

COMMITTEE AGENDA



TO **Audit Committee**

DATE April 11, 2012

LOCATION Council Chambers

TIME 3:00 p.m.

CLOSED MEETING

THAT the Audit Committee now hold a meeting that is closed to the public with respect to:

1. **Deloitte Response – 2010 Performance Review**
S. 239 (2) (a) Security of the Property of the Municipality
2. **Deloitte Report 2011**
S. 239 (2) (a) Security of the Property of the Municipality

DISCLOSURE OF PECUNIARY INTEREST

CONFIRMATION OF MINUTES – November 14, 2011

PRESENTATIONS (Items with no accompanying report)

a)

CONSENT AGENDA

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with separately. The balance of the Audit Committee Consent Agenda will be approved in one resolution.

ITEM	CITY PRESENTATION	DELEGATIONS	TO BE EXTRACTED
AUD-1 2011 Audit Committee Final Work Plan Report			
AUD-2 2012 Audit Committee Rolling Calendar			
AUD-3 Future Accounting Standard Changes	Tara Johnston		√

AUD-4 Preliminary Overview – PSAB 3260 – Liability For Contaminated Sites	Tara Johnston		√
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Resolution to adopt the balance of the Audit Committee Consent Agenda.

ITEMS EXTRACTED FROM CONSENT AGENDA

Once extracted items are identified, they will be dealt with in the following order:

- 1) delegations (may include presentations)
- 2) staff presentations only
- 3) all others.

NEXT MEETING – To Be Determined

**The Corporation of the City of Guelph
Audit Committee
November 14, 2011 3:00 p.m.**

A meeting of the Audit Committee was held on November 14, 2011 in the Council Chambers at 3 p.m.

Present: Councillors Wettstein, Furfaro, Van Hellemond and Mayor Farbridge

Absent: Councillor Kovach

Also Present: Councillors Bell, Dennis, and Hofland

Staff Present: Ms. A. Pappert; Chief Administrative Officer; Ms. S. Aram, Acting City Treasurer; Ms. T. Johnston, Senior Financial Analyst, Financial Reporting; Ms. T. Agnello, Acting City Clerk; and Ms. D. Black, Assistant Council Committee Co-ordinator

There was no disclosure of pecuniary interest.

1. Moved by Mayor Farbridge
Seconded by Councillor Van Hellemond
THAT the minutes of the Audit Committee meetings held on June 7 and July 19, 2011 be confirmed as recorded and without being read.

VOTING IN FAVOUR: Councillors Furfaro, Van Hellemond, Wettstein and Mayor Farbridge (4)

VOTING AGAINST: (0)

Carried

Deloitte Audit Service Plan – Year Ended December 31, 2011

Mr. Evan McDade, Audit Partner, provided an overview of the Audit Service Plan. He outlined the following:

- scope;
- key elements;
- audit team composition;
- communication requirements; and
- communication calendar.

He recommended staff be given direction to begin identifying risks of potential contaminated sites to prepare for changes coming in 2015. He also suggested that the City may want to request audited financial statements, copy of management letter and audited results from the various entities which are consolidated into the City's audit.

November 14, 2011

Audit Committee

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Ms. S. Aram

2. Moved by Mayor Farbridge
Seconded by Councillor Furfaro

THAT the Audit Service Plan for the year ended December 31, 2011, in Schedule 1 attached hereto, be received;

AND THAT staff identify for the Audit Committee in 2012, potential contaminated sites that may have implications under Section PS3200, Liability for Contaminated Sites;

AND THAT staff ensure that the City requests stand alone audits, management letters and year end results presentations from all consolidated entities, not duplicating existing procedures;

AND THAT staff report back on the status of entering into confidentiality agreements with the County of Wellington to allow an audit of CMSM related expenditures.

VOTING IN FAVOUR: Councillors Furfaro, Van Hellemond, Wettstein and Mayor Farbridge (4)

VOTING AGAINST: (0)

Carried

3. Moved by Councillor Furfaro
Seconded by Councillor Van Hellemond

THAT the Audit Committee now hold a meeting that is closed to the public with respect to:

2010 City of Guelph Audited Financial Statements

S. 239 (2) (a) Security of the Property of the Municipality

VOTING IN FAVOUR: Councillors Furfaro, Van Hellemond, Wettstein and Mayor Farbridge (4)

VOTING AGAINST: (0)

Carried

The Auditor provided information regarding the 2010 City of Guelph Audited Financial Statements.

4. Moved by Councillor Furfaro
Seconded by Mayor Farbridge

THAT staff be given direction with respect to the 2010 City of Guelph Audited Financial Statements.

VOTING IN FAVOUR: Councillors Furfaro, Van Hellemond, Wettstein and Mayor Farbridge (4)

Ms. A. Pappert
Councillor Wettstein

November 14, 2011

Audit Committee

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VOTING AGAINST: (0)

Carried

5. Moved by Mayor Farbridge
 Seconded by Councillor Furfaro
 THAT the Audit Committee rise into public session.

VOTING IN FAVOUR: Councillors Furfaro, Van Hellemond, Wettstein
 and Mayor Farbridge (4)

VOTING AGAINST: (0)

Carried

The meeting resumed in public session.

