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PSAB Implementation

**Newfoundland and Labrador
Municipalities**


Department of Municipal Affairs



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Overview


- > Background on PSAB
 - Who is PSAB and what do they do?
 - Why move to PSAB?
- > Key Changes
 - How will recording TCAs differ?
 - What is consolidation?
 - What about the recording of Liabilities?
 - How will financial statement presentation differ?
 - Will the budget process change?
 - What are the steps for preparing consolidated financial statements?
- > Key Dates
- > Non-compliance
 - What happens if a Municipality is non-compliant?
- > Municipal Affairs' Plan
 - What is the Department doing to assist in the move to PSAB?
 - What is the Three Phase Action Plan?



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Who is PSAB and what do they do?


- > PSAB – Public Sector Accounting Board
- > It regulates accounting principles and practices for the public sector.
- > Prior to 2009, PSAB had separate standards for municipalities using a modified cash basis of accounting.
- > Beginning January 1, 2009 all governments will use the same financial reporting model which utilizes accrual accounting.



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Why move to PSAB?

- > The move to PSAB by municipalities should be seen as an evolving trend to:
 - provide greater disclosure of financial information,
 - meet the needs of a wider range of users, and
 - facilitate better decision making by users.
- > The Department of Municipal Affairs recognizes that the move to PSAB is an important one which will improve and harmonize public sector accounting, in not only our Province; but, all across Canada.





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Are other provinces moving to PSAB?

Municipalities in many of the other provinces are already complying with PSAB. This would include the provinces of:

- > B.C.,
- > Alberta,
- > Saskatchewan,
- > Ontario, and
- > Nova Scotia.






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What key changes will Municipalities face in moving to PSAB?

- > Capitalization & Amortization of TCAs (Phase 1)
- > Consolidation of Controlled Entities (Phase 2)
- > Recording of Accruals & Environmental Liabilities (Phase 2)
- > Changes in Financial Statement Presentation and Disclosures (Phase 3)





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How will the recording of TCAs differ with PSAB compliance?

Past

- There was no information about the nature and age of TCAs.
- The cost of TCAs was expensed.
- It was difficult if not impossible for municipalities to track the condition and deterioration of their TCAs.
- Municipalities couldn't accurately plan for the financial implications of asset replacements, betterments or major repairs.




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How will the recording of TCAs differ with PSAB compliance? Continued....

Present

- PSAB requires the capitalization and amortization of TCAs over their useful lives.
- Municipalities will now have to;
 - create a TCA Listing,
 - assign values to items on that listing, and
 - amortize the TCAs over their estimated useful lives.
- Municipalities will be able to evaluate the condition of their infrastructure on a regular basis and plan for repairs, betterments or replacement of these assets over time.





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What is meant by consolidation?

Past

- Municipalities only recorded their own operations.
- Created a partial view of a Municipality's actual financial position.



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**What is meant by consolidation?
Continued....**

Present

- PSAB requires;
 - consolidation of all organizations "controlled" by the Municipality, and
 - proportionate consolidation of government partnerships.
- Municipalities will now have to combine entities it "controls" or it has partnerships with to create a **Municipal Reporting Entity**.
- This will create a more complete financial picture for statement users and also help elected officials better understand the extent of financial resources and obligations they are responsible for.


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What about the recording of liabilities?

Past

- Municipalities used a modified cash basis of accounting, no accruals were recorded.
- Expenditures were recorded only when cash was disbursed.



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**What about the recording of liabilities?
Continued....**

Present

- PSAB requires an accrual basis of accounting.
- Municipalities will need to identify and value liabilities.
- Liabilities should be recognized when:
 - 1) there is an appropriate basis of measurement, and
 - 2) a reasonable estimate can be made of the amounts involved.
- Examples of such liabilities would be:
 - accrued salaries
 - accounts payable
 - environmental liabilities
 - landfill closures & post closure costs

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What about the recording of Environmental liabilities in particular?

- PSAB has issued an Exposure Draft regarding standards for reporting on Environmental Liabilities. The ED proposes application for fiscal years beginning on or after April 1, 2012 with earlier adoption encouraged.
- The approval of this Section will mean a Municipality will report an Environmental Liability when it is responsible or accepts responsibility for contamination that exceeds an environmental standard.

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What criteria must be met before an Environmental Liability is recorded?

There are three criteria that must be met for an Environmental Liability to be reported, namely;

- 1) the contamination must exceed an environmental standard,
- 2) the government must be directly responsible or accept responsibility for the site, and
- 3) a reasonable estimate of the amount must be able to be made.

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Environmental Liability Decision Tree

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graph TD; A[Contamination exceeds environmental standard] -- No --> F[No liability]; A -- Yes --> B[Government is directly responsible]; B -- No --> C[Government accepts responsibility]; B -- Yes --> D[A reasonable estimate of the amount can be made]; C -- No --> F; C -- Yes --> D; D -- No --> E[Disclose liability Refer to Principle 7 and paragraph 46]; D -- Yes --> G[Recognize liability Refer to Principle 7 and paragraph 46];
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Do landfill costs meet the definition of a liability?

| 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 cash outflow on the part of the municipality | Municipality will incur the expenditures once the landfill is closed. |
| Little or no discretion to avoid | Environmental Protection Act requires operators to properly close and monitor landfills. |

Yes, therefore Landfill Costs should be reported as liabilities!




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What costs are included in a Landfill Closure liability?

Includes all costs for activities related to closing a landfill which would include:

- > final cover and vegetation, as well as
- > the completion of facilities for:
 - drainage control features,
 - water quality monitoring, and
 - monitoring & recovery of gas.




