?

A Persuasive indicator of control

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# What is Control - Examples?

5. Green fees at the local golf course are set by the owner/operator?

A N/A – Not an indication of control

6. Recreation board submits budget to council for funding. Council can request changes to the budget?

A Persuasive indicator of control.

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# What is Control - Examples?

7. Golf course needs the approval of council for all major capital improvements and borrowings?

A Persuasive indicator of control

8. Council passed the resolution creating the library board?

A Main indicator of control

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# What is Control - Examples?

9. 5 out of the 7 directors to the governing board of the town hall are appointed by council?

A Main indicator of control.

10. The “Chief Librarian” is appointed by the library board but must first be approved by council?

A Persuasive indicator of control.

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# What is Control - Examples?

11. Municipality owns 67% of the voting shares of the CDC?

A Main indicator of control.

12. The “Procedures & Operating Policies Manual” for the CDC was approved by council?

A Persuasive indicator of control.

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# What is Control - Examples?

13. Golf course leases land from the muni. If the golf course shuts down, council plans to find another lessee/operator but will operate the course until then?

A N/A – No indication of control. Temporary control only.

14. The user rates for all recreational facilities have to be approved by council?

A Persuasive indicator of control.

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# What is Control - Examples?

- 15. Fire Department puts on several fund raising events during the year. The funds are use to buy new equipment.
  - A Fire protection is normally a core service provided by munis. It is already part of muni, unless it's a regional fire department. Then it would be a government partnership.
  - A Funds would be municipal funds and therefore revenue. Equipment would be muni TCA.
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# MRE – Disclosure Requirements

- Munis should disclose a listing of the organizations that are consolidated.
  - Examples in Manual, Section 1.11, pg. 13.
  - R.M. of Assiniboia, see Note 1.a) Reporting Entity, pg. 7.
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# Government Partnerships

## Section 2 of the Manual

- GP is a contractual relationship between a muni and another party outside the MRE.
  - Other parties are normally other munis.
  - Other parties could be Province, NPO, etc.
  - Should use proportionate consolidation for GP.
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# Government Partnerships

- GP or “shared service agreements” are very common in MB:
    - Weed Control Boards
    - Planning Districts
    - Regional Landfills, etc.
    - Fire Protection Districts
    - Recreational Districts
    - Water Cooperatives
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# Government Partnerships

- Contractual relationship can be in writing but it doesn't have to be:
    - By-law establishing the GP
    - Passed resolution of council
    - Contractual agreement
  - Activities conducted with no formal agreement, but which meet the definition of a GP, is in substance a GP.
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# Government Partnerships

- Characteristics of a GP:
    1. Partners have common goals for the activity
    2. Partners make a financial investment
    3. Partners have shared control over decisions
    4. Partners equitably share the significant risks & benefits of the activities
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# GP – Financial Investment

- Investment in GP is not limited to activities that generate a financial return.
  - Extends to goods & services that provide a benefit to the community (e.g. Handi-Van).
  - Investments can be in the form of:
    - Contribution of cash & other assets
    - Assuming responsibility for ongoing operating costs
    - Purchase of goods & services from the GP
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# Government Partnerships

- Shared control over decisions is what distinguishes a GP from a supplier.
  - What's not included in GP:
    - Leases
    - Purchase/sale transactions
    - Shared cost agreements
    - Loans
    - Loan guarantees
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# Government Partnerships

- How does muni determine its pro-rata share?
  - Pro-rata share is normally based on muni's share of funding to GP or share of GP's loss.
  - There are other methods such as share of volume sales for water cooperatives.
  - Recommended that partners agree to pro-rata share.
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# GP – Disclosure Requirements

- Munis should disclose:
    - Description of the nature & purpose of GP
    - List of GP, muni's share & how it is accounted for
    - Condensed supplementary information
    - Share of any commitments & contingencies
  
  - Examples in Manual, Section 2.4, pg. 18.
  
  - R.M. of Assiniboia:
    - Note 1.a) Reporting Entity, pg. 7
    - Note 9 Government Partnerships, pg. 11.
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# Consolidations - Why?

- Provides fuller picture of a muni's activities
  - Method of service delivery shouldn't affect the financial reporting
  - Meaningful comparisons b/t munis will be possible
  - 2 Munis – 1<sup>st</sup> operates their own water utility; 2<sup>nd</sup> is part of water coop.
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# Same Service – Different Delivery

➤ **If munis don't consolidate:**

## Muni Operated

- TCA - Infrastructure
- Debt
- Water sales
- Full range of operating costs
- Amortization of TCA
- Interest on debt

## Water Coop

- Water sales
  - Water purchases
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# Consolidations

## Basic Steps:

- 1) **Restatement:** Restate the F/S of the controlled entity with the accounting policies of the muni.
  - 2) **Elimination:** Eliminate the controlled entity's balances & transactions with the muni.
  - 3) **Combination:** Combine the assets, liabilities, revenues & expenses, on a line by line basis, with those of the muni.
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# Proportional Consolidations

## Basic Steps (same):

- 1) **Restatement:** Restate the F/S of the controlled entity with the accounting policies of the muni.
  - 2) **Elimination:** Eliminate the controlled entity's balances & transactions with the muni.
  - 3) **Combination:** Combine the muni's **pro-rata share** of assets, liabilities, rev, & exp, on a line by line basis, with those of the muni.
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# Consolidations - Different F/S Dates?

