2023 Public Sector Accounting Standards

A Guide for Municipalities

October 2023

Saskatchewan

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Introduction

The Public Sector Accounting Board (PSAB) issued the following Public Sector Accounting Standards (PSAS) that will take effect for fiscal years beginning on or after April 1, 2022:

- PS 3280 Asset Retirement Obligations
- PS 3450 Financial Instruments
- PS 2601 Foreign Currency Transaction
- PS 3041 Portfolio Investments

For municipalities in Saskatchewan, these standards will be adopted for the 2023 Financial Statements.

This guide is prepared by the Government of Saskatchewan as a high-level summary of the new Public Sector Accounting Standards to provide municipal administrators/clerks guidance in preparing their annual financial statements. Sample disclosures have been added to the 2023 financial statement template. The template can be found on the Government of Saskatchewan's website linked **here.**

This guide is not intended to substitute the full extent of the requirements of the new Public Sector Accounting Standards contained in the *CPA Canada Public Sector Accounting Handbook*. Therefore, municipalities are advised to consult with their appointed auditors to assess and determine the applicability of the new sections to their annual financial statements.

Public Sector Accounting Standards Effective 2023

PS 3280 Asset Retirement Obligations

This section defines asset retirement obligations (AROs) and provides financial statement presentation and disclosure requirements.

What is an asset retirement obligation?
An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.

Other related definitions
Asset retirement activities include all activities related to an asset retirement obligation. These may include, but are not limited to:

- Decommissioning or dismantling a tangible capital asset that was acquired, constructed, or developed,
- Post-retirement activities such as monitoring, and
- Constructing other tangible capital assets to perform post-retirement activities.

Accretion expense is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.

Asset retirement cost is the estimated amount required to retire a tangible asset.

Retirement of a tangible capital asset is the permanent removal of a tangible capital asset from service. This term encompasses sale, abandonment, or disposal in some other manner but not its temporary idling.

	Accretion Expense	Asset Retirement Cost	Retirement of Tangible Capital Asset
Examples	Amount to increase the ARO liability each period so that the liability balance equals the retirement cost at the retirement date	Demolition of a building, decommissioning of a water treatment plant, removal of playground equipment	Selling a piece of equipment, scrapping a vehicle
Impact on financial statements	Recorded as an increase to the ARO liability and as an expense on the statement of operations	Recorded as an increase to the TCA balance and recognized as an ARO liability on the statement of financial position	As at settlement, the ARO liability is removed from the statement of financial position

What is PS 3280 Asset Retirement Obligation's impact on PS 3270 Solid Waste Landfill Closure and Post-Closure Liability?

PS 3280 Asset Retirement Obligations will replace PS 3270 Solid Waste Landfill Closure and Post-Closure Liability. When PS 3280 Asset Retirement Obligations becomes effective, all asset retirement obligations related to landfills will be accounted for under Section PS 3280. This is due to PS 3270's removal from active reference upon the adoption of PS 3280.

What information is required to be disclosed?

To assist financial statement users in better understanding the asset retirement obligation, certain information would be disclosed in the notes including, but not limited to the following:

- A general description of the liability for ARO and the associated tangible capital asset (or a component thereof),
- The amortization method used,
- The basis for the estimate of the liability,
- A reconciliation of the beginning and ending aggregate carrying amount of the liability showing separately the changes attributable to:
    - The liability incurred in the current period,
    - The liability settled in the current period,
    - The change resulting from the passage of time (i.e., accretion expense), and
    - Revision in the estimated cash flows,
- How any requirement for financial assurance and funding associated with ARO are being met, if legally required,
- The fact and reason when reasonable estimate of the amount of ARO cannot be made,
- The estimated recoveries.

Note – Upon initial recognition of an ARO liability, measurement is to reflect the best estimate of the cost to retire the TCA based on information available at the financial statement date. Professional judgement, previous experience, third party quotes and the use of experts may be required to assess the appropriateness of the measurement technique used to determine the best estimate. Per PS 3280.46, when the cash flows required to settle the liability will occur over future periods, a present value technique is often the best method to use in estimating the liability.

