

Understanding the New PSAB F/S

Municipal Officials Seminar

Brandon, MB

April 16, 2009

Presentation Outline

- PSAB Reporting Model
- Major Changes in the F/S
- Accumulated Surplus
- Budgeting & Reporting
- Training Sessions

PSAB Reporting Model

- PSAB serves the public interest:
 1. By setting financial reporting standards for governments.
 2. Enhance public confidence in public sector reporting.
- Prior to 2009, PSAB had separate standards for local governments.

PSAB Reporting Model

- Beginning January 1, 2009 all governments will use the same financial reporting model.
 - Federal
 - Provincial
 - Territorial
 - Local

PSAB Reporting Model

PSAB Reporting model provides a more comprehensive set of F/S that places equal emphasis b/t the annual surplus/deficit & the overall financial health of the muni.

The general operating, utility operating, capital and reserve fund statements will now be replaced with one set of statements



PSAB Reporting Model

- 4 statements req'd by PSAB

1. Statement of Financial Position

2. Statement of Operations

3. Statement of Change in Net Debt

4. Statement of Cash Flow

Statement of Financial Position

- PSAB places equal emphasis on the financial position & the annual surplus/deficit
- Statement presents the financial position & highlights:
 1. Financial Assets
 2. Net Financial Asset or Net Debt Position
 3. Non-Financial Assets
 4. Accumulated Surplus

Statement of Operations

- Presents the operations & highlights:
 1. Sources of revenues
 2. Expenses
 3. Annual surplus or deficit
 4. Change in the accumulated surplus

Statement of Change in Net Debt

- Reports the extent to which revenues were sufficient to cover cash expenditures
- Highlights changes in TCA balance:
 - Acquisitions
 - Amortization expense
 - Disposals & write downs

Statement of Cash Flows

- Reports the sources & use of cash by:
 1. Operations
 2. Capital transactions (acquisitions & disposals)
 3. Investments (purchases & disposals)
 4. Financing (debt proceeds & payments)

Major Changes in the F/S



Change is
good,
Donkey.

Major Changes in the F/S

Old F/S

- Prepared on a modified accrual basis.
- Expenditures only recorded only when cash is disbursed.

PSAB F/S

- Prepared on a full accrual basis.
- Expenses are recorded as incurred.
- Landfills, severance, vested sick leave

Major Changes in the F/S

Old F/S

- CAO earns 2 wks pay (\$2,000)/year of service
- Retires after 20 yrs
- \$40,000 recorded in year of retirement

PSAB F/S

- CAO earns 2 wks pay (\$2,000)/year of service
- Non – cash expense of \$2,000 accrued each year
- \$40,000 liability paid in year of retirement

Major Changes in the F/S

Old F/S

- Capital Expenditures are charged directly to ops or transferred to capital fund.
- 100% of cost is expenditure of accounting period.

PSAB F/S

- Capital payments recorded as TCA.
- Cost of TCA is amortized over its useful life.
- Cost is charged to several periods.

Major Changes in the F/S

Old F/S

Capital Expenditures:

- New Computer Network - \$40,000
- Charge entire \$40,000 to ops

PSAB F/S

TCA:

- New Computer Network - \$40,000
- Useful life – 4 yrs
- Record as TCA
- Amortization - \$10,000/yr
- Non-cash expense

Major Changes in the F/S

Old F/S

- Debt service charges includes interest & principal payments

PSAB F/S

- Debt service charges only includes interest
- Principal payments reduce the liability

Major Changes in the F/S

- Transfers to reserves are not expenses
- Transfers from reserves & nominal surplus are not revenues



Will have a significant effect on reported PSAB surpluses/deficits!