Status Update on the Implementation on the Audit

Ms. S. Aram

6. Moved by Mayor Farbridge
 Seconded by Councillor Van Hellemond
 THAT the status update on the implementation of the 2010 audit
 recommendations, attached hereto as Appendix 2, be received.

VOTING IN FAVOUR: Councillors Furfaro, Van Hellemond, Wettstein
 and Mayor Farbridge (4)

VOTING AGAINST: (0)

Carried

7. Moved by Mayor Farbridge
 Seconded by Councillor Furfaro
 THAT the Audit Committee now hold a meeting that is closed to the
 public with respect to:

2010 City of Guelph Audited Financial Statements

S. 239 (2) (a) Security of the Property of the Municipality

VOTING IN FAVOUR: Councillors Furfaro, Van Hellemond, Wettstein
 and Mayor Farbridge (4)

VOTING AGAINST: (0)

Carried

November 14, 2011

Audit Committee

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External Auditor Performance ReviewMs. S. Aram
Counc. Wettstein

8. Moved in amendment by Councillor Van Hellemond
Seconded by Councillor Furfaro
THAT staff be given direction with respect to the external auditor
performance review.

VOTING IN FAVOUR: Councillors Furfaro, Van Hellemond, Wettstein
and Mayor Farbridge (4)

VOTING AGAINST: (0)

Carried

Ms. S. Aram
Counc. Wettstein

9. Moved by Councillor Van Hellemond
Seconded by Mayor Farbridge
THAT staff be given direction with respect to the external auditor
performance review.

VOTING IN FAVOUR: Councillors Furfaro, Van Hellemond, Wettstein
and Mayor Farbridge (4)

VOTING AGAINST: (0)

Carried

The meeting adjourned at 5:45 p.m.

.....
Chairperson

**AUDIT COMMITTEE
CONSENT AGENDA**

April 11, 2012

Members of the Audit Committee.

SUMMARY OF REPORTS:

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with immediately. The balance of the Audit Committee Consent Agenda will be approved in one resolution.

A Reports from Administrative Staff

REPORT	DIRECTION
AUD-2012 A.1) 2011 Audit Committee Final Work Plan Report THAT Report FIN-12-05 dated April 11, 2012, entitled "2011 Audit Committee Final Work Plan Report" be received.	Receive
AUD-2012 A.2) Audit Committee Rolling Calendar THAT the rolling calendar attached hereto in the report dated April 11, 2012, be received for information.	Receive
AUD-2012 A.3) Future Accounting Standard Changes THAT Report FIN-12-07 dated April 11, 2012, entitled "Future Accounting Standard Changes" be received for information.	Receive
AUD-2012 A.4) Preliminary Overview – PSAB 3260 – Liability for Contaminated Sites THAT Report FIN-12-04 dated April 11, 2012, entitled "Preliminary Overview – PSAB 3260 – Liability for Contaminated Sites" be received; AND THAT staff proceed with the phased approach for implementation of PSAB 3260 as presented in FIN-12-04 and that a preliminary listing of contaminated sites be presented to Audit Committee in 2012; AND THAT staff provide an annual status report to Audit Committee on the implementation of accounting standard PSAB 3260 - Liability for Contaminated Sites.	Approve

COMMITTEE REPORT



TO **Audit Committee**

SERVICE AREA Finance
DATE April 11, 2012

SUBJECT 2011 Audit Committee Final Work Plan Report

REPORT NUMBER FIN-12-05

SUMMARY

Purpose of Report:

To provide Council members with a final report on the work that the Audit Committee has performed through 2011.

Committee Action:

That report FIN-12-05 "2011 Audit Committee Final Work Plan Report" be received.

RECOMMENDATION

THAT Report FIN-12-05 dated April 11, 2012, entitled "2011 Audit Committee Final Work Plan Report" be received.

BACKGROUND

Audit Committee approved a 2011 Annual Work Plan at the January 25, 2011 Audit Committee Meeting in report FIN-11-02. This current information report FIN-12-05 is a final status report on the work completed by Audit Committee through 2011 with respect to this work plan.

REPORT

Attached to this report in Appendix A is the Final 2011 Annual Work Plan Report to provide Council with information on the work Audit Committee has completed during 2011.

Highlights since the mid-year interim report include:

- Staff have reported back to Audit Committee on the action plan to implement the recommendations proposed by Deloitte resulting from the 2010 Financial Statement audit
- The Committee received a presentation for the 2011 Audit Plan relating to the City's Consolidated 2011 Financial Statements from Deloitte and also had the opportunity to provide feedback and input into the proposed Audit Plan

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- The Audit Committee undertook the first annual performance assessment of the external auditor of which the results have been communicated to Deloitte by the Chair of Audit Committee and the CAO. Deloitte's response to Audit Committee members related to this assessment is included in report FIN-12-14 (in-camera).