- Not a reason to exclude from MRE.
  - Should disclose entities with different dates.
  - Significant events or transactions occurring during the intervening period should be disclosed or adjusted by the MRE.
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# Consolidations - Different F/S Dates?

- Significant impairment of an asset:
    - Bad debt (adjust MRE F/S)
    - TCA (adjust MRE F/S)
  - Capital commitment – Disclose in the notes to the F/S of the MRE.
    - E.G. - Recreation District is committed to building a new arena.
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# Consolidations – Simple Example

	<u>Muni</u>	<u>LUD</u>	<u>AJE</u>	<u>Cons</u>
Taxes	\$ (50,000)	-		\$ (50,000)
Trf from Muni	-	(15,000)	15,000	-
General	5,000	-		5,000
Trans	20,000	10,000		30,000
Rec & Cult	8,000	5,000		13,000
Fiscal – Trf to LUD	15,000	-	(15,000)	-
(Surplus)/Def	\$ (2,000)	-	-	\$ (2,000)

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# Consolidation Templates

## Entity Worksheet:

- Used to prepare the entity for consolidation
- Enter entity F/S balances
- Enter restatement & elimination entries
- Number of balance checks in place

## Consolidation Worksheet:

- Combine entity balances with muni
  - Also used to combine funds of muni
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# Consolidation - Examples

- Town of Bridgeport:
    - 1) Convention Centre (controlled entity)
    - 2) Fire Protection District (GP)
    - 3) Community Dev Corp (GP)
  - More examples in the manual – R.M. of Assiniboia.
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# Being Prepared is the Key

- **To minimize audit costs and ensure the 2009 F/S are completed by June 30/10:**
    1. List of controlled entities & GP is complete; and
    2. Have audited F/S for consolidation, or
    3. Entities are ready to be audited at the same time as the muni.
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# Being Prepared is the Key

- Muni isn't ready till all the significant controlled entities and GP are ready!
  - CAO is responsible to ensure that controlled entities & GP will:
    1. Have audited F/S available; or
    2. Final draft audited F/S available; or
    3. Prepared to be audited (if same auditor as muni).
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# Being Prepared is the Key

- Audited F/S have to be prepared on an acceptable basis of GAAP
  - Most entities are “Not for Profit Organizations” or NPO
  - NPO GAAP is acceptable except small NPO (Rev < \$500K) do not need to record TCA.
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# Being Prepared is the Key

- Discuss with your auditor:
    1. Small NPO has expensed material TCA to operations?
      - Need to change accounting policies and restate prior F/S.
    2. Review engagements for immaterial low risk organizations?
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# Being Prepared is the Key

- **Dec 31/08** – decide which entities s/b included in your MRE
  - Entities will have to be audited for 2008 comparatives
  - Appendix 1, pg. 29 - Lists common muni orgs that s\b consolidated.
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# Being Prepared is the Key

- Appendix 2, pg. - Checklist for Identifying Controlled Entities & GP
  - Complete the checklist first
  - Still not sure?
  - Phone your auditor or Project Manager, PSAB Implementation.
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# Being Prepared is the Key - Tips

1. Wind down unnecessary controlled entities as of Dec 31/08?
    - Won't need to consolidate for 2009 F/S
  2. Too many Dec 31<sup>st</sup> year ends?
    - Change some y/e to Sept 30<sup>th</sup> or Oct 31<sup>st</sup>
    - Disadvantage - Short fiscal year for 2008
    - Disadvantage – Budgeting
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# Obligations

## Definition:

1. Duty or responsibility to others leaving the government little or no choice to avoid;
  2. The settlement of which is expected to decrease the available assets of the gov't.
- All liabilities are obligations but not all obligations are liabilities.
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# Liabilities Are Present Obligations

## Definition:

1. Duty or responsibility to others leaving the government little or no choice to avoid;
  2. Settlement of which is expected to decrease the available assets of the government on the occurrence of a specified event.
  3. Transactions or events obligating the government have already occurred (i.e. the obligating event).
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# Liabilities – Recognition Criteria

- Liabilities s/b recognized in the F/S when:
    - a) There is an appropriate basis of measurement;
    - b) A reasonable estimate can be made of the amount involved.
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# Liabilities - Examples

<u>Characteristics</u>	<u>Delivery of Culverts</u>	<u>Holidays Payable</u>
Obligating event has already occurred	Delivery of culverts is the obligating event.	Employee has worked the required # of hrs to earn holidays.
Future transfer of assets on the occurrence of a specified event	Payment by cheque or cash within 30 days of the receipt of invoice.	Pay out when the employee takes holidays or leaves muni.
Little or no discretion to avoid	Supplier will repossess the culverts & in the future will only accept C.O.D.	Labour codes require employers to pay for holidays.

