Toronto District School Board – Public Sector Accounting Update

June 2021

Agenda

1. PS 3280 – Asset Retirement Obligations
2. PS 3450 – Financial Instruments
3. PS 3400 – Revenue
4. PS 3160 – Public Private Partnerships (P3s)
5. PSG-8 – Purchased Intangibles
6. Q&A

PS 3280

Asset Retirement Obligations

Overview of section PS 3280, Asset Retirement Obligations (ARO)

An ARO is a **legal obligation** to **retire** a tangible capital asset ("TCA").

An ARO should be recognized when all of the four conditions are present:

1. Legal obligation to incur retirement costs
2. Past transaction / event has occurred
3. Expected to give up future economic benefits
4. Reasonable estimate can be made

A legal obligation results from:

- Agreements or contracts
- Legislation of own / another government (e.g. bylaws, provincial/federal regulations)
- Promissory estoppel

Retirement activities result from a TCA's acquisition, construction, development, or **normal use**.

A legal obligation does not result from:

- Improper use of a TCA
- Preparation of a TCA for alternative use
- Unexpected event, such as a contamination
- Waste or by-products produced by a TCA
- Plans to sell or dispose of a TCA

Common examples of AROs

For public sector entities, AROs may be recognized due to:

- **Asbestos** in buildings: products were commonly used in Canada in a variety of buildings materials, such as insulation, ceiling panels, and cement.
- **Leasehold improvements** in buildings: may be mandated to remove assets upon termination of a lease.
- **Underground storage tanks:** used to store gasoline or oil
- **Landfills:** previously recognized under section PS 3270, Solid Waste Landfill Closure and Post-closure Liability.
- **Dams** and associated engineering structures: permanent closure may require specific asset retirement activities to be completed.

It is important to engage non-finance stakeholder groups, such as legal and operations to identify and confirm the existence of AROs.

Measurement of an ARO

Initial measurement

Costs consist of: **directly attributable costs**, assets acquired to support retirement activities, as well as post-retirement monitoring and operating activities.

Measurement techniques are not prescribed: PS 3280 only requires liabilities to reflect management's best estimate. Professional judgment will, therefore, be essential.

- When the cash flow required to settle or extinguish the liability are expected to occur over extended future periods, PS 3280 states that a present value technique is often the best available technique to measure the liability.