Based on the above, the wording included in the Financial Statement Template related to Asset Retirement Obligations assumes that a present value technique has been applied in determining the liability. Where a present value technique **<u>is not</u>** applied, amendments to the wording included will be needed, such as, the removal of any reference to discount rate, inflation, and accretion.

What costs does PS 3280 not deal with?

This section does not deal with following costs:

- To acquire, construct or develop the related tangible capital asset, its replacement and maintenance, which are covered in PS 3150 Tangible Capital Assets,
- Related to remediation of contaminated site, which are covered in PS 3260 Liability for Contaminated Sites,
- Related to the improper use of a tangible capital asset,
- Related to activities necessary to prepare a tangible capital asset for an alternative use,
- Resulting from an unexpected event such as an unexpected contamination,

- Related to obligations created by waste or by-products produced by a tangible capital asset such as sewage waste, and
- That arise solely from a plan to sell or otherwise dispose of a tangible capital asset.

Note that an example decision tree has been included in Appendix A.

Transitional Provisions
There are three transitional provisions available to a public sector entity upon adoption of the standard. A high-level summary of each option has been presented below:

- Retroactive/ retrospective application: applied in accordance with PS 2120 Accounting Changes
- Modified retroactive/retrospective application: implementing the standard by making adjustments to openings balances using assumptions that are current at the beginning of the fiscal year- in conjunction with restating comparatives.
- Prospective application: implementing the standard without an opening balance adjustment or restatement of comparatives.

Most entities elect either prospective or modified retroactive application. Prospective may be seen as 'easier' given that it doesn't require the restatement of comparatives. The latter, however, is the most common - given that it allows a large expense value to be recognized through opening accumulated surplus. This minimizes impacts on income in both current and future years.

In accordance with PS 2120.19-.21:

- When a change in an accounting policy has been applied retroactively and prior periods have been restated, the fact that the financial statements of prior periods that are presented have been restated and the effect of the change on those prior periods should be disclosed.
- When a change in an accounting policy has been applied retroactively but prior periods have not been restated, the fact that the financial statements of prior periods that are presented have not been restated should be disclosed. The cumulative adjustment to the opening balance of the accumulated surplus/ deficit of the current period should also be disclosed.
- When a change in an accounting policy has not been applied retroactively, this fact should be disclosed.

These requirements have been captured in Note 1 (x) – New Accounting Policies Adopted During the Year.

Sample Disclosure(s)
Refer to Note 1 – Significant Accounting Policies and Note 12 – Asset Retirement Obligation in the 2023 financial statement template for sample disclosures to be included as relevant.

E.g.: See screenshot of Note 12 from 2023 FS Template below:

12. Asset Retirement Obligation

	2023	2022
Balance, beginning of the year	$ -	$ -
Liabilities incurred		
Liabilities settled		
Accretion expense	-	-
Changes in estimated cash flows		
Estimated total liability	-	-

Landfill

Landfill closure and post-closure care requirements have been defined in accordance with The Environmental Management and Protection Act and include final covering and landscaping of the landfill, pumping of ground water, methane gas and leachate management, and ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions with respect to events extending over a *[# of years]* -year period using the best information available to management. Future events may result in significant changes to the estimated total expense, capacity used or total capacity and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.

The estimated remaining capacity of the landfill is *[%]* – *[#]* cubic metres (*prior year* - % - *[#]* cubic metres) of its total estimated capacity of *[#]* cubic metres and its estimated remaining life is *[#]* years (prior year – *[#]* years). The period for post-closure care is estimated to be *[#]* years (*prior year* – [#]).

The unfunded liability for the landfill will be paid for *[explain how will be financed]* .