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# Why Are These Not Liabilities?

1. Payable to a reserve?

A Not a duty or responsibility to others.

A Council has discretion to avoid.

2. Open purchase commitments?

A Obligating event has not occurred.

➤ AASB considers “earnings management” or “income smoothing” to be fraud.

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# Contingent Liabilities

- Possible obligations that may become liabilities (e.g. lawsuits, contaminated sites).
  - Distinct characteristics of contingent liabilities:
    - 1) There must be an existing condition or situation; and
    - 2) An expected future event that will resolve the uncertainty.
  - Existence of a liability at the F/S date depends on the probability of the expected future event.
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# Contingent Liabilities – Levels of Uncertainty

## 1. Likely (probability is high)

- Legal counsel advises that you should settle with a litigant b/c they have a strong case.

## 2. Unlikely (probability is slight)

- Legal counsel views a lawsuit to be frivolous and has no basis in law.

## 3. Not Determinable

- Legal counsel views a lawsuit as possibly being settled in favour of either party.
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# Contingent Liabilities

- A contingent liability should be accrued in the F/S when:
    1. Likely that the future event will confirm the existence of a liability; and
    2. The amount can be reasonably estimated (i.e. recognition criteria).
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# Contingent Liabilities

- Should be disclosed in the notes to the F/S when:
    1. Occurrence of confirming event is likely but the amount cannot be reasonably estimated;
    2. There exists exposure in excess of the accrued amounts;  
or
    3. The occurrence of the future event is not determinable.
  - E.g. - Section 1.2, pg. 11 in the manual.
  - E.g. – Note 11, pg. 14 in the R.M. of Assiniboia.
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# Contingent Liabilities

<b>Probability of the Confirming Future Event</b>	<b>Amount of the Liability Can Be Reasonably Estimated</b>	<b>Amount of the Liability Cannot Be Reasonably Estimated</b>
<b>Likely</b>	<b>Accrue in the F/S</b>	<b>Disclose the situation in the notes</b>
<b>Not Determinable</b>	<b>Disclose the situation &amp; amount in the notes</b>	<b>Disclose the situation in the notes</b>
<b>Unlikely</b>	<b>No action required</b>	<b>No action required</b>

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# Loan Guarantees

- A loan guarantee is a contingent liability of the municipality.
  - Provision for losses s/b accrued when it is determined that a loss is likely.
  - Provision should include the principal & interest o/s.
  - Only loan guarantees to orgs outside the MRE need to be accrued and/or disclosed.
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# Guaranteed Loans Repaid Through Future Assistance

- Gov't guarantees loan and provides a funding commitment for repayment.
- Used in the past to keep debt off the B/S.
- Record the entire loan as an expense & liability of the gov't, unless borrower can repay from its own existing revenues.

Dr. Grant Expense – 3<sup>rd</sup> Party Loan

XXX

Cr. Liability – Future Funding Commitment

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# Contractual Obligations

- Also known as Commitments.
  - Commitments are obligations that will become liabilities in the future.
  - Distinct from contingent liabilities – No uncertainty about the existence of the obligation.
  - Does not include a muni's obligation to provide services such as police, fire, etc.
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# Contractual Obligations

- Significant commitments s/b disclosed in the notes to the F/S.
  - Significant to the current financial position or future operations:
    1. High degree of speculative risk (i.e. forward contracts)
    2. Large expenditure levels (i.e. capital projects)
    3. Long time frames (i.e. office leases)
  - E.g. in Section 1.3, pg. 13 in the manual.
  - E.g. Note 10, pg. 14 in R.M. of Assiniboia.
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# Environmental Liabilities (EL)

- Required to report EL in accordance with PSAB's recommendations on:
    - Liabilities
    - Contingent Liabilities
  - Few munis have contaminated sites.
  - Even fewer munis will be required to record a liability for remediation costs.
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# Environmental Liabilities

- Key issues:
    1. Which contaminated sites should you record a liability for remediation costs (i.e. scope)?
    2. In what accounting period do I record the liability?
      - Contaminated site discovered in 2009
      - Contamination occurred in 2001
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# EL – Legislation

- Contaminated Sites Remediation Act (CSRA):
    1. Party responsible for the contamination bears the cost of site remediation or “Polluter Pays”.
    2. Munis are not responsible for contaminated properties acquired through tax sales.
      - Muni may however be responsible for site assessment costs.
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# EL – Legislation

- Orphaned & Abandoned (O&A) Sites:
    1. Polluter cannot be located; or
    2. Polluter has insufficient resources.
  - Province is not legally responsible
  - In the absence of a responsible party, Province will likely take responsibility for O&A site remediation.
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# EL – Risk Assessment