Major Changes in the F/S

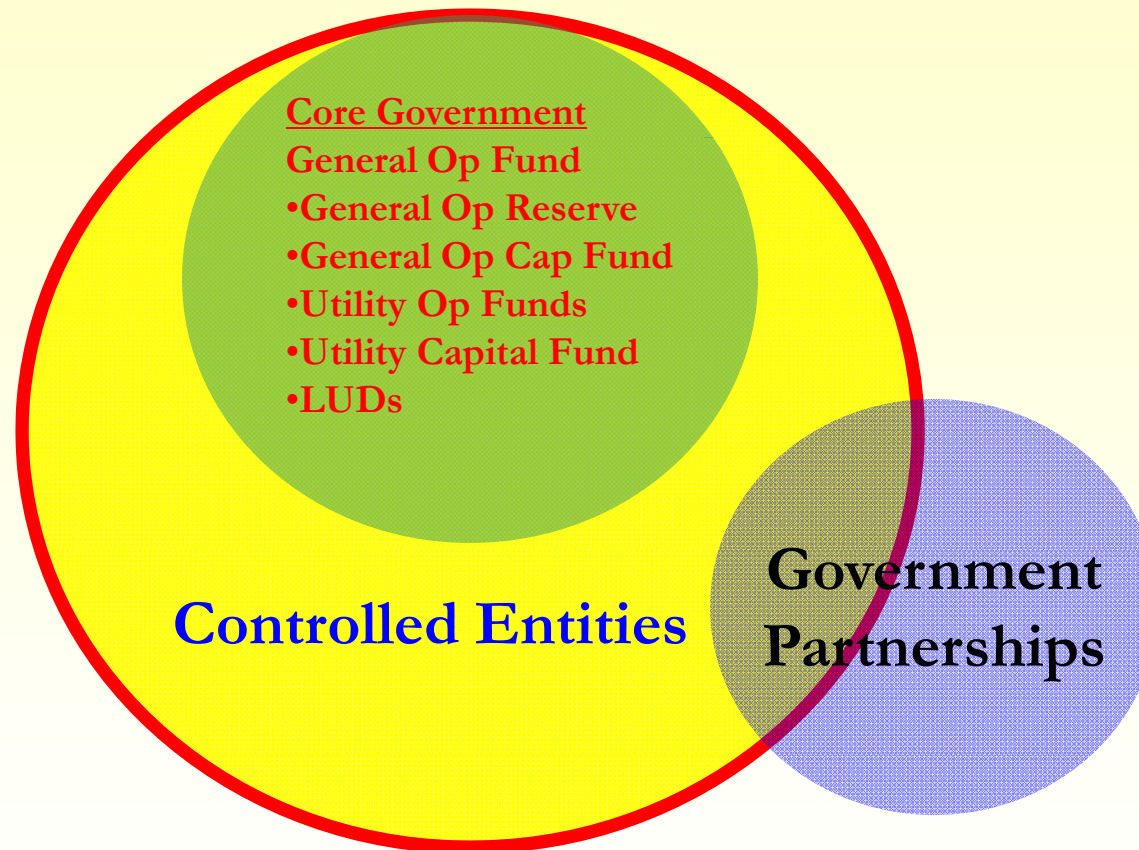
Old F/S

- F/S only report on the funds of the municipality.
- Each fund is presented separately in the F/S.
 - General Operating Fund
 - Reserves
 - General Capital Fund
 - Utility Operating Fund
 - Utility Capital Fund

PSAB F/S

- F/S includes all the funds and orgs that are controlled by the municipality.
- Funds & controlled organizations are consolidated into one set of F/S.
- Inter-fund & inter-org balances & transactions are eliminated.
- Consolidated statements are only req'd for y/e audited F/S

Major Changes in the F/S



Everything within the red circle is the reporting entity

Other Changes in the F/S

- Fund statements become schedules. Still need to report on utilities & reserves.
- All required statements, notes and schedules should include comparative balances.
- PSAB requires enhanced note disclosure.

Accumulated Surplus

PSAB Reporting model provides a more comprehensive set of F/S that places equal emphasis b/t the annual surplus/deficit & the overall financial health of the muni.



Accumulated Surplus

- Indicator of overall financial health
- Does not represent a pool of surplus cash.



What's does the accumulated surplus represent?

Accumulated Surplus

- The accumulated surplus represents:
 1. Muni's net worth
 2. Amount by which all assets exceed liabilities
 3. Net financial assets + Non-Financial Assets
 4. Net resources available to provide future services
 5. Sum of all annual surpluses and deficits since muni existed

Accumulated Surplus

- Accumulated Surplus is one amount on the F/S but is comprised of:
 - Equity in TCA (i.e. capital surplus)
 - Restricted Surplus (i.e. reserves)
 - Unrestricted Surplus (i.e. nominal surplus)

Accumulated Surplus

TCA Balance

Less: Debt Related to TCA

= Equity in TCA (old capital surplus)

Plus: Restricted Surplus (reserves)