CORPORATE STRATEGIC PLAN

5.3 Open, accountable and transparent conduct of municipal business

FINANCIAL IMPLICATIONS

None noted.

DEPARTMENTAL CONSULTATION/CONCURRENCE

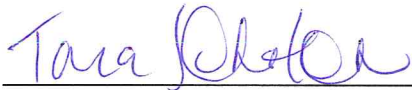
None noted.

COMMUNICATIONS

None noted.

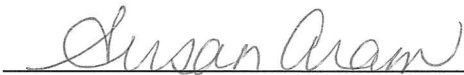
ATTACHMENTS

Appendix A: 2011 Audit Committee Final Work Plan Report



Prepared By:

Tara Johnston
Senior Financial Analyst, Financial Reporting
519-822-1260 x2084
tara.johnston@guelph.ca



Recommended By:

Sue Aram
Acting Treasurer
519-822-1260 x2300
susan.aram@guelph.ca

Recommended By:

Karl Wettstein
Audit Committee Chair (2011)
519-822-1260 x2297
Karl.wettstein@guelph.ca

**REPORT FIN 12-05 DATED April 11, 2012
APPENDIX A**

Audit Committee - 2011 Work Plan - Final Report

External Audit	Frequency			Status
	Annual	Term	Need	
Review the external auditors' proposed audit scope and approach including coordination of audit effort with City staff	•			Completed - Deloitte presented the audit plan at the March 7, 2011 Audit Committee Meeting
Review with management and the external auditors the result of the audit including any difficulties encountered and all other matters required to be communicated to the Committee under Generally Accepted Auditing standards	•			Completed at June 7, 2011 Audit Committee Meeting
Resolve any disagreements between management and the external auditors regarding financial reporting			•	No disagreements noted during the 2010 audit
At the conclusion of the audit, consult with the external auditors, without the presence of management, regarding internal financial controls, compliance and the fullness and accuracy of the City's financial statements	•			Completed at June 7, 2011 Audit Committee Meeting
Ensure the timely presentation of the external auditor's annual audit report to Council	•			Completed at June 7, 2011 Audit Committee Meeting
Financial Statements	Annual	Term	Need	Status
Review significant accounting and reporting issues, including complex or unusual transactions, highly judgmental areas and recent professional and regulatory pronouncements and understand their impact on the financial statements	•			Completed at June 7, 2011 Audit Committee Meeting
Review the representation letter provided by management to the external auditors	•			Completed at June 7, 2011 Audit Committee Meeting
Prior to the presentation of the annual financial statements to Council, review the financial statements and consider whether they are complete, consistent with information known to committee members and reflect appropriate accounting principles	•			Completed at June 7, 2011 Audit Committee Meeting
Recommend to Council the approval and distribution of the annual financial statements	•			Completed at June 7, 2011 Audit Committee Meeting
Auditor Performance and Review	Annual	Term	Need	Details
Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the city, including non-audit services, and discussing the relationships with the auditors	•			Completed at June 7, 2011 Audit Committee Meeting
Direct and review the performance evaluation process for the external auditor	•			Completed at November 14, 2011 Audit Committee Meeting. Chair of Audit Committee, CAO and other finance staff representatives met with Deloitte on November 22, 2011 to provide Deloitte the performance assessment results.
Recommend changes to the external auditor's compensation for Council approval			•	Not required this year - RFP has established fee level.
Periodically determine whether a RFP should be issued to select an external auditing firm. As per the Ontario Municipal Act 2001 section 296(3), the external auditor shall not be appointed for a term exceeding five years			•	Not required this year - RFP has established Deloitte's for term from 2010 - 2014

Participate in the selection of an external auditing firm by reviewing the RFPs and bids received, interviewing potential auditing firms and recommending the external auditor for final approval to the Council			•	Not required this year - RFP has established Deloitte for term from 2010 - 2014
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Compliance	Annual	Term	Need	Status
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Obtain regular updates from management and others (legal counsel, external auditors) regarding compliance with laws and regulations having a material impact on the financial statements including: tax and financial reporting, legal withholding requirement	•			Addressed through review of audited financial statements - no reports directly from staff to Audit Committee regarding non-compliance with laws and regulations.
Review by-laws and policies specifically regulating the conduct of members of council, staff and suppliers			•	No need identified during 2011
Review the findings of any examinations by regulatory agencies and any auditor observations			•	None noted during 2011
Discuss with the City Solicitor, any significant legal, compliance, or regulatory matters that may have a material effect on the financial statements or the business of the City, or on the compliance policies of the City.			•	Audit Committee did not directly address this matter in 2011. As part of the external audit, the City Solicitor provided a summary of all claims outstanding to the external auditors. The significant claims are disclosed in the Notes to the Financial Statements. These disclosures were reviewed by Audit Committee at the June 7, 2011 meeting.
Review the results of management's investigation and follow-up for any instances of non-compliance			•	No need identified during 2011 - Management has not performed any investigations of non-compliance
Review the effectiveness of the system established to ensure compliance			•	Audit Committee did not address this item in 2011

