
PSAB Implementation Phase II

Municipal Officials Seminar

Brandon, MB

April 17, 2008

Presentation Outline

- PSAB – What, When & Why?
 - Project Approach & Structure
 - Need to Upgrade Your Software?
 - Review of Phase I – TCA & Accruals
 - Phase II:
 - 1) Municipal Reporting Entity & Consolidations
 - 2) Landfill Closure & Post Closure Liabilities
 - 3) Environmental Liabilities
 - Manuals & Training Sessions in 2008
 - A look ahead at 2009 – Phase III
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What is PSAB?

- Public Sector Accounting Board of the Canadian Institute of CAs
 - Regulates accounting standards for all government levels across Canada
 - Federal government, territories & all provincial governments (except Quebec) are currently compliant with PSAB GAAP
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Provinces Where Munis are Already Using PSAB

- B.C
 - Alberta
 - Saskatchewan
 - Ontario
 - Nova Scotia
- Munis in Quebec, NL, & PEI will be using PSAB by 2009
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When Will Munis in MB Have to Use PSAB?

- Fiscal year starting Jan 1/09
 - 1st set of PSAB F/S will be Dec 31/09
 - Will require 2008 comparatives
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Why do Munis in MB Have to Use PSAB?

- Independent standard setters (i.e. PSAB) require all governments to use PSAB GAAP
 - If muni does not use PSAB, auditors will have to qualify or deny audit opinion in 2009.
 - Requirement of the [Municipal Act \(1997\)](#)
 - Requirement of funding agreements
 - Federal Gas Tax Agreement requires PSAB F/S by March 31, 2010.
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Why Munis in MB Should Use PSAB?

- Current F/S are incomplete:
 - Results are presented by funds
 - No summary presentation of the muni as a whole
 - Material assets & liabilities are left off the F/S
 - PSAB presents the full financial picture
 - Results are summarized in 1 set of F/S
 - Material assets & liabilities are included in the F/S
 - Full cost of providing services (i.e. landfills)
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Why Munis in MB Should Use PSAB?

- Councils will have better information to make decisions on:
 - How to fund future operations?
 - What service levels to provide?
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Project Approach

- Joint venture b/t the AMM & IGA
 - Hired consultant to provide:
 - 1) Analysis of differences b/t PSAB GAAP & current practices
 - 2) Assessment of the technical & resource capacities at the munis
 - 3) Detailed action plan with key milestone dates
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Project Approach

- Steering Committee:
 - Leading the implementation process
 - Representation:
 - AMM (1)
 - MMAA (2)
 - IGA (2)
 - Project Manager is liaison b/t Steering Committee & Working Groups (WG)
 - WG are led by the Project Manager
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Project Approach

- WG are being formed for each major implementation issue
 - WG are comprised of:
 - CAOs & senior finance officials
 - Municipal auditors
 - Experts as required
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Need to Upgrade Your Software?

- Most software in use now can be used for PSAB
 - Some current systems may require a lot of work to prepare financial reports
 - Consider the cost/benefit of a new system vs. your current system
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Need to Upgrade Your Software?

- Thinking of upgrading? Consider:
 - 1) Produce PSAB financial reports
 - 2) Availability of an accounting module for TCA
 - Contact your software provider for more info
 - Decision to invest & choice of software is a decision of the municipality
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Milestones of Phase I

- 1) Identify & list TCA by Dec 31/07
 - 2) Complete valuation of TCA by March 31/08
 - 3) Record “routine” accruals at Dec 31/07 or Jan 1/08:
 - Wages & salaries payable
 - Holidays payable
 - Over time payable
 - Vested sick leave
 - Accrued severance
 - Inventories
 - Prepaids
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Milestones of Phase I

- TCA - a lot of information to compile
 - Requires significant human resources
 - Some municipalities have not yet completed their TCA
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Milestones of Phase I

- Should complete TCA as soon as possible. Key to 2009 F/S!
 - Questions? – Phone me!
 - Field Consultants – Can help you in person at your office at no cost to your municipality.
 - Field Consultants Program is continuing past March 31/08.
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Municipal Reporting Entity

- PSAB requires that the government reporting entity should be comprised of all the organizations **controlled** by the government.
 - **Control** means 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*”.
 - **Controlled** entities s/b fully consolidated
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MRE – Government Partnerships

- Government partnerships (GP) are contractual relationships between munis.
 - GP have all of the following characteristics:
 - 1) Partners have common goals for the activity
 - 2) A financial investment is made by the partners
 - 3) Partners have shared control over decisions
 - 4) Significant risks and benefits are shared equitably between the partners
 - GP are very common in MB! – Requires proportionate consolidation.
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MRE – What's Included?