- Seriousness of contamination is judged on the risk to human health & safety.
  - Impacted Site:
    - Site is contaminated but does not pose a risk to human health & safety.
  - Designated Site:
    - Site is contaminated and poses a threat to human health & safety.
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# EL – Risk Assessment

- Main risk factor is pathway for contact with humans:

**Contamination > Pathway > Receptor**

- Pathways:
    - Soil
    - Ground water
    - Surface water
    - Air
  - Containment (i.e. interrupt the pathway) vs. clean up.
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# EL – Risk Assessment

- National Classification System for Contaminated Sites or NCSCS
    - Commonly used environmental risk rating system
    - Environmental consultant determines the level of risk
  - Developed by the Canadian Council of Ministers of the Environment (CCME)
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# Env Risk/Accounting Matrix

NCSCS Risk Rating / Description	Remediation Costs <u>Can</u> be Reasonably Estimated	Remediation Costs <u>Cannot</u> be Reasonably Estimated
<b>Class 1:</b> High priority, action is required. Threat to human health is imminent.	<b>Liability</b> – Accrue in the F/S	<b>Contingent Liability</b> – Disclose the condition in the notes to the F/S.
<b>Class 2:</b> Medium priority, action is likely required. Potential threat to human health.	<b>Liability</b> – Accrue in the F/S	<b>Contingent Liability</b> – Disclose the condition in the notes to the F/S.
<b>Class 3:</b> Low priority, action may be required. Site is not a high concern	<b>Contingent Liability</b> – Disclose the condition & the amount in the notes to the F/S.	<b>Contingent Liability</b> – Disclose the condition in the notes to the F/S.
<b>Class N:</b> No priority for action. No human health threats.	No action required.	No action required.
<b>Class INS:</b> Insufficient information. Additional information is required.	<b>Contingent Liability</b> – Disclose the condition & the amount in the notes to the F/S.	<b>Contingent Liability</b> – Disclose the condition in the notes to the F/S.

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# EL – Risk Assessment

- OAG 2006 Survey of contaminated sites – 156 of 199 munis responded:

Class 1	5
Class 2	9
Class 3	14
Class N	41
Class INS	<u>1</u>
	<u>70</u>

- Numbers include the City of Winnipeg (50%)
  - Also includes contaminated properties acquired through tax sales
  - Conservation's database has similar # of contaminated sites
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# EL – Obligating Event

- If muni caused the contamination, then muni is responsible for remediation cost.
  - Obligating event occurs when muni accepts responsibility for remediation costs.
  - Accrue remediation cost in the period muni accepts responsibility.
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# Lagoons, etc. – Obligating Event

- Muni is obligated for costs once council decides to abandon waste water facility.
  - Costs? – Dependent on decommissioning obligations.
  - Muni/consultant must develop plan. Plan must be approved by Conservation.
  - Must accrue liability if costs can be reasonably estimated at F/S date.
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# Asbestos – Obligating Event

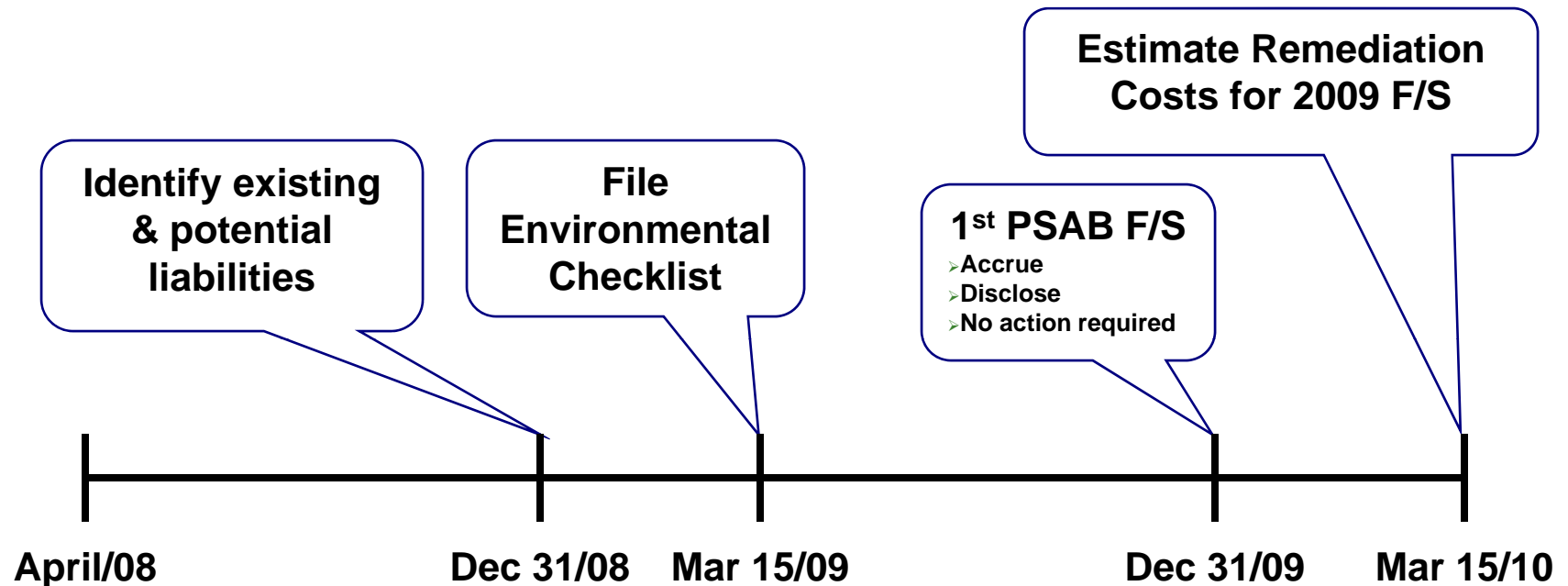
- Asbestos – Not a threat to human health if left undisturbed.
  - Demolition or major renovation – Asbestos has to be properly disposed.
  - Must accrue liability for asbestos disposal:
    1. Council has approved decision for demolition or renovation of building (i.e. obligating event).
    2. Cost of asbestos removal can be reasonably estimated at the F/S date (i.e. recognition criteria).
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# EL – Obligating Event