Risk Management & Internal Control	Annual	Term	Need	Details
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Understand the scope of the external auditor's review of internal financial control over financial reporting and obtain reports on significant findings	•			Completed at June 7, 2011 Audit Committee Meeting
Review annually the adequacy and/or need for an internal audit function	•			The internal audit function was referred to governance committee for further discussion. An expansion request for this position was brought forward to Council during the 2012 budget deliberations and has been approved.
Other risk management and internal control projects and referred by Council			•	Cash management review update completed at the June 7, 2011 Audit Committee Meeting - project is still on-going.

Reporting & Financial Literacy	Annual	Term	Need	Status
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Review mandate and make recommendations for change if any		•		Completed - Audit Committee reviewed the mandate and recommended changes at the January 25, 2011 meeting
Financial literacy and training	•			Completed - Education and development options were presented to Audit Committee at the June 7, 2011 meeting and an update was sent out through email in September 2011.
Reporting to Council			•	Completed - Report from Chair to Council was presented to Council at the June 27, 2011 Council meeting. This final status report will be presented in April 2012.

COMMITTEE REPORT



TO: **Audit Committee**

SERVICE AREA: Financial and Enterprise Services

DATE: April 11, 2012

SUBJECT: Audit Committee Rolling Calendar

REPORT NUMBER FIN-12-20

SUMMARY

Purpose of Report: To provide Committee with a Rolling Calendar outlining regular reports expected throughout a calendar year.

Committee Action: To receive for information.

RECOMMENDATION

THAT the Rolling Calendar attached hereto in the report dated April 11, 2012 be received for information.

BACKGROUND

Council has requested each Standing Committee develop a Rolling Calendar which outlines, for Council and the public, reports that can be anticipated throughout a calendar year.

REPORT

Staff have developed the attached Rolling Calendar which outlines reports that are to be submitted in any one calendar year period. The Calendar includes required activities for each meeting (such as approval of minutes) and two distinctly different types of reports. The first being annual performance reports and the second being mandate and charter reports where staff convey legislated compliance/accountability reports. The Rolling Calendar has been populated on a quarter-annual incremental basis to allow a degree of flexibility in reporting requirements. It is intended the Rolling Calendar will evolve over time to better reflect the needs of Committee and City Council.

CORPORATE STRATEGIC PLAN

Goal 5: A community focused, responsive and accountable government

FINANCIAL IMPLICATIONS

N/A

DEPARTMENTAL CONSULTATION

City Clerk's Department

COMMUNICATIONS

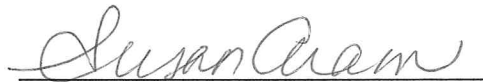
The Rolling Calendar will be updated regularly to reflect any additions or deletions of reports as well as to reflect changes to timing of the reports. It will also be posted to the City's website.

ATTACHMENTS

Appendix A – 2012 Audit Committee Rolling Calendar



Prepared By:
Tara Johnston
Senior Financial Analyst, Financial Reporting
519-822-1260 x2084
tara.johnston@guelph.ca



Prepared By:
Sue Aram
Acting Treasurer
519-822-1260 x2300
susan.aram@guelph.ca

Appendix A

Audit Committee Rolling Calendar for 2012

Meeting Activity Schedule/ Performance & Accountability Reporting	Report	Q1	Q2	Q2 Joint	Q3	Q4
● Regular Meetings						
Declaration of Pecuniary Interest		●	●		●	●
Minutes	A	●	●		●	●
Presentations	R	○	○	○	○	○
Consent Agenda Reports	R	●	●		●	●
● Performance Reporting						
Rolling Calendar	A/R	●				
2011 Work Plan Annual Report	R	●				
2012 Work plan	A		●			
Work plan 2012-Interim Status Update	R				●	
● Mandate and Charter Reporting						
Professional development	A/R	●				
Charter Review and Update	A		●			
Audited consolidated financial statements and unaudited unconsolidated financial statements (joint meeting with CAFE's)	A/R			●		
Review External Auditor Performance for 2011 year audit	A				●	
Status update – implementation of “identified improvements” resulting from 2011 audit	R					●
External Audit Planning Report for 2012 year audit	R					●

● - scheduled ○ - as required

Report: I – Information sheets; R – Report receipt; A – Report for approval

Future Accounting Standard Changes

FIN-12-07

April 11, 2012

1

Terms of Reference

The following terms are used throughout this presentation:

FS Impact = Financial Statement Impact

FR Impact = Financial Ratio Impact

FP Impact = Financial Process Impact

2

Tax Revenue

- *Effective date:* December 31, 2013
- *Recommended Adoption:* December 31, 2011
- *FS Impact:* Increased disclosure and a change in where tax rebate / write offs are recorded
- *FR Impact:* Negative impact on ratio's that are based on revenue
- *FP Impact:* None