Asbestos

[If applicable] The municipality owns a *[asset]* which contains asbestos, and therefore, the municipality is legally required to perform abatement activities upon renovation or demolition of this asset. Abatement activities include handling and disposing of the asbestos in a prescribed manner when it is disturbed. Undiscounted future cash flows expected are an abatement cost in *[year]* of $*[value]* . The estimated total liability of $ *[amount]* (Prior year 20X2- $[*amount]*) is based on the sum of discounted future cash flows for abatement activities using a discount rate of *[rate]* % and assuming annual inflation of *[rate]* %. The municipality has (not) designated *funds* for settling the abatement activities.

[Note: the below will need to be completed for significant ARO's that are not included above]

On *[date]* , the municipality *[completed construction of /acquired]* an *[asset name*] that has an estimated useful life of *[number]* years. The municipality is legally required to [*description of the obligation]* at [*the end of its useful life/other applicable time*]. The [*asset/asset category*] is amortized over this period using the [*amortization method*]. In accordance with PS 3280, Asset Retirement Obligations, the municipality recognized the an Asset Retirement Obligation in the amount of [*dollar value, initially discounted future value of the estimated remediation amount*]. This balance was derived from an estimated undiscounted future remediation expenditure of [*amount*], expected to be incurred in [*number*] of years. The associated discount rate applied was [*number*]%. [*If applicable, revisions to prior estimates associated with AROs should also be disclosed- including the nature, rationale and impact on net income*]. The above table describes all changes to the aforementioned ARO liability.

[*In extenuating circumstances only, how any requirements for financial assurance and funding associated with asset retirement obligations, if legally required, are being met must also be disclosed*]

[In some circumstances, recoveries may also be applicable. If this is the case, a disclosure of both the nature and amount should be made]

[*In extenuating circumstances only* :

As of 31 December 20X3, the municipality is not able to reasonably estimate the ARO for [*the tangible capital asset*], because of [*reasons*]. This obligation is [*either disclosed or accrued as liability*] in accordance with PS 3200, Liabilities. [*Any other information related to the liability that would contribute to the user's overall understanding of the matter should also be included*].]

PS 3450 Financial Instruments

This section defines financial instruments and establishes standards on how to disclose financial instruments.

What are financial instruments?
Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity, which includes primary instruments (such as receivables, payables, and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps).

Related definitions
Derivatives are financial instruments or other contracts within the scope of this section with all three of the following characteristics:

- Their value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit score/index,
- They require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors rating or credit index, and
- They are settled at a future date(s).

Derecognition is the removal of previously recognized financial assets or financial liabilities from a government's Statement of Financial Position.

Remeasurement gains and losses are revenues and expenses recognized in the Statement of Remeasurement Gains and Losses arising:

- When, prior to an item's settlement, an exchange gain or loss is recognized in accordance with the provisions of PS 2601 Foreign Currency Translation, and
- When financial instruments in the fair value category, as opposed to those measured at cost/amortized cost, are remeasured in accordance with the requirements of this section.

Can we offset a financial liability with a financial asset?
A financial asset and a financial liability should be offset, and the net amount reported in the Statement of Financial Position **when, and only when**, a government:

- Currently has a legally enforceable right to set off the recognized amount, and
- Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

For example, consider a municipality that has taken out a loan to finance the construction of a new community center. The municipality is required to make monthly payments on the loan, which is recorded as a financial liability in the municipality's financial statements. At the same time, the municipality is also holding a financial asset in the form of a short-term investment in a money market fund. If the municipality has a legally enforceable right to off-set the amounts it owes under the loan with the amounts it is entitled to receive under the investment, and if it intends to settle the loan and the investment on a net basis, it can offset the carrying amount of the loan with the carrying amount of the investment and present the net amount in its financial statements.