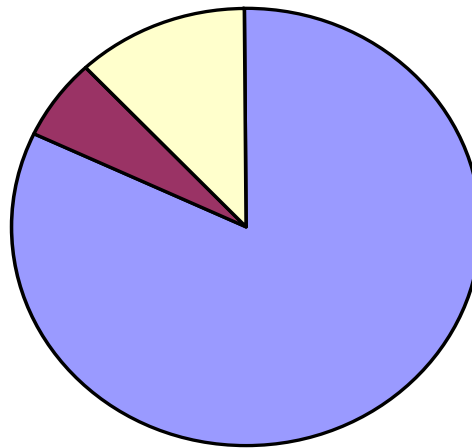
Plus: Unrestricted Surplus (nominal surplus)

= Accumulated Surplus



Accumulated Surplus

City of Winnipeg
Accumulated Surplus
December 31, 2007



■ Equity in TCA ■ Restricted Surplus ■ Unrestricted Surplus

Accumulated Surplus

	<u>Muni #1</u>	<u>Muni #2</u>	<u>Muni #3</u>
Annual Surplus (Deficit)	\$(300,000)	\$(30,000)	\$30,000
Accm Surplus (Deficit), Beginning of Year	<u>3,000,000</u>	<u>50,000</u>	<u>50,000</u>
Accm Surplus (Deficit), End of Year	<u>\$2,700,000</u>	<u>\$ 20,000</u>	<u>\$ 80,000</u>

Budgeting & Reporting

“The landscape has remained the same, but the picture is being taken from a different perspective”

Daryl Wilson
Chair of PSAB
February 10, 2003

Budgeting & Reporting

- No changes to legislation
- Still budgeting on a “cash basis” as in previous years
- Not required to budget for amortization
- Still need to prepare a balanced budget

Budgeting & Reporting

- Existing legislative requirements still apply:
 - Cannot budget for a deficit without the Minister's prior written approval – 165(1)
 - Minister must be immediately advised of an anticipated deficit – 165(2)

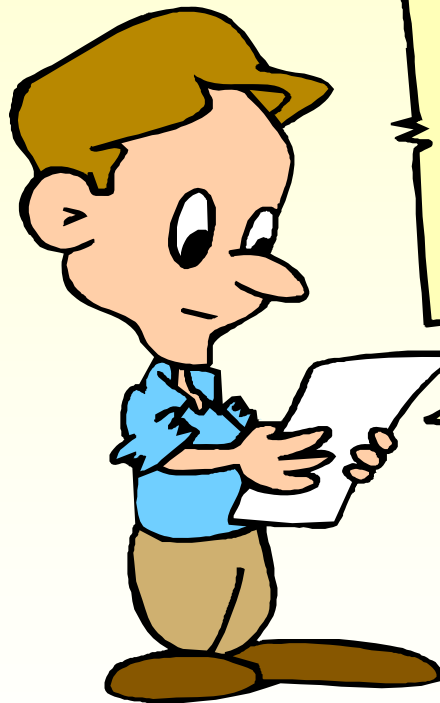
Budgeting & Reporting

- Under the legislation you can balance your budget by transferring a balance from reserves or the nominal surplus.
- PSAB Statement of operations will not include the transfer.



- This could lead to a difference b/t your budget & what is reported in your F/S

Budgeting & Reporting



Why are my
F/S results
different from
my budget?

*This may be an
example of the
"Budget Disconnect"?*

Budgeting & Reporting

- What is the “**Budget Disconnect**”?
- Budget disconnect is the difference b/t what is budgeted on a cash basis and the operating results reported under PSAB.

**Budgeted
Cash Surplus**

≠

**Surplus
Reported
Under PSAB**

Causes of the Budget Disconnect

Creates Surpluses

- Transfers to reserves
- Capital expenditures
- Debt payments

Creates Deficits

- Transfers from reserves
- Appropriations of surpluses
- Amortization
- Accrued liabilities

Remember ! For most munis, all these causes that create differences are occurring at the same time.

Budgeting & Reporting

- All provinces are facing the “budget disconnect” issue.
- No province has changed their legislation for 2009.
- What is MB going to do for 2009?

Budgeting & Reporting

- If muni reports a deficit in the PSAB statement of operations, Province will:
 1. Review nature of deficit
 2. May recommend future actions where necessary
- Objective of review is to evaluate the financial position & sustainability of the muni.

Training Sessions

- When: Summer of 2009 (June to Sept.)
- Where:
 - Winnipeg
 - Brandon
 - Dauphin
 - Thompson
 - Portage la Prairie
 - Russell
- Final dates, times & locations will be announced by the AMM sometime in May

Training Sessions

- All municipal staff & elected officials are invited to attend.
- 2 auditors only training sessions will be held in September/09.
- All registration will be done online through the AMM PSAB web-site.

Questions?