3

Tax Revenue – FS impact

	Current Tax Reporting	Future Tax Reporting
Tax Revenue	\$172,783,000	\$170,251,000
Tax Expenses	<u>(2,532,000)</u>	<u>(0)</u>
Net Surplus	\$170,251,000	\$170,251,000

4

Government Transfers

Revenue Examples

- Provincial funding – Land Ambulance program
- Infrastructure Stimulus Funding grant
- Federal & Provincial Gas Tax grants

Expense Examples

- County of Wellington – shared social services
- Health Unit – shared health services
- Tax-Incentive Based Grants
- Grants paid to organizations through community grants program

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Government Transfers

- *Effective date:* December 31, 2013
- *Recommended Adoption:* December 31, 2012
- *FS Impact:* May be a change in how revenue /expenses are recognized on some grants – a full assessment is required before adoption – could affect timing of when revenue/expense is reported
- *FR Impact:* Depending on outcome of assessment – may affect ratio's that are based on net surplus
- *FP Impact:* Not significant – will work with City departments if there is a budget impact (timing issue)

6

Liability for Contaminated Sites

Please see report FIN-12-04 for a full analysis of impact and implementation strategy for this standard

- *Effective date:* December 31, 2015
- *Recommended Adoption:* December 31, 2015
- *FS Impact:* Significant impact in year of adoption
 - Increase to reported liabilities
 - Increase to reported expenses
 - New note disclosure

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Liability for Contaminated Sites

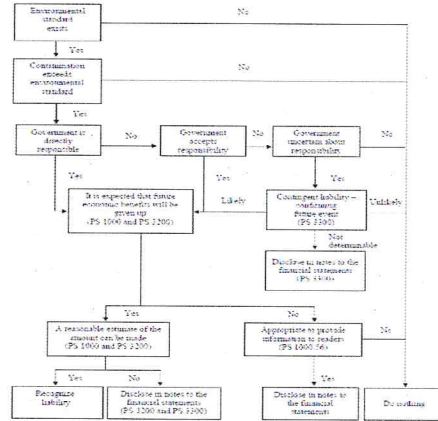
The main recognition criterion for this liability is as follows:

A liability for remediation of contaminated sites should be recognized when **ALL** of the following exist, as at the financial reporting date:

- (a) an environmental standard exists;
- (b) contamination exceeds the environmental standard;
- (c) the government:
 - (i) is directly responsible; or
 - (ii) accepts responsibility;
- (d) it is expected that future economic benefits will be given up; and
- (e) a reasonable estimate of the amount can be made

8

Liability for Contaminated Sites



Liability for Contaminated Sites

Due to the complex assessment required to adopt this accounting standard the following implementation schedule is being proposed:

- Phase 1 – 2012 – Identification
- Phase 2 – 2012 - Resource Planning
- Phase 3 – 2013 & 2014 - Assessment & Computation
- Phase 4 – 2015 – Recognition on Financial Statements

Additionally it is being recommended to provide Audit Committee an annual update on the status of implementation through 2015

Finance and Engineering are collaborating to successfully complete this initiative

Financial Instruments, Foreign Currency & FS Presentation

All three of these standards will be adopted together in the same period as they connected – not permitted to adopt one without the other.

- *Effective date:* December 31, 2016
- *Recommended Adoption:* December 31, 2016
- *Overview:* Brings PSAB standards closer to private sector accounting
 - New Statement of Remeasurement Gains & Losses
 - Significant changes to recognition of investments, loans receivable and debt (and related interest)
 - New note disclosure

11

Financial Statement Presentation

- *FS Impact:*
 - New Statement of Remeasurement Gains & Losses
 - Special statement for non-cash income items including fair value gains/losses and unrealized foreign exchange gains/losses
 - Also will include City's share of surplus/deficit of Guelph Junction Railway and Guelph Municipal Holdings (Guelph's Government Business Enterprises)
- *FR Impact:* May impact ratios that are based on net surplus or total revenue
- *FP Impact:* None noted.

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Financial Instruments

- *FS Impact:*
 - Possibly recognizing certain investments at fair market value rather than at cost
 - Defer and amortize transaction costs related to entering into a financial liability rather than expensing/capitalizing when incurred
 - Extensive change in the way interest income and interest expense are calculated and recognized
 - Significant new note disclosure regarding the City's risks and how they have been managed
- *FR Impact:* Will likely have an impact – cannot determine at this time the significance of the impact
- *FP Impact:* Significant – changes to accounting policies and changes to budgeting of interest

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Foreign Currency Translation

- *FS Impact:* Likely minor as the City does not carry significant balances of cash, investments or accounts payables in foreign currency
- *FR Impact:* Will likely be minor due to insignificance of foreign currency balances
- *FP Impact:* Minor changes may need to be made to reconciliations at year end to account for this standard

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Recap

- 2011 – Tax Revenue
- 2012 – Government Transfers
- 2015 – Liability for Contaminated Sites
- 2016 – Financial Instruments, Foreign Currency and Financial Statement Presentation

Any Questions?