- Controlled entities & GP could include:
 - Planning districts
 - Weed control districts
 - Recreation boards
 - Regional landfills
 - Library boards
 - Fire protection districts
 - Water cooperatives
 - Community development corporations
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MRE – Why do Munis Need to Consolidate?

- Consolidation of controlled entities and GP will provide a fuller picture of a muni's activities.
 - Different methods of service delivery shouldn't affect the financial reporting.
 - Comparisons b/t municipalities will be more meaningful.
 - E.G. Muni operated landfill vs. a regional landfill.
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Same Service – Different Delivery

Muni Landfill

- TCA
- Landfill liability
- Levy for garbage collection
- Full operating cost
- Amortization of TCA

Regional Landfill

- Levy for garbage collection
 - Tipping fees to regional landfill
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MRE - Consolidations

- Many have questions about how to do consolidations.
 - Consolidations are done at the F/S level & only for y/e external reporting.
 - Don't have to consolidate for monthly internal reporting.
 - Examples of consolidations are in the manual & will be demonstrated in the training sessions.
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MRE – Being Prepared is the Key

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

- Audited financial statements have to be prepared on a GAAP basis.
 - Review engagement may be acceptable for small low risk entities?
 - Discuss with your auditor.
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MRE – Being Prepared is the Key

- Manual has checklist to help munis decide what to include or exclude.
 - By Dec 31/08 munis should determine which organizations s/b included in their MRE.
 - Controlled entities & GP will have to be audited in 2008 for comparatives.
 - Not sure? Phone your auditor or me but complete the checklist first.
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Definition of a Liability

- Liabilities are present obligations and have 3 characteristics.
 - Liabilities should be accrued if a reasonable estimate can be made of the amount involved.
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Examples of Liabilities

<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.

Contingent Liabilities

- A contingent liability is a possible obligation that may become a liability on the occurrence of a specified event.
 - Differ from liabilities as there is a degree of uncertainty as to whether a present obligation exists.
 - Lawsuits and loan guarantees are examples of contingent liabilities.
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How to Account for Contingent Liabilities

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

Landfills

- PSAB requirements on landfills apply to all **operating** and **closed** landfills.
 - Recommendations apply to regional landfills as well as municipal landfills.
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Landfills – Closure Costs

- Closure costs includes all activities related to closing a landfill:
 - 1) Final cover & vegetation
 - 2) Completion of facilities for:
 - Drainage control features,
 - Leachate monitoring,
 - Water quality monitoring, and
 - Monitoring & recovery of gas.
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Landfills – Post Closure Costs