What information is required to be disclosed?
Information related to the significance of financial instruments should be disclosed in three areas on the financial statements:

1. Statement of Financial Position

The following information should be disclosed when applicable:

   a) Carrying amount of financial assets and financial liabilities - Showing separately under cost or amortized cost category and fair value category,
   b) Collateral pledged (if applicable) – Including carrying value and terms, and
   c) Details of any defaults and breaches (such as loan payable) – Including details during the period of principal, interest, sinking fund or redemption terms; carrying amount at the end of the reporting period; and whether the defaults were remedied or the terms of the loans payable were renegotiated before the date of the financial statements were completed.

2. Statement of Remeasurement Gains and Losses

The following should be distinguished:

   a) Amounts arising during the period, and

   b) The reclassification of remeasurement gains and losses to the Statement of Operations for a financial instrument derecognized during the period.

3. Risk disclosures

The following information should be disclosed:

   a) Nature and extent of risk arising from financial instruments - Such as currency risk, interest rate risk, credit risk, market risk and other price risk,
   b) Qualitative disclosures, such as:
      i. the exposure to risk and how they arise,
      ii. its objectives, policies, and processes for managing the risk and the methods used to measure the risk, and
      iii. any changes in i) or ii) from the previous period.
   c) Quantitative disclosures, such as:
      i. summary quantitative data about its exposure to that risk at the financial statement date,
      ii. the quantitative disclosures related to credit risk, past-due or impairment of financial assets, collateral and other credit enhancements obtained, any liquidity risk or market risk, and
      iii. concentrations of risk if not apparent from the disclosures made in accordance with i) and ii).

Transitional Provisions
This section applies to fiscal years beginning on or after April 1, 2022. Note that the standard must be adopted simultaneous with PS 2601 Foreign Currency Translation along with PS 3041 Portfolio Investments. Note that the transition to PS 3450 would be facilitated via the completion of the below:

a) Comparative periods are not to be restated, and a note disclosure must be made acknowledging such.
b) At the beginning of the fiscal year in which this section is initially applied:
    i. Recognize all financial assets and financial liabilities on its Statement of Financial Position and classify items in either **fair value category** or **cost or amortized cost category,**
    ii. The entity applies the measurement provisions prospectively,
    iii. No adjustment shall be made on transition if the municipality has previously applied an accounting policy where financial instruments are measured at fair value with changes in fair value being recognized through operating surplus or deficit. The financial instrument's carrying value is its fair value at the beginning of the fiscal year in which this section is initially applied, and
    iv. Where the government reporting entity consolidates government organizations, the controlling government adopts this Section consistent with PS 2500.07 Basic Principles of Consolidation.
c) The amount in accumulated remeasurement gains and losses at the beginning of the fiscal years initially applied in this section **equals to** the closing accumulated other comprehensive income attributable to items classified as available for sale (or an equivalent fair value category),
d) No adjustment to an item's carrying value is made to retroactively expense transaction costs applicable to items in the fair value category,
e) Any unamortized discount, premium, or transaction costs associated with a financial asset or financial liability measured at amortized cost is included in the item's opening carrying value, and
f) A municipality establishes an accounting policy that applies to the identification of embedded derivatives in contracts entered by it. The policy, and its application, recognizes as separate assets and liabilities those embedded derivatives required to be reported in accordance with provisions of this Section on **either a retroactive or prospective basis**. Disclosure is made of the accounting policy and any adjustment to the accumulated remeasurement gains and losses at the beginning of the fiscal period in which this section is initially applied.

Sample Disclosure(s)
Refer to Note 3 - Investments, Note 9 – Financial Instruments Fair Value Disclosure, and Note 26 – Risk Management, as well as Statement 5 – Consolidated Statement of Remeasurement Gains and Losses in 2023 financial statement template for sample disclosures to be included as relevant.

E.g.: See screenshot of Note 9 from 2023 FS Template below:

9. Financial Instruments - Fair Value Disclosures

	Fair value hierarchy level	2023		2022	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets carried at fair value	Level 1 / 2 / 3				
[List if any; e.g.:]					
Equity instruments quoted in an active market		-	-	-	-
Portfolio investments		-	-	-	-
Derivative assets		-	-	-	-
Total financial assets carried at fair value		-	-	-	-

	Fair value hierarchy level	2023		2022	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities carried at fair value	Level 1 / 2 / 3				
[List if any; e.g.:]					
Derivative liability		-	-	-	-
Total financial liabilities carried at fair value		-	-	-	-

For those instruments measured at cost / amortized cost the carrying value approximates the fair value.