COMMITTEE REPORT



TO **Audit Committee**

SERVICE AREA Finance
DATE April 11, 2012

SUBJECT Future Accounting Standard Changes

REPORT NUMBER FIN-12-07

SUMMARY

Purpose of Report:

To provide Audit Committee members with an overview of future accounting standard changes and the expected impacts these changes will have on financial reporting.

Committee Action:

THAT Report FIN-12-07 dated April 11, 2012, entitled "Future Accounting Standard Changes" be received for information.

RECOMMENDATION

THAT Report FIN-12-07 dated April 11, 2012, entitled "Future Accounting Standard Changes" be received for information.

BACKGROUND

In 2010, Audit Committee had requested that staff draft a training program for the members of audit committee. As part of this process, finance committed to providing in-house training to committee members on the following areas:

- Navigating through the Financial Statements – (provided in June 2011)
- Future Accounting Standard Changes (April 2012)
- Understanding estimates, impairments and significant management assumptions (October 2012 – TBD)

This report provides information on the accounting standard changes that will be implemented over the next few years.

REPORT

There are six new accounting standards that have been announced by the Public Sector Accounting Board (PSAB) that the City will be required to comply with between now and 2016.

1. PSAB Section 3510 – Tax Revenue

Effective Date: December 31, 2013 but earlier adoption is encouraged – prospective adoption only

Financial Statement Impact: Currently the City recognizes tax appeal write offs and rebates as expenses but this standard would require these to be shown as a reduction to revenue.

	Current Tax Reporting	Future Tax Reporting
Tax Revenue	\$172,783,000	\$170,251,000
Tax Expenses	<u>(2,532,000)</u>	<u>(0)</u>
Net Surplus	\$170,251,000	\$170,251,000

Additionally there will be changes in the wording of tax accounting policy note and expanded note disclosure related to tax revenue by major tax class which is currently not reporting requirement.

Financial Ratio Impact: This change will have a negative impact on any ratio's that rely on revenue as a factor. Overall though, it has no impact on the ending net surplus.

Financial Process Impact: There would be no impact to current accounting processes as all of this information is readily available. This change brings the tax revenue as reported on the financial statements in line with the tax revenue as reported on the Ministry FIR reporting.

Recommendation: Early adoption of this standard in the 2011 Financial Statements

- Easy to implement and information readily available;
- Increases transparency in reporting between the financial statements and the FIR; and
- Provides expanded / better note disclosure for the end users

2. PSAB Section 3410 – Government Transfers

Effective Date: December 31, 2013 but earlier adoption is encouraged - can be adopted prospectively or retrospectively

Financial Statement Impact: Could impact the year in which revenue and expenses related to a government transfer are recognized. Examples of government transfers the City receives include Land Ambulance funding received from the Ministry of Health and Long-Term Care, Federal and Provincial Gas Tax Grants, and the Infrastructure Stimulus Fund grants. Examples of government transfers that

the City pays include amounts paid to County of Wellington for shared social services, funds paid to the Health Unit and grants paid to organizations as part of the City's community grants program.

Upon an initial review, the City appears to be compliant with this standard and no adjustment would be expected. A detailed review of each government transfer would be required upon transition to this standard though to ensure complete compliance. This review will be completed during 2012.

Additionally there is some expanded disclosure required in the notes to the financial statements regarding government transfer receivables and payables.

Financial Ratio Impact: This change should not have a significant impact on the City's financial ratios as there is not expected to be any adjustment resulting from the standard.

Financial Process Impact: The City already has in place a process to identify new grants from all external sources including governments. Continued focus on improving communications between finance and the rest of the City would be required to ensure the appropriate analysis of each approved grant application is completed. This will also ensure that the revenue / expense is budgeted in the appropriate period so that the reporting requirements do not create a budget variance.

Recommendation: Early adoption of this standard in the 2012 Financial Statements

- Although the City will still early adopt before the required date of 2013, delaying until 2012 will give finance the time to review all government transfers in detail.

3. PSAB Section 3260 – Liability for Contaminated Sites

A full report on the implementation plan and the expected financial impacts of this standard are available in report FIN-12-04. Please reference this report for more details.

Effective Date: December 31, 2015 but earlier adoption is encouraged – adoption is prospective only

Financial Statement Impact: Likely to have a significant impact to the financial statements in the year of adoption:

- Increase to reported liabilities on the balance sheet
- Increase to reported expenses on the statement of operations
- New note disclosure in the notes to the financial statements

This standard is similar to the Liability for Landfill Post-Closure costs that the City already is in compliance with relating to the current discounted cost of decommissioning a land fill site.