- Post closure costs includes all activities to monitoring the landfill after it no longer accepts waste:
 - Acquisition of land for buffer
 - Treating & monitoring of leachate
 - Monitoring of ground and surface water
 - Ongoing maintenance of control & monitoring systems and final cover
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Landfill Closure 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
 - The obligating event has already occurred.
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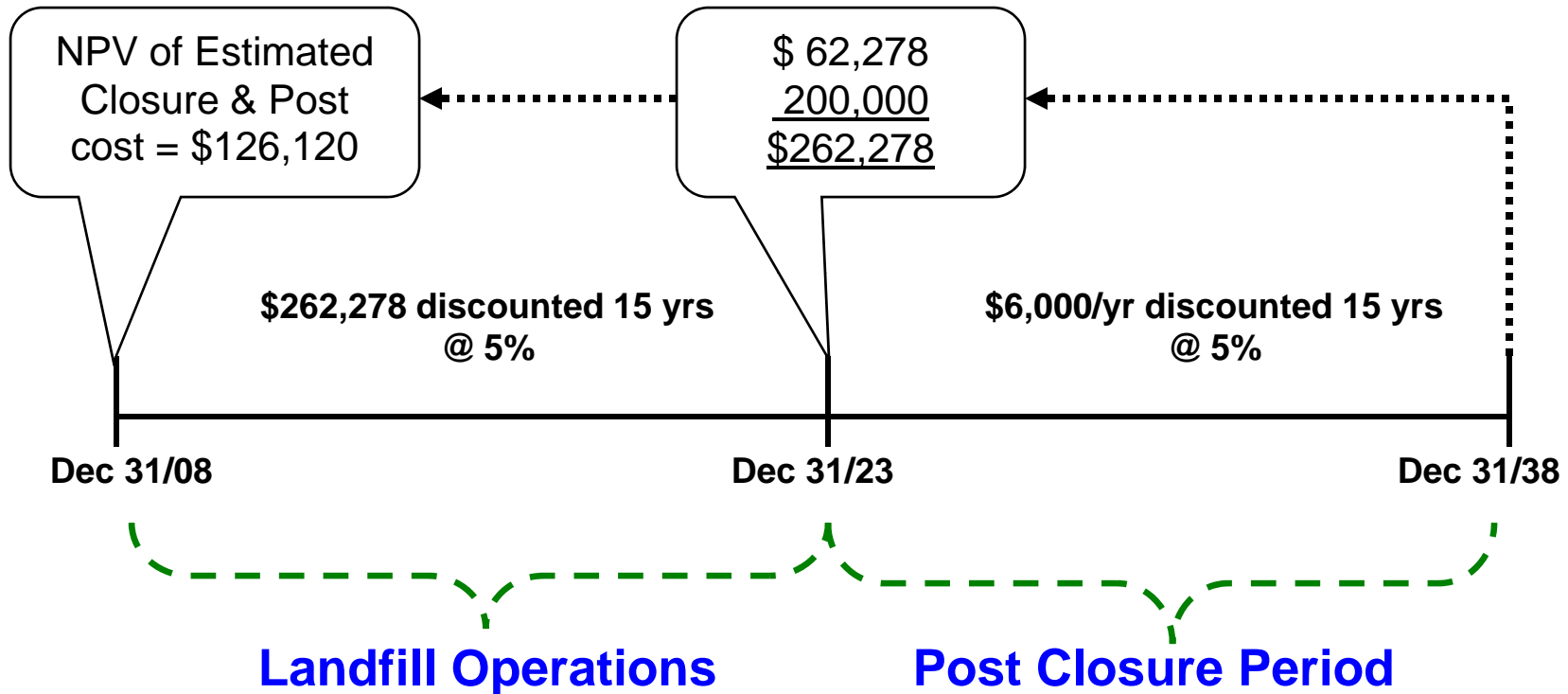
Landfill Closure Costs are Liabilities!

Characteristics of a Liability	Landfills
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

Closed Landfill – An Example

- At Dec 31/08, muni has a landfill that has already been closed 5 years.
 - Required to monitor 4 test wells once a year at \$6,000/yr. Muni's cost of borrowing is about 5%.
 - \$6,000/yr discounted for 15 yrs @ 5% = \$62,278
 - Landfill liability @ Jan 1/09 is \$62,278
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Operating Landfill – An Example



Operating Landfill – An Example

- Total capacity of landfill is 100,000 tonnes
- Capacity used at Dec 31/08 is 65,000 tonnes

$$\$126,120 \times 65,000/100,000 = \$81,978$$

- Opening landfill liability @ Jan 1, 2009 is \$81,978.
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Environmental Liabilities

- Governments accrue environmental liabilities (EL) because it meets PSAB's definition of a liability.
 - Governments have been accruing and/or disclosing EL in their F/S for several years.
 - Very few of you have contaminated sites.
 - Even fewer will be required to record a liability for remediation costs.
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Environmental Liabilities – Key Concepts

1) The Polluter Pays:

- if the municipality caused the contamination then it is obligated to accept responsibility.
- Municipalities are not responsible for contaminated sites acquired through tax sales.

2) The obligating event is when the muni accepts responsibility for remediation costs.

