

PSAB Accounting Recommendations

A Summary for Local Governments

Prepared By

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Purpose:

The purpose of this document is to summarize our understanding of the requirement for Local Governments to include their fiscal obligations for Retirement Benefits, Post Employment Benefits, Compensated Absences and Termination Benefits in their financial statements.

Retirement Benefits include Extended Health Care, Dental and Life Insurance, etc., which are paid or partially paid by the employer for retirees and early retirees.

Post Employment Benefits include long- and short-term disability income benefits (including workers' compensation), severance benefits, salary continuation, supplemental unemployment benefits, job training and counseling, and continuation of benefits such as health care benefits and life insurance.

Compensated Absences include parental leaves, accumulated sick days, and sabbaticals that provide compensated, unrestricted time off for past service.

Termination Benefits are those that are provided both contractually (when an event occurs such as downsizing) and by special arrangements (such as those offered to employees in exchange for voluntary or involuntary termination of employment).

History of PSAB Recommendations Concerning Local Governments:

April 1993: The Canadian Institute of Chartered Accountants (CICA) issued "Public Sector Accounting Statement 8". That statement, which is now Section PS 1800 of the Public Sector Accounting Recommendations, defined "*liabilities*" as including "*post-employment benefits and long-term obligations*" and recommended that all liabilities be reported in a local government's financial statements (subsections .23 to .26). The example of long-term obligations, given in subsection .28, listed "*employee retirement benefits or vested sick leave benefits*".

Although not specifically mentioned, liabilities for self-insured Long Term Disability (LTD) plans and self-insured WSIB benefits fall under this definition of liabilities as long-term obligations.

April 12, 2000: The Ministry of Municipal Affairs and Housing issued a letter, under the signature of W. Michael Fenn, Deputy Minister, to *Municipal Treasurers and Auditors*, stating that they were to comply with the Public Sector Accounting Board (PSAB) recommendations over two years.

"The Ministry has discussed how best to implement PSAB with municipal treasurers and auditors. In accordance with their recommendations, PSAB is being implemented over two years. Commencing with the reporting year 2000, municipalities will be required to prepare their financial statements in full compliance with the accounting recommendations applicable to local governments as set out in the PSAB Handbook."

"For the reporting year 2000, municipalities will not be required to implement the recommendations of Section PS 3270, solid waste landfill closure and post-closure liability. This Section will come into effect for the reporting year 2001."

September 28, 2000: The Minister of Municipal Affairs and Housing, Tony Clements, speaking at the Municipal Finance Officers' Association (MFOA) Conference stated:

"Starting in the current reporting year, all municipalities are required to prepare their financial statements in full compliance with the PSAB handbook" [With the exception of PS 3270 for which compliance was deferred to 2001].

November 2000: The Director of Municipal Affairs, Larry Clay, sent a follow-up letter to local governments reminding them to comply with the PSAB recommendations.

June 20, 2001: The Ministry of Municipal Affairs and Housing issued a second letter, under the signature of Director Larry Clay, *To Municipal Treasurers and Auditors Re: PSAB*, stating that all liabilities had to be reported but clarifying that they did not have to be funded before they became due.

“There have been concerns that municipalities will be required to budget for the unfunded portion of post-employment benefits. The requirement to report post-employment liabilities does not by itself require municipalities to fund these liabilities prior to the period that they become due and payable.”

“Section 1800.25 of the PSAB handbook requires that a municipality reflect all of its liabilities at the end of the accounting period. This includes those liabilities that relate to post-employment benefits, such as accumulated sick leave credits that have been earned and are due at some future time. As well as providing the reader of the financial statements with a complete disclosure of outstanding liabilities, such a disclosure provides the information that municipalities require to be able to put in place a plan that addresses these future obligations.”

May 2002: PSAB issued a **revised PS 3250** – Retirement Benefits and a **new Section PS 3255** – Post-Employment Benefits, Compensated Absences and Termination Benefits that provided the *“guidance for determining the information required for reporting some liabilities”* under PSAB. Some of the guidance given to determining and reporting liabilities in new sections PS 3250 and PS 3255 is different from CICA PS 3461 and may also be different than what local governments are currently doing. As a result, local governments have until fiscal 2004 to comply with the new guidelines.

Our Understanding: Although local governments have been required to report their liabilities and long-term obligations since fiscal year 2000, the guidance for determining what information is required for reporting some liabilities has not been available. PSAB Section PS 1700.44 states: *“When a matter is not covered by a Public Sector Accounting Recommendation, guidance can be found in Public Sector Guidelines, provincial government accounting manuals, accepted public sector practice, analogous CICA HANDBOOK – ACCOUNTING material, other authoritative pronouncements, accounting literature and analogous private sector practice.”*

The CICA recommendations for accounting for employee future benefits for the private sector, Section 3461, outlined guidelines for including retirement benefits (pension income, health care benefits, life insurance, etc.), post employment benefits (short- and long-term disability benefits including workers’ compensation, severance benefits, etc.), compensated absences (parental leaves, accumulating sick days, etc.) and termination benefits. In the absence of PSAB guidelines for measuring some of these liabilities, the Section 3461 guidelines could have been used.

Summary

Our understanding is that local governments have been required to report their liabilities for retirement benefits, self-insured LTD, self-insured workers’ compensation and accumulated vested sick leave credits since fiscal year 2000. Since specific guidelines as to how to determine and report some of the liabilities were not available until 2002, local governments may have used other methods to determine their liabilities and report them on their financial statements. Local governments have until the 2004 fiscal year to determine their liabilities in compliance with the new guidelines.

Findings

We have observed some misunderstanding by local governments, and even by some of their auditors, that the PSAB recommendations included in Section PS 3255 mean that local governments do not have to include some of their long-term obligations (in particular the post employment benefits such as self-insured LTD and workers' compensation) until fiscal year 2004. This is not the case. **These liabilities should have been reported on local governments' financial statements starting fiscal year 2000.** The fiscal year 2004 deadline concerns only the recommended *methodology* for determining these liabilities, not the liabilities themselves. Prior to 2004, some local governments have been using methods other than those outlined in PSAB Sections PS 3250 and PS 3255 to evaluate their liabilities on long-term obligations. Starting with 2004, this will no longer be considered sufficient.

This summary has been prepared by Nexus Actuarial Consultants. Local governments wishing to gain a further understanding of how to report their liabilities are encouraged to call the author of this summary, Bruce Neville, at Nexus (Tel: 416 410 0881 or 905 629 9650, Email: bruce.neville@nexusenabled.com).

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