Financial instruments are classified as level 1, 2 or 3 for the purposes of describing the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category, as described below:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets / liabilities;
Level 2 - Inputs other than those in Level 1, that are either directly or indirectly observable for the assets or liabilities; and
Level 3 - Inputs that are not based on observable market data (unobservable inputs).

Fair value is determined by *[For each group of financial instrument measured at fair value specify the methods and, when a valuation technique is used, the assumptions (e.g.: prepayment rates, rates of estimated credit losses, interest rates, discount rates)applied in determining fair values for each class of financial assets or financial liabilities. If there has been a change in valuation technique, a government discloses that change and the reasons for making it.]*

[If there were no significant transfers during the period, use the following : There were no significant transfers between Fair Value Hierarchy Levels during the period.

If there were significant transfers between levels include the applicable following sections; ***any sections not used can be removed for final presentation*** *:]*

[Insert the following if there were transfers between Levels 1 and 2 during the period. ***Remove if not applicable.]***
Information on Financial Instruments designated to fair value category levels 1 & 2:

	2023
Significant transfers from level 1 to level 2	-
Significant transfers from level 2 to level 1	-

Transfers from level 1 to level 2 were made because *[describe reason*].

Transfers from level 2 to level 1 were made because *[describe reason*].

[Insert the following if there were transfers from/to Level 3 during the period. ***Remove if not applicable*** *.]*
Reconciliation of level 3 fair value financial instruments

	2023	2022
Opening balance	-	-
Remeasurement gains (losses) for the period	-	-
Purchases	-	-
Sales	-	-
Transfers to level 3 from *[level 1 or 2]*	-	-
Transfers from level 3 from *[level 1 or 2]*	-	-
Closing balance	-	-

Transfers to level 3 to level [*1 or 2*] were made because *[describe reason*].

Transfers from level 3 to level *[1 or 2]* were made because *[describe reason*].

PS 2601 Foreign Currency Translation

This section defines foreign currency translation and establishes disclosures required for foreign currency translation transactions.

What are foreign currency transactions?
Foreign currency transactions are transactions of the government whose terms are denominated in a currency other than its reporting currency.

For example, consider a municipality in Canada that purchases goods from a supplier in the United States. The supplier invoices the municipality in US dollars, and the municipality pays for the goods using Canadian dollars. In this case, the transaction involves the exchange of one currency (Canadian dollars) for another (US dollars). According to PS 2601, the municipality should record the transaction in its functional currency (Canadian dollars) using the exchange rate in effect at the date of the transaction. This will help ensure that the municipality's financial statements accurately reflect the economic substance of the transaction.

What is remeasurement gains and losses?
Remeasurement gains and losses encompass revenues and expenses that are recognized in the Statement of Remeasurement Gains and Losses arising:

- When prior to an item's settlement an exchange gain or loss is recognized in accordance with the provisions of this Section, and
- When financial instruments in the fair value category are remeasured in accordance with Section PS 3450 Financial Instruments.

Consider a municipality that has taken out a loan in US dollars to finance the construction of a new community center. The municipality records the loan as a financial liability in its functional currency (Canadian dollars) using the exchange rate in effect at the time the loan is taken out. If the value of the US dollar decreases relative to the Canadian dollar over time, this will result in a remeasurement gain for the municipality. Conversely, if the value of the US dollar increases relative to the Canadian dollar, this will result in a remeasurement loss for the municipality.

How should exchange gains and losses be presented on the financial statements?
At initial recognition of a financial asset or financial liability arising from a foreign currency transaction, a government may make an **irrevocable election** to recognize the exchange gains and losses directly in the **Statement of Operations**, including those exchange gains and losses arising prior to settlement or derecognition**.** This election is made on an instrument-by-instrument basis.