Financial Ratio Impact: Expected to have a negative impact on many financial ratios that use total liabilities or net surplus as factors

Financial Process Impact: There will be a significant impact on the City's financial processes. There will need to be a full inventory and review completed of all the potential contaminated sites to determine the initial liability upon the adoption of the standard. Currently finance and engineering staff are working together to draft this site listing and will follow the implementation plan as identified in FIN-12-04.

In the future, the City will need to create a process to annually review the financial implications of these sites and also identify new sites to factor into the calculation. Additionally there will need to be consideration to policy development for the funding of this liability, and if a reserve fund should be created for this purpose.

Recommendation: Adopt this standard in 2015 when required and follow the implementation plan as identified in FIN-12-04.

NOTE: The next 3 standards are required to be adopted all in the same period – early adoption of just one of the three is not permitted.

4. PSAB Section 1201 – Financial Statement Presentation

Effective Date: December 31, 2016 but earlier adoption is permitted – adoption is prospective only – A review of this section will be done by the Board by December 31, 2013 to see if any changes are required – therefore adoption before this review is not advised.

Financial Statement Impact: There will be a new statement in the financial statements called "Statement of Remeasurement Gains and Losses". Currently the financial statements contain 3 statements plus notes: Statement of Financial Position, Statement of Operations and Accumulated Surplus and the Statement of Cash Flows.

This new statement will be similar to the current Statement of Operations but it will be for special non-cash income items including fair value gains/losses and unrealized foreign exchange gains/losses (both discussed in the following sections). Additionally, the City's share of surplus/deficit relating to its controlled government business enterprises (Guelph Municipal Holdings Inc. and Guelph Junction Railway) would be reported on this new statement rather than where these are currently being included on the Statement of Operations.

Financial Ratio Impact: May have an impact on certain financial ratios that use net surplus or total revenue due to the removal of the earnings of the government business enterprises.

Financial Process Impact: This will not have a significant impact on the financial processes beyond what is outlined in the following sections.

Recommendation: Adopt this section in 2016 when required.

5. PSAB Section 3450 – Financial Instruments

Effective Date: December 31, 2016 but earlier adoption is permitted – adoption is prospective only – A review of this section will be done by the Board by December 31, 2013 to see if any changes are required – therefore adoption before this review is not advised.

Financial Statement Impact: Likely to have a significant impact on the financial statements including:

- Possibly recognizing financial assets (cash, investments, loans receivables) and financial liabilities (loans and debenture payables) at fair market value rather than at cost
- Defer and amortize transaction costs related to entering into a financial liability rather than expensing/capitalizing when incurred
- Extensive change in the way interest income and interest expense are calculated and recognized – must follow the “effective interest method” rather than recognizing on an accrued cash basis
- Impacts of changes in fair market values from year to year are recorded on the new “Statement of Remeasurement Gains and Losses”
- Significant new note disclosure regarding the City’s risk and how they have been managed – specifically need to address, both qualitatively and quantitatively, credit risk, liquidity risk, and market risk (currency risk, interest rate risk and other price risk). Additional disclosure related to accounting policies, over-due financial assets and collateral will also be required

Financial Ratio Impact: Likely a significant impact on financial ratios due to the extensiveness of the changes in the recognition of interest income and expense, as well as the possibility of moving to carrying certain investment/debt instruments at fair value. Unable to quantify the impact at this time because it will depend on the portfolio of financial instruments held at the time of adoption (which would be very different than those of today).

Financial Process Impact: There will be a significant impact on the City’s financial processes. New accounting policies will need to be drafted to address the accounting for all the various financial instruments that the City. Additionally the City’s current investment and debt policies will likely need to be revisited to ensure they are compliant with the new standard. Also from a budgeting perspective, the changes in the interest income and interest expense will likely have an operating impact.

Recommendation: Adopt in 2016 when required – start an implementation process in 2014 to ensure all accounting policies and processes are compliant and integrated for the transition.

6. PSAB Section 2601 – Foreign Currency Translation

Effective Date: December 31, 2016 but earlier adoption is permitted – adoption is prospective only – A review of this section will be done by the Board by December 31, 2013 to see if any changes are required – therefore adoption before this review is not advised.

Financial Statement Impact: Any foreign exchanges gains / losses related to financial assets / liabilities at the balance sheet date will need to be shown on the new statements "Statement of Remeasurement Gains and Losses". The foreign exchange impact is not shown on the statement of operations until the transaction is settled (ie the City purchases a good / service in US currency). Currently these types of gains/losses are all shown in the Statement of Operations.

Financial Ratio Impact: Not likely to have a significant effect on the financial ratios as the City does not carry much foreign currency on the Statement of Financial Position. For example, at the end of 2010 the impact of converting the US bank balance into Canadian dollars was only \$400.

Financial Process Impact: There will not be a significant impact on the City's financial processes for this standard change other than separating the exchange adjustment at year end versus the transactional adjustments.

Recommendation: Adopt in 2016 when required as it is required to be adopted in the same year as PSAB 3450 – Financial Instruments.