- What about existing contaminated sites at Dec 31/08 which have not been accrued?
  - Preferable to accrue existing EL at Dec 31/08 as opposed to Jan 1/09 or later.
  - Record to Accumulated Surplus for 2008 fiscal year or earlier.
  - Record to Operations after Dec 31/08.
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# EL – Key Milestone Dates



**N.B. Very important to identify your environmental liabilities by March 15/09.**

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# EL – Key Milestone Dates

- May have a contaminated site at Dec 31/08?
  - Insufficient information? File a checklist by March 15/09. **You have nothing to lose!**
  - If site requires remediation cost – can record cost to opening accumulated surplus.
  - No effect on your 2009 operations.
  - Environmental checklist can be downloaded from the AMM PSAB web-site.
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# EL – Key Milestone Dates

- Disclose contingent liability if you still don't have enough info at the F/S date (i.e. Dec 31/09):
    - Risk level – Is action required?
    - Estimate the remediation cost?
  - After release of Dec 31/09 F/S, any future liability has to be charged to current ops.
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# EL Decision Tree

- **See diagram on pg. 19 of manual**
- **Environmental checklist & decision tree have the same steps**

## **1. Identify Potential Contaminated Sites**

- Petroleum storage facilities
  - Buildings (mold, asbestos, etc.)
  - Landfills
  - Decommissioned lagoons
  - Fertilizer & chemical storage
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# EL Decision Tree

## 2. Is Environmental Remediation Required?

- Consultant determines level of risk
- Yes – Go to step 3.
- No – Stop, no further action required

## 3. Did the muni cause the damage?

- Yes - Muni is obligated to accept responsibility
  - Select remediation action plan; go to step 6.
  - No – Go to step 3.(a)
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# EL Decision Tree

## **3. (a) Does the muni own the property?**

- Yes – go to step 4.
- No – Stop, no further action required

## **4. Can liable 3<sup>rd</sup> party be identified**

- Yes – Stop, no further action required
- No – Go to step 5.

## **5. Likely that muni will become obligated to accept responsibility?**

- Yes – Select remediation plan; go to step 6.
  - No – Stop, no further action required
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# EL Decision Tree

## **6. Can remediation costs be reasonably estimated?**

- Yes – Go to step 7.
- Consider time value of money
- Costs s/b reduced for any recoveries from 3<sup>rd</sup> parties
- No – Go to step 8.

## **7. Accrue environmental liability in F/S**

## **8. Disclose contingent liability in F/S**

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# EL – Accounting Examples

## Example #1:

- ❑ Contaminated site identified Dec 31/08
- ❑ Remediation is required
- ❑ Cost estimated to be \$100,000
- ❑ Checklist filed at Mar 15/09

A Entry at Jan 1/09:

Dr. Opening Accm Surplus	\$100,000	
Cr. Environmental Liability		\$100,000

---

---

# EL – Accounting Examples

## Example #2:

- ❑ Contaminated site first discovered Sept 30/09. No checklist filed.
- ❑ Remediation is required
- ❑ Cost estimated to be \$100,000

A Entry at Dec 31, 2009:

Dr. Environmental Health	\$100,000	
Cr. Environmental Liability		\$100,000

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# EL – Accounting Examples

## Example #3:

- ❑ Contaminated site identified Dec 31/08
  - ❑ Remediation cost estimated at \$100,000
  - ❑ Checklist filed at Mar 15/09
  - ❑ F/S date (Dec 31/09) - still insufficient info to determine if remediation is required.
- A** No entry to record in 2009. Disclose contingent liability of \$100,0000 in notes.
-

---

# EL – Accounting Examples

## Example #3 cont'd:

- ❑ Oct, 2010 – Consultant determines that remediation is required.