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What costs are included in Post-Closure for Landfill Liabilities?

Includes all monitoring activities after the landfill no longer accepts waste which includes:

1. monitoring of ground and surface water,
2. ongoing maintenance of control & monitoring systems,
3. final cover,
4. acquisition of land for buffer, and
5. treating & monitoring of leachate.




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How will the presentation of the financial statements differ?

Past

- > Municipal financial statements omitted a lot of information.
- > Results were presented by funds with little to no Note Disclosures.



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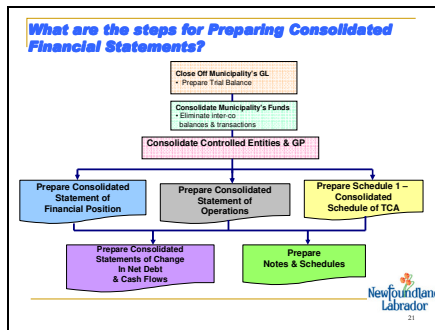
How will the presentation of the financial statements differ? Cont...

Present

- > PSAB statements present the "full" financial picture.
- > PSAB is based on a set of summary financial statements.
- > PSAB requires 4 statements to be included in a set of summary financial statements, namely a:
 - 1) Statement of Financial Position (Balance Sheet),
 - 2) Statement of Operations (Income Statement),
 - 3) Statement of Change in Net Debt, and a
 - 4) Statement of Cash Flows.

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Will the budget process change for Municipalities?

- > Quick answer "No".
- > Municipalities are still required to budget on a "cash basis".
- > Municipalities are still required to prepare a balanced budget. However, in addition to the Budget Submission Form, a PSAB/Accrual budget will also be required to accompany their 2009 financial statements.
- > A reconciliation between the financial plan and the PSAB budget will have to be disclosed in the notes and/or schedules to the financial statements because of the "budget disconnect".




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What is a budget disconnect and what causes it?

A Budget disconnect is the difference between what a Municipality reports in its financial plan (cash budget) and what is reported under its PSAB/Accrual Budget. These differences result from:

- 1) the fact the financial plan is prepared on a cash basis while PSAB is prepared using full accrual accounting,
- 2) under PSAB, transfers are neither revenues nor expenses,
- 3) only the interest portion of debt repayments is an expense in PSAB financial statements. The entire debt repayment is included as expenditure in the financial plan and
- 4) in the financial plan the entire amount of a capital transaction is included as an expenditure of the accounting period. In PSAB capital expenditures are capitalized as TCAs and amortized over their useful lives.



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What is the urgency if PSAB compliance is not required until 2010?

- > The 2009 financial statements will require comparative figures for 2008.

This means:

- > Municipalities should have started gathering information that they needed for their 2009 financial statements in 2008.



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What happens if a Municipality is Non Compliant?

- Municipal auditor must qualify his/her audit opinion.
- Could affect financing costs with banks.
- Could create public concern over Council's management practices.
- Would affect a Municipality's receipt and eligibility for Federal and/or Provincial programs, such as the Gas Tax Funding Agreement.

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What is the Gas Tax Agreement?

- The Gas Tax Agreement is a federal/provincial agreement that transfers federal funds in support of municipal infrastructure projects that contribute to cleaner air, water and reduced greenhouse gas emissions.
- The Province will receive \$82.25 million between 2006 and 2010 under the Gas Tax Agreement.
- This Agreement requires local governments to adopt and use PSAB accounting standards in order to be eligible to receive any funding.
- This message has been reiterated by the Department. The direction provided by the Department is that all municipalities must adopt PSAB standards by March 31, 2010.

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What is the Department of Municipal Affairs doing to assist the move to PSAB?

- Continuing to provide leadership and direction by:
 - ensuring key project milestones are met,
 - reviewing and amending legislation as necessary,
 - providing seminar/information sessions,
 - coordinating with stakeholders including municipalities, auditors and accountants, engineers, accounting associations and consultants.

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What is the Department of Municipal Affairs doing to assist the move to PSAB? continued...

- Established a Project Team to address technical issues created by the move to PSAB such as:
 - developing practical manuals,
 - providing information sessions and
 - providing resources and ongoing support to the municipalities and other stakeholders.

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What are the three Phases of the Department's Action Plan?

✓ **Phase 1** - January to September 2008

- Established a Steering and Working Committee
- Created the TCA Reference Manual
- Conducted Training Sessions


✓ **Phase 2** - September to December 2008

- Launched the PSAB resource website
- Created the TCA Valuation Manual
- Created the Phase Two Reference Manual
 - Municipal Reporting Entities, Consolidations
 - Accruals, Environment Liabilities, etc.
- Conducted Training Sessions

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What are the three Phases of the Department's Action Plan? Continued...

➤ **Phase Three** - September to November 2009 


- Created a Phase Three Reference Manual
 - Financial Statement Presentation & Disclosures
 - Financial Planning (Budgets) Reconciliation
- Modified and updated the PSAB resource website
- Currently offering registration for Phase Three Training Sessions which will begin the end of this month.
- The training locations and dates along with the registration form can be found on the PSAB resource website.

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Contact Information

| General Inquiries | 1-877-729-4393 | PSAB@gov.nl.ca |
|-------------------|-----------------------------|--|
| Paul Tucker | Director, Municipal Finance | 729-5381 ptucker@gov.nl.ca |
| Rayanne Hibbs | PSAB Project Manager | 729-3247 rayannehibbs@gov.nl.ca |
| Sheila Tulk | PSAB Coordinator | 729-4393 sheilatulk@gov.nl.ca |

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