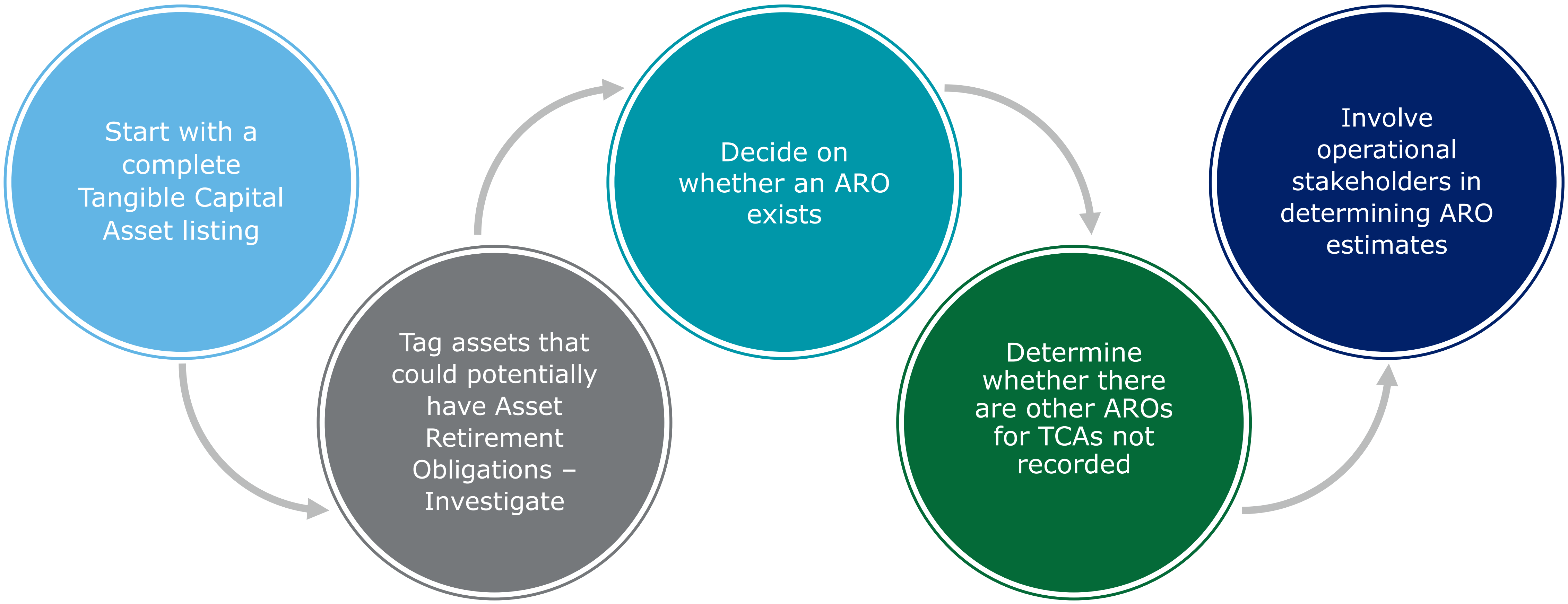
Subsequent measurement

Carrying amount of the liability should be reconsidered at each financial reporting date to reflect new information that becomes available, such as changes to the discount rate and more information regarding costs.

Period-to-period changes to the liability, such as changes to the timing and amount of original costs should be reflected as part of the cost to the TCA

Where to start?

Smooth and accurate implementation of this standard will require strong interaction and communication between Finance and other parts of your organization. Consider the following points:



PS 3450

Financial Instruments

PS 3450, Financial Instruments Overview

Financial reporting model

Statement of Financial Position

Financial Asset

Financial Liabilities

Net Debt

Net Financial Assets

Accumulated Surplus

Fluctuates based on changes in fair value & foreign exchange

Statement of Operations

Revenue

Realized gains/losses

Expenses

Operating surplus

Statement of Remeasurement Gains and Losses

Opening Accumulated remeasurement gains and losses

Unrealized gain/(loss) on portfolio investment

Realized gains/losses, reclassified

The financial reporting model just got more complicated.

PS 3450, Financial Instruments Overview

General Concepts

A **financial instrument** is…

- Any contract that gives rise to financial assets of one entity and financial liabilities or equity instruments of another entity

Previous PSAS did not have a formal definition of financial instruments

A **financial asset** is…

- An asset that could be used to discharge existing liabilities or finance future operations and is not for consumption in the normal course of operations

PSAS now addresses financial assets in two ways:

i) A financial asset that meets the definition of a financial instrument

ii) A financial asset that is expected to generate future cash flow (e.g. inventory held for resale)

A **financial liability** is…

- Any liability that is a contractual obligation to:

a. Deliver cash or another financial asset to another entity; or
b. Exchange financial instruments with another entity under conditions that are potentially unfavorable

Previous PSAS did not have a formal definition of financial liabilities; they were not categorized as separate components in the financial statements.

PS 3450, Financial Instruments Overview

Measurement Categories

Financial instruments

Fair value category

- **Derivatives**
- **Portfolio investments in equity that are quoted in an active market**
- Designated groups of financial assets & financial liabilities where performance is managed and reported on a fair value basis

Cost or amortized cost* category

- Any financial instrument not in the fair value category
- Items with interest component should be measured at amortized cost using the **Effective Interest Method**

***Amortized cost:** The amount at which a financial asset or a financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Revenue

Existing revenue standards

PS 3400 – A general purpose standard

PSAS has the following standards, which direct some types of revenues:

- **PS 3410 Government Transfers**
- **PS 3510 Tax Revenue**
- **PS 3450 Financial Instruments**
- **PS 3060 Government Partnerships**
- **PS 3100 Restricted Assets and Revenues**
- **PS 4210 Contributions – Revenue Recognition**
- **PS 3070 Investment in Government Business Enterprises**

General concepts

Contributions that are voluntary and non-reciprocal in nature are specifically scoped out of the standard

Public sector entities generate a variety of non-taxation revenues:

Transactions with Performance Obligations

- Goods or services, are provided to a payor for consideration.
- Create **performance obligations** for a public sector entity (specific benefits with enforceable promises)

Transactions without performance obligations

- Results in increases in economic resources of a public sector entity without a direct transfer of goods or services to the payor
- No performance obligations are present

Examples:

- User charges and fees for use of public property
  - Community centre hall rental
  - Transit fares
  - Parking fees
- Utility, development & permit charges
- Tuition fees
- Patient revenues from a hospital
- Sale of goods (text books, garbage bins)

Examples:

- Fines
- Tickets
  - Parking
  - Speeding
- Penalties

Measurement and recognition

Measurement

Transactions with performance obligations

- Amount of consideration a public sector entity expects to receive in exchange for promised goods or services, while considering the effects of:
  - Multiple performance obligations
  - Variable consideration
  - Existence of significant concessionary terms
  - Non-cash consideration.

Transactions without performance obligations

- A public sector entity should recognize unilateral revenues at its realizable value

Recognition

Transactions with performance obligations

- Revenue is recognized
  - When the portion of the transaction price allocated to the performance obligation is satisfied and
  - Control of the benefits associated with the goods or services has passed to the payor.
- Recognized at a **Point-in-time** or **Over time**

Transaction without performance obligations

- Revenue is recognized when:
  - A public sector entity has the authority to claim or retain an inflow of economic resources and
  - A past event gives rise to a claim of economic resources

Exchange transactions

Performance obligations

Performance Obligations

- **Enforceable promises** to provide goods or services to a payor as a result of exchange transactions.
- May arise from:
  - A contract negotiated with the payor,
  - Terms set by the public sector entity,
  - Public sector entities’ authority to grant rights to a good or service
- Performance obligations that meet the definition of a liability, under PS 3200, are present obligations.

Mission or mandate

- The mandate or mission of a public sector entity does not create performance obligations on its own.

Exchange transactions (cont'd)
Performance obligations

A performance obligation are enforceable promises to provide goods or services to a payor as a result of exchange transactions

Identify all (explicit or implicit) promised goods and services in the contract

Are promised goods and services distinct from other goods and services in the contract?

Separately identifiable

Is the promise to provide the good or service separately identifiable in the context of a contract?

and

Separate benefit

Can the payor benefit from the good or service either on its own or together with other resources that are readily available to the payor?

Yes

Account for as a performance obligation

No

Combine two or more promised goods or services and recognize as a single performance obligation

PS 3160

Public Private Partnerships

Public-Private-Partnerships, (“P3s”)

Definitions

A Public-Private-Partnership (P3’s) is one method that the public sector uses to procure public-purpose infrastructure assets from the private sector.

Typically the private sector is engaged to design, build, acquire, improve/refurbish; finance; maintain, and or operate the infrastructure, or a combination thereof.

New Standard

PSAB approved the final Section PS 3160, *Public Private Partnerships*. This new Section will be effective for fiscal years beginning on or after April 1, 2023. Earlier adoption is encouraged.

This new Section and the consequential amendments will be reflected in the Public Sector Accounting (PSA) Handbook in spring 2021.

Impact

There will be specific scope, recognition, measurement, presentation, and disclosure requirements for public private partnerships. Previously there was no specific standard to address the accounting for P3’s.

PSG-8

Purchased Intangibles

PSG-8
Purchased Intangibles

Definitions

Purchased intangibles are identifiable non-monetary economic resources without physical substance acquired through an arm's length exchange transaction between knowledgeable, willing parties who are under no compulsion to act.

Update

1. PSAB published PSG 8 *Purchased Intangibles* in November 2020. PSG-8 explains the scope of the intangibles allowed to be recognized in financial statements and examples of items that are not purchased intangibles.
2. Section PS 1000 was amended to allow for recognition of purchased intangibles in financial statements.
3. Section PS 1201 (and archived Section PS 1200) was amended to remove disclosure requirements for unrecognized purchased intangibles.

Impact

Applying the requirement to recognize in financial statements purchased intangibles that meet the definition of an asset and the recognition criteria is effective for fiscal years beginning on or after April 1, 2023. Earlier adoption is encouraged.

Application may be retroactive or prospective.

Thank you!