For financial asset or financial liability in the fair value category, the component of change in fair value is separated and recognized directly in the Statement of Operations.

Amounts subject to this election may be reported on a net basis in the Statement of Operations.

When **the election is not made**, the below actions must be executed in the period of settlement:

a) On the **Statement of Remeasurement Gains and Losses**, reverse the cumulative amount of remeasurement gains and losses, and

b) On the **Statement of Operations**, record the exchange gain or loss based on the item's initial recognition value.

What information is required to be disclosed?
There are no explicit disclosure requirements as the disclosure would be already noted under the following sections:

Long-term foreign currency denominated items may be disclosed under PS 3230 Long-term Debt.

Foreign currency transaction related to holding and transacting financial instruments is required to be disclosed the currency risk under PS 3450 Financial Instruments.

Exchange gains and losses recognized in the Statement of Operations and the Statement of Remeasurement Gains and Losses should be disclosed separately.

When does PS 2601 not apply?
This section is not applied to following situations:

a) The translation of balances derived from foreign exchange transactions intended to sustain foreign exchange reserves and orderly conditions in the foreign exchange market for the Canadian dollar or to provide assistance to foreign countries,
b) The translation of balances with the International Monetary Fund, whether in the form of subscriptions, notes, or Special Drawing Rights,
c) The translation of the financial statements of foreign operations. A foreign operation of a government is typically financially or operationally interdependent with the government such that the exposure to exchange rate changes is similar to the exposure that would exist had the transactions and activities of the foreign operation been undertaken by the government itself, and
d) The presentation of the exchange gain or loss component of a financial instrument's change in fair value when that financial instrument is associated with foreign exchange transactions described in (a)-(b) above.

Sample Disclosures(s)
Refer to Note 26 – Risk Management in the 2023 financial statement template for sample disclosures to be included as relevant.

E.g.: See screenshot of Note 26 from 2023 FS Template below:

26. Risk Management

Through its financial assets and liabilities, the municipality is exposed to various risks *[include applicable sections below].*

[If section is not applicable: It is managements opinion that the municipality is not exposed to significant [*credit / interest / exchange / liquidity]* risks arising from these financial instruments.]

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge their responsibilities with respect to the financial instrument, and in so doing, cause a loss for the other party. The financial instruments that potentially subject the municipality to credit risk consist of *[financial statement line items impacted, how this risk is mitigated and any changes in exposure to the risk from prior period].*

The municipalities maximum exposure to credit risk as at December 31 is as follows:	2023
[Financial instrument class #1]	-
[Financial instrument class #2]	-
Maximum credit risk exposure	-

The municipality has mitigated its exposure to credit risk on financial instruments through [*description of collateral or other means to reduce credit risk by each class of financial instruments*]. At December 31 the municipality held [*description of collateral received*] with a carrying value of [*insert $*]. *[insert policy for disposing of collateral assets if the items held are not readily converted to cash* .]

At December 31 the following *[insert financial asset category]* were past due but not impaired:

	30 days	60 days	90 days	Over 120
[Financial instrument class #1]	-	-	-	-
[Financial instrument class #2]	-	-	-	-
Net total	-	-	-	-

Liquidity Risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting financial obligations as they fall due. The *[municipality]* undertakes regular cash flow analyses to ensure that there are sufficient cash resources to meet all obligations. The financial instruments that potentially subject the municipality to liquidity risk consist of [*financial statement line items impacted and how this risk is mitigated and any changes in exposure to the risk from prior period*].

The following table outlines the maturity analysis of certain non-derivative and derivative financial liabilities as at December 31:

	Total	2023	2024	2025	Post 2025
[Financial liability - e.g.: non-derivative]					
[Financial liability - e.g.: derivative]					
	-	-	-	-	-

26. Risk Management continued

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency and other price risk.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The financial instruments that potentially subject the municipality to interest rate risk consist of *[financial statement line items impacted, how this risk is mitigated and any changes in exposure to the risk from prior period]*.