Environmental Liabilities – Critical Issues

- 1) Do you have to record a liability for all contaminated sites (i.e. scope)?**
 - 2) In what accounting period do you accrue the EL?**
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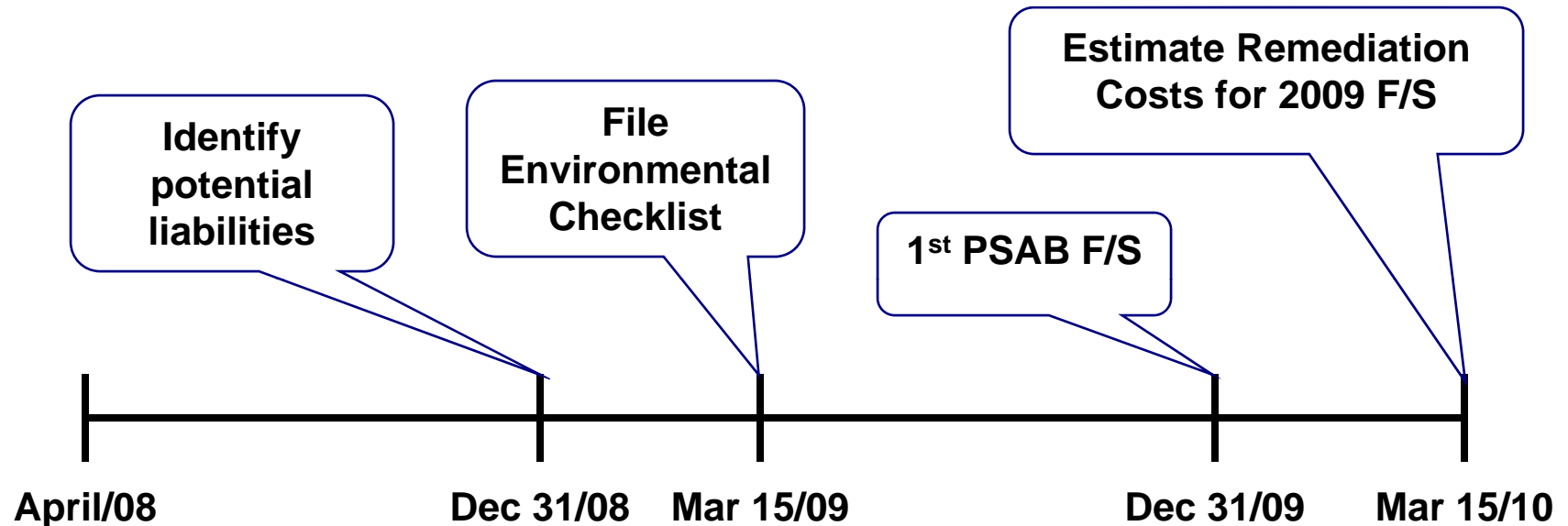
Scope of EL is Based on Risk!

- Risk to human health & safety is the main criteria to assess the seriousness of a contaminated site.
 - Environmental consultant determines the level of risk.
 - CCME developed the National Classification System for Contaminated Sites (NCSCS)
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Scope of EL is Based on Risk!

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

Environmental Liabilities - Milestones



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

Manuals

- Manuals are completed & available on the AMM PSAB web-site:
 - 1) Obligations, Environmental Liabilities & Landfills
 - 2) The Municipal Reporting Entity & Consolidations
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Training Sessions

- Training sessions will again be scheduled b/t mid June and mid September.
 - Exact dates and locations should be finalized in May.
 - Registration will again be online through the AMM PSAB web-site.
 - In 2007, 20 training sessions were held with over 400 registrants.
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Training Sessions

- 2007 training sessions were held in 6 different communities:
 - Winnipeg (8)
 - Brandon (7)
 - Dauphin (2)
 - Thompson (1)
 - Russell (1)
 - Portage la Prairie (1)
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Training Sessions

- Training sessions in 2008 will again be 1 day:
 - Municipal reporting entity
 - Government partnerships
 - Consolidations
 - Liabilities
 - Contingent liabilities
 - Loan guarantees
 - Contractual obligations
 - Landfill closure & post closure liabilities
 - Environmental liabilities
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Training Sessions

- It is very important that your CAO and finance staff attend.
 - It is also important to invite your auditor.
 - Ensure that your CAO & finance staff attend a training session.
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Phase III – Financial Statements

- Working Group (WG) on F/S will be forming in the spring of 2008.
 - F/S WG will try to release a manual on the F/S as early as possible in 2009.
 - Training sessions on the F/S will be offered in 2009.
 - Timing & length of training sessions on F/S are yet to be determined.
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Questions?