### A Entry @ Dec 31/10:

Dr. Environ Health Services	\$100,000	
Cr. Environmental Liability		\$100,000

- ❑ More e.g. in Section 2.13, pg. 28 in the manual.
-

---

# PS3270 - Landfills

- PSAB's recommendations on landfills apply to all:
    1. Operating landfills; and
    2. Closed landfills.
  - Recommendations apply equally to:
    1. Municipal landfills; and
    2. Regional landfills (i.e. gov't partnerships)
-

---

# PS3270 - Landfills

- Recommendations do not apply to:
    1. Development & construction cost of opening a new landfill site (i.e. TCA)
      - Access road
      - Fence and gate
      - Scales
    2. End use transformation or conversion costs:
      - Transfer station
    3. Unforeseen & catastrophic events (i.e. environmental liabilities)
      - Leachate contamination
-

---

# Landfills – Closure Costs

- Includes all activities related to closing a landfill:
    1. Final cover & vegetation (All landfill classes)
    2. Completion of facilities for:
      - Drainage control features,
      - Leachate monitoring,
      - Water quality monitoring, and
      - Monitoring & recovery of gas.
-

---

# Landfills – Post Closure Costs

- Monitoring requirements may be included in some, but not all permits & licenses.
  - Many closed landfills (Class 2 & 3) will have no post closure liability.
-

---

# Landfills – Post Closure Costs

- Includes all monitoring activities after the landfill no longer accepts waste:
    - Monitoring of ground and surface water
    - Ongoing maintenance of control & monitoring systems and final cover
    - Acquisition of land for buffer
    - Treating & monitoring of leachate
-

---

# Landfill Costs are Liabilities!

- Landfill liabilities are present obligations.
  - Improper to disclose landfill liabilities as a contingency.
    - Existence of the liability is known with certainty.
  - Improper to disclose landfill liabilities as a contractual obligation or commitment
    - Muni is obligated as soon as landfill starts accepting waste.
-

# Landfill Costs are Liabilities!

<b>Characteristics of a Liability</b>	<b>Landfills</b>
Obligating event has already occurred	Municipality is obligated for closure & post closure costs once the site starts accepting waste.
Future transfer of assets on the occurrence of a specified event	Municipality will incur the expenditures once the landfill is closed.
Little or no discretion to avoid	Waste Disposal Ground Regulations require operators to properly close and monitor landfills

---

# Landfill Liabilities - Measurement

- Closure & post closure costs may not be incurred for 20 to 40 years!
  - Landfill liabilities are discounted to their Net Present Value (NPV).
  - Use muni's long term average borrowing rate as the discount rate.
  - Discount rate should not be changed for short term fluctuations in the borrowing rate.
-

---

# Landfill Liabilities - Measurement

- Discounted Future Cash Flows Worksheet:
    - Calculates the NPV of future cash flows.
  - Download from the AMM PSAB web-site
  - Simply input the discount rate & cash flows by year.
-

---

# Closed Landfill – An Example

- Dec 31/08 - Landfill has already been closed 5 years.
  - Required to test 4 wells once a year, for the next 15 years.
  - Cost is \$6,000 per year.
  - Muni's cost of borrowing is 5%.
-

---

# Closed Landfill – An Example

- What is the landfill liability at Dec 31, 2007, 2008 & 2009?
  
  - Prepare the journal entry at:
    1. January 1, 2009
    2. December 31, 2009
-

---

# Closed Landfill – An Example

- Landfill liability at (see worksheet):

1. Dec 31/07: \$65,027
2. Dec 31/08: \$62,278
3. Dec 31/09: \$59,392

- AJE at January 1, 2009:

Dr. Opening Accm Surplus	\$62,278	
Cr. Landfill Liability #1		\$62,278

*To record the opening landfill liability at Jan 1/09*

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---

# Closed Landfill – An Example

- AJE at Dec 31, 2009:

Dr. Landfill Liability #1	\$2,886	
Dr. Interest Exp ( $\$62,278 \times 5.0\%$ )	\$3,114	
Cr. Cash		\$6,000

*To record the 2009 payment and adjust the landfill liability to \$59,392 ( $\$62,278 - \$59,392 = \$2,886$ )*

- Closed landfill liability is accounted for exactly like long term debt.
-

---

# Operating Landfills - Calculation

- Formula for calculating the liability for landfill closure costs:

$$\text{NPV of Estimated Total Expenditures} \times \frac{\text{Cumulative Capacity Used}}{\text{Total Estimated Capacity}}$$

- If site is operated on a phase basis, you would have to calculate the liability for each phase separately.
-

---

# Operating Landfill – An Example

- Dec 31/08 - Landfill is expected to close in 15 yrs (i.e. Dec 31/23).
  - Landfill capacity = 1,000,000 tons
  - Used at Dec 31/08 = 650,000 tons
  - Used y/e Dec 31/09 = 10,000 tons.
-