[If applicable: The municipality obtained a loan from *[the loaner]* in *[year]* with an interest rate of *[%]* plus prime rate. Since 2022, with significant inflation occurred, Bank of Canada has increased the prime rate from 2.70% to *[current prime rate, 5.45% as of September 2022]*. This change has result in an increase on interest payable on *[the loan] by [amount]* from 31 December 2022 to 31 December 2023, which may also increase the deficiency.

To mitigate this interest rate risk, *[the municipality]* entered into *[a forward rate agreement or future contract]* with *[the bank]* on terms of *[contract terms]*. The income earns from the *[forward/futures contract]* will offset the increase on the interest payable.

[Disclose the purpose for each class of derivatives held by the entity; including how derivatives support managing the nature and extent of interest rate risk].

Sensitivity Analysis of Interest Rate Changes:	**2023** **1% increase in interest rate**	**1% decrease in interest rate**
Increase (decrease to operating surplus (deficit)		
Increase (decrease to remeasurement gains (losses)		

Currency Risk

Currency risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in currency fluctuations. [*Disclose reference to purchases in US Dollars that result in exposure to currency risk and how this risk is mitigated*].

[Disclose the purpose for each class of derivatives held by the entity; including how derivatives support managing the nature and extent of currency risk].

Other Price Risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in fair value of equity investments. The financial instruments that potentially subject the municipality to other price risk consist of *[financial statement line items impacted and how this risk is mitigated and any changes in exposure to the risk from prior period]*.

PS 3041 Portfolio Investments

This section defines portfolio investments and establishes disclosures required for portfolio investments. The standard was amended in order to reflect changes arising due to the adoption of PS 1201, PS 2601 and PS 3450. Due to such, all three must be adopted simultaneously.

What are portfolio investments?
Portfolio investments are investments in organizations that do not form part of the government reporting entity. Such investments are normally in equity instruments or debt instruments issued by the investee. Portfolio investments **do not include**:

- Investments in government business enterprises or Loans receivable.

Some examples of portfolio investments that might be held by a public sector entity:

- Stocks: A public sector entity might hold stocks in publicly traded companies. For example, a municipality might invest in stocks of companies that operate in industries that are related to the municipality's activities, such as utilities or transportation.
- Bonds: A public sector entity might hold bonds issued by governments, corporations, or other entities. For example, a municipality might invest in bonds issued by the federal government or by other municipalities.
- Mutual funds: A public sector entity might invest in mutual funds as a way to diversify its portfolio and gain exposure to a wide range of investment opportunities.
- Money market funds: A public sector entity might hold investments in money market funds as a way to generate income from short-term investments.

Portfolio Investment vs. Financial Instruments
When a portfolio investment contains significant concessionary terms, they are initially measured in accordance with PS3041 Portfolio Investments and subsequently accounted for in accordance with PS3450 Financial Instruments.

If a portfolio investment does not contain significant concessionary terms, it is recognized and measured in accordance with PS3450 Financial Instruments.

For example, suppose a municipality invests $100,000 in a bond fund that holds a mix of corporate bonds and government bonds. The bond fund is managed as a single entity and is classified as a portfolio investment. Some of the bonds in the fund have significant concessionary terms, such as below-market interest rates. When the municipality initially invests in the bond fund, the fair value of the investment is determined to be $95,000 due to the concessionary terms of the bonds in the fund. After the initial measurement, the bond fund is accounted for as a financial instrument.

What is required to be presented and disclosed?
The following information is required to be presented and disclosed:

- Portfolio investments should be reported separately on the Statement of Financial Position.
- The basis of valuation of portfolio investments should be disclosed:
  - In circumstances where the terms of an investment are so concessionary that all or a significant part of the transaction is recognized as a grant when the investment is made in accordance with PS 3041.17, disclosure of the original amount paid for the investment

should be provided in addition to its carrying value and market value, if any, in order that complete information about the entire transaction is provided.