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# Operating Landfill – An Example

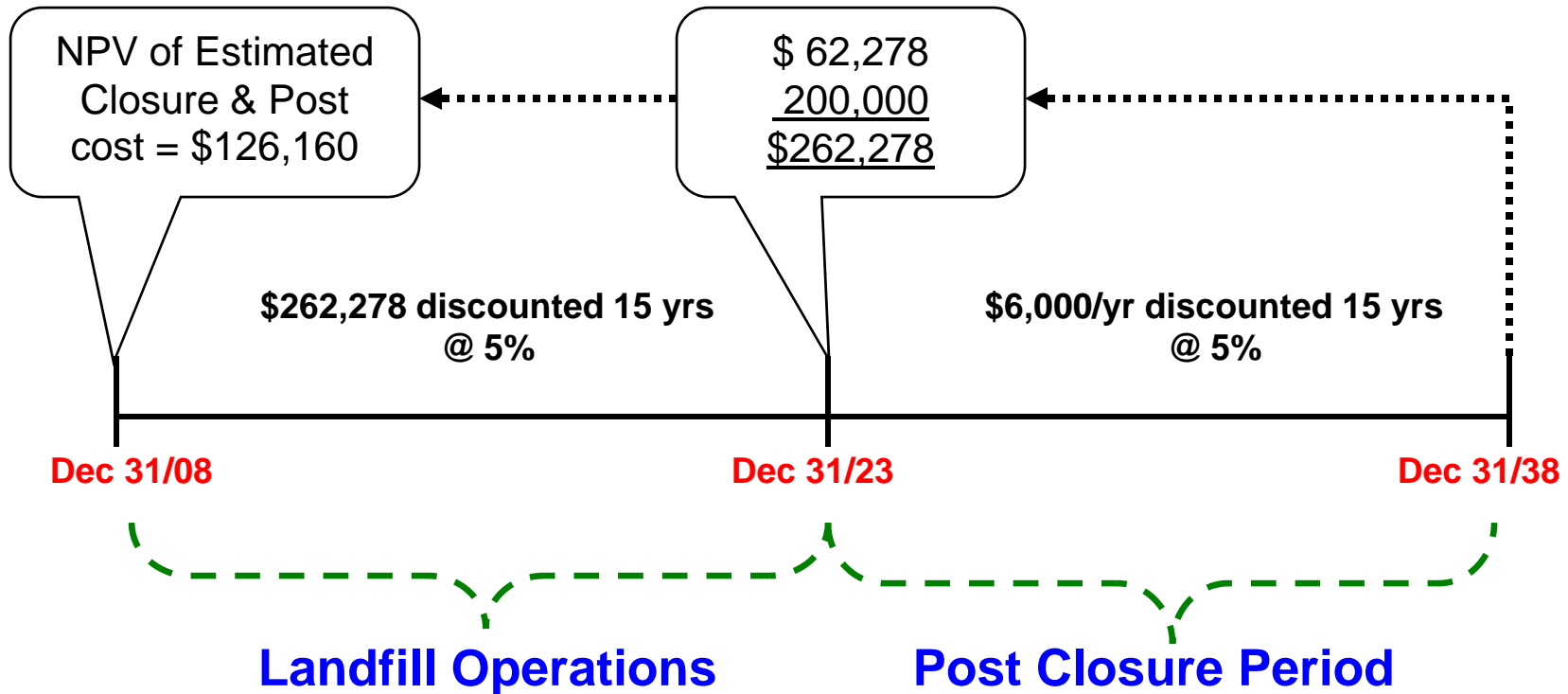
- Closure costs in 2023 are estimated to be \$200,000.
  - Post closure - Test 4 wells once a year, for the next 15 years till 2038.
  - Cost of testing is \$6,000 per year.
  - Muni's cost of borrowing is 5%.
-

---

# Operating Landfill – An Example

- What is the landfill liability at Dec 31, 2008 & 2009?
  - Prepare the journal entry at:
    1. January 1, 2009
    2. December 31, 2009
-

# Operating Landfill – An Example



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# Operating Landfill – Jan 1/09

- NPV of Estimated Total Expenditures = \$126,160 (see worksheet).
- Liability =  $\$126,160 \times 650/1,000 = \$82,004$
- |                           |          |          |
|---------------------------|----------|----------|
| Dr. Opening Accm Surplus  | \$82,004 |          |
| Cr. Landfill Liability #2 |          | \$82,004 |

*To record landfill liability at Jan 1, 2009*

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# Operating Landfill – Dec 31/09

- NPV of Estimated Total Expenditures = \$132,468 (see worksheet).
- Liability =  $\$132,468 \times 660/1,000 = \$87,429$

- Dr. Landfill Expense \$5,425  
    Cr. Landfill Liability #2 \$5,425

*To record landfill expense for 2009 & adjust liability to \$87,429 (\$82,004 + \$5,425) at Dec 31/09.*

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# Operating Landfill – Examples

- Your liability for operating landfills increases every year for 2 reasons:
    1. Discount period is getting shorter; and
    2. Remaining landfill capacity is decreasing.
  - See section 3.6, p. 35 in the manual for other examples of landfill calculations.
-

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# Landfills – Capacity Estimations

- Determining the estimated total expenditures consideration should be given to:
    - Current technology
    - Length of post closure period
    - Regulations in place at the time
  - *“Capacity used should be based on a rational & systematic method & the best available information.”*
-

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# Landfills – Capacity Estimations

- Capacity can be measured:
    1. Volume/Cubic metres – Preferred by PSAB
    2. Weight/Tonnes – Requires scales & monitoring
    3. Time/Years till landfill has to be closed – Only way some landfills can estimate remaining capacity.
  
  - Recommend that capacity used be reviewed every 3 years.
-

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# Landfills – Cost Estimations

- Possible for munis to estimate closure costs?
    - Class 2 & 3 landfills – Possibly?
    - Normally the closure requirements are minimal
  - Need to support cost estimates for auditors.
  - Cost estimates for Class 1 landfills are more complex.
  - Class 1 landfills are more likely to use consultants (i.e. environmental engineers).
-

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# Landfills – Cost Estimations

- Experience in NW Ontario - Auditors preferred estimates by consultants.
  - Cost of \$5,000 for initial estimate.
  - \$3,000 for revisions every 3 years.
  - Need estimates of total expenditures & capacity for completion of Dec 31/09 F/S.
-

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# Landfills – Disclosure Requirements

- Notes to F/S should disclose:
    - a) Closure & post closure care requirements
    - b) Discount rate
    - c) Total estimated expenditures & liability recognized to date
    - d) Remaining capacity & estimated landfill life in years
    - e) Amount of designated assets
    - f) Length of time for post closure care
  - E.g. in section 3.7, pg. 40 of the manual & Note 5, pg. 10 in the R.M. of Assiniboia.
-

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## Other Business - TCA

- Please ensure that you complete your TCA by **Dec 31, 2008**.
  - Works of art and historical treasures **are not** TCA.
  - 2007 - Library collections were not considered to be TCA.
-

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## Other Business - TCA

- Province did not include library collections in TCA.
  - Ontario munis are including library collections in TCA.
-

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## Other Business - TCA

- Reconsidered – MB munis can include library collections in TCA.
  - Should not include collections of historical importance (i.e. rare books).
  - Capitalization of library collections is optional.
  - Muni can continue expensing purchases b/c individual books are below the threshold.
-

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# Other Business - TCA

- Determine total value for each collection by location & media at Dec 31/07:
    - Hard covers
    - Soft covers
    - CD, DVD
    - Video tapes
  - Use Machinery & Equipment class.
  - Enter each collection by location and media as a single asset or pool.
-

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# Other Business - TCA

- For each collection & media:
    - Determine average age at Dec 31/07
    - Determine useful life, e.g.
      - ❖ Hard cover – 25 yrs.
      - ❖ Soft cover – 10 yrs.
  - Additions in 2008, 2009, etc. are entered as a single asset.
  - Write down the “pool” for any material impairment or losses through attrition.
-

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## Other Business – Chart of Accounts

- PSAB Chart of Accounts available on AMM web-site.
  - Munis not required to use GL account # or descriptions.
  - Not meant to be a standard chart of accounts.
-

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# Other Business – Chart of Accounts

- Presented as an example to show:
    1. New GL accounts that will be required in 2009
    2. Roll up of GL accounts into PSAB F/S
  
  - New GL accounts include:
    1. TCA & Amortization
    2. Interest on long term debt
    3. Revenue & expense accounts for reserves
-

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## Other Business – Chart of Accounts

- Current F/S – Allowance for Tax Assets is in Liabilities & Surplus section.
  - Allowance is not a liability.
  - Allowance is a valuation adjustment to an asset (i.e. amount receivable).
  - Allowance s/b netted against the gross amount receivable.
  - Net amount is presented on F/S.
-

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# Other Business – PSA Handbook

- Interested in purchasing the Handbook?
- Go to [www.knotia.ca](http://www.knotia.ca)

<u>5 Users</u>	<u>Cost</u>	<u>Annual Renewal</u>
Internet	\$135	\$75
DVD	\$120	\$70
Download	\$115	\$65

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# Critical Dates / PSAB Bulletins

## December 31, 2008:

- Complete your TCA
- Identify your MRE
- Adjust your “routine” accruals

## January 1, 2009:

- Post your opening TCA balances in your GL

## March 15, 2009:

- Filing deadline for Environmental Checklist
-

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# Remember Critical Dates

## December 31, 2009:

- Estimates of landfill capacity & total expenditures
- Adjust your “routine accruals”
- Post amortization of TCA for 2009

## March 15, 2010:

- Record environmental liabilities
  - Record your landfill liabilities
-

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# Have Questions Later On

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**Good Bye!**  
**Drive Safely!**

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