- Income from portfolio investments should be reported separately on the Statement of Operations.

When marketable securities are included in portfolio investments, the quoted market value of such securities as well as their carrying value should be disclosed. In relation to this, it must be considered whether any losses in these fair market values are temporary in nature or not. If they are seen as anything more than temporary, the impacted investments must be written down to account for this decline. The amount of the write-down must be reflected in the Statement of Operations for the related period. If any of the impacted are in the fair value category, a reversal of any remeasurements should be reflected on the Statement of Remeasurement Gains and Losses.

Transitional Provision

This standard is to be applied in the same period as the following other standards:

- PS 1201 Financial Statement Presentation,
- PS 2601 Foreign Currency Translation, and
- PS 3450 Financial Instruments.

While each have a mandatory adoption period (periods beginning on or after April 1, 2022), they each have permissible early adoption. Note that this may not be applied on a selective basis; if any of the above standards are adopted, the others (including PS 3041 Portfolio Investments) must be.

Sample Disclosures(s)

Refer to Note 3 - Investments, Note 9 - Financial Instruments – Fair Value Disclosures and Note 26 – Risk Management in the 2023 financial statement template for sample disclosures to be included as relevant.

E.g.: See screenshot of Note 3 from 2023 FS Template below:

3. Investments

	2023	2022
Investments carried at fair value:		
[List if any; e.g.:]		
Equity instruments quoted in an active market		
Portfolio investments		
Derivatives		
Investments carried at amortized cost:		
[List if any; e.g.:]		
Short-term notes and deposits		
Government/government guaranteed bonds		
Total investments	-	-

Short-term notes and deposits have effective interest rates of [*% to % (Prior - % to %)*] and mature in less than one year. Government and government guaranteed bonds have effective interest rates of [*% to % (Prior - % to %*)] with maturity dates from [d*ate]* .

	2023	2022
Investment Income		
Interest		
Dividends		
Realized gains (losses) previously recognized in the statement of remeasurement		
Realized gains (losses) on disposal		
Impairment charges		
Net settlement on Derivative Financial Instruments		
Income from Portfolio Investments		
Total investment income	-	-

Unrealized gains on equity investments carried at fair value of *[$$ (Prior - $$)]* have been recognized in the statement of remeasurement gains and losses.

PS 1201 Financial Statement Presentation

PS 1201 replaces PS 1200 Financial Statement presentation. It examines the core underlying principles and objectives of financial statements presented by public sector entities. The standard refers to financial statements as those that report on the entity's financial position at reporting date and changes in financial position incurred during the corresponding reporting period. While not an entirely revised standard, it does include some key consequential amendments from PS 1200. Note that this standard must be adopted simultaneously with PS 2601 Foreign Currency Translation, 3450 Financial Instruments and therefore 3041 Portfolio Investments.

What is required to be presented and disclosed?
The standard requires a new Statement of Remeasurement Gains and Losses to be presented, separately from the Statement of Operations arising from the re-measurement of financial instruments and items denominated in foreign currencies, as well as the entity's proportionate share of other comprehensive income that arises when an entity includes the results of government business enterprises and partnerships.

Transitional Provision
There are no explicit transitional provisions aside from the aforementioned mandatory adoption in conjunction with PS 2601 Foreign Currency Translation, 3450 Financial Instruments; and therefore, 3041 Portfolio Investments.

Resources

- CPA Canada Public Sector Accounting Handbook
- "2023 Financial Statement Template", the Ministry of Government Relations, Saskatchewan

Appendices

Appendix A: Decision Tree – Scope of Applicability on Asset Retirement Obligation

The following decision tree is intended to illustrate the boundaries between PS 3280 Asset Retirement Obligations and PS 3260 Liability for contaminated sites. Matters of principle relating to particular situations should be decided in the context of the section.