CORPORATE STRATEGIC PLAN

5.3 Open, accountable and transparent conduct of municipal business

FINANCIAL IMPLICATIONS

The financial implications have been fully discussed in the report above. They vary depending on the accounting standard that is being adopted.

DEPARTMENTAL CONSULTATION

None noted.

COMMUNICATIONS

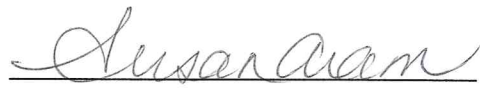
None noted.

ATTACHMENTS

None noted.



Prepared By:
Tara Johnston
Senior Financial Analyst, Financial Reporting
519-822-1260 x2084
tara.johnston@guelph.ca



Prepared By:
Sue Aram
Acting Treasurer
519-822-1260 x2300
susan.aram@guelph.ca

Liability for Contaminated Sites

FIN-12-04

April 11, 2012

1

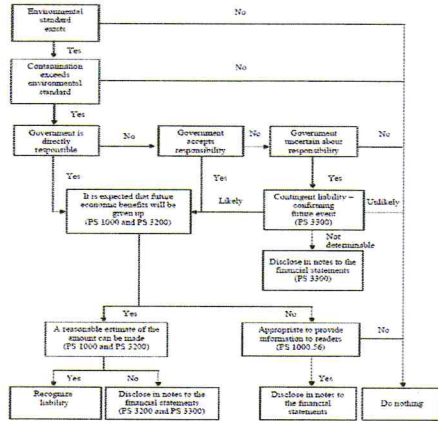
Assessment Criterion

A liability for remediation of contaminated sites should be recognized when **ALL** of the following exist, as at the financial reporting date:

- (a) an environmental standard exists;
- (b) contamination exceeds the environmental standard;
- (c) the government:
 - (i) is directly responsible; or
 - (ii) accepts responsibility;
- (d) it is expected that future economic benefits will be given up; and
- (e) a reasonable estimate of the amount can be made

2

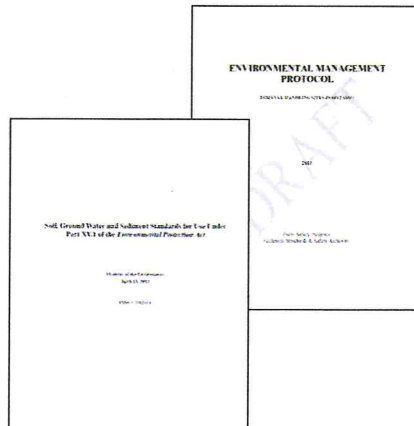
Decision Tree



3

Step 1: Does an Environmental Standard Exist?

- Generally in the form of a statute, regulation, by-law, contract.
- Legally enforceable and binding and compliance is mandatory
- Breaches may be enforced through prosecution, fines, order or loss of permit



4

Step 2: Does the Contamination Exceed the Standard?

- Undertake an assessment, may include:
 - Nature of past activities at the site or adjacent property
 - Results from testing and field investigations
 - Similarities to and experience of other known contaminated sites
 - Significance of site
 - Cost versus benefit of conducting detailed site assessment
- In some cases could be costly

5

Step 3: Is it the responsibility of the City?

- Can be a complex decision
 - Does the City own the contaminated site?
 - Did the City cause the contamination through past activities?
 - Does the City have an interest in the contaminated site? (if we don't own the site)

6

Step 4: Is it expected that future economic benefit will be given up?

- It is possible that a liability would not be recognized because it is not expected that future economic benefit will be given up
 - A liability can exist regardless of whether the City chooses to perform the remediation or not
 - In some cases though, it may be more likely that the City would never expend resources, Ministry would never order assessment and/or remediation (low risk and priority)
 - Professional judgment required

7

Step 5: Can an reasonable estimate of the cost be determined?

- Costs that are directly attributable to the remediation, including post-remediation maintenance and monitoring that are integral to the remediation strategy (also includes cost of assets purchased as part of remediation to the extent there are no other uses for this asset)
- Management's best estimate of the amount should be recognized

8

Fuel Storage Tank Removal Example

- 2012 Underground Fuel Dispensing System Upgrades
 - F.M. Woods Station, 29 Waterworks Place



Before



After

9

Fuel Storage Tank Removal Example

- Does an environmental standard exist?
 - Yes. MOE Table 2 Standards.
- Did a parameter concentration exceed the environmental standard?
 - Yes*
- Was the contamination the responsibility of the City?
 - Yes
- Was there a cost to remediate the soil and groundwater?
 - Yes
- Can a reasonable cost estimate for the remediation be determined?
 - Yes*

10

Liability for Contaminated Sites

Due to the complex assessment required to adopt this accounting standard the following implementation schedule is being proposed:

- Phase 1 – 2012 – Identification
- Phase 2 – 2012 - Resource Planning
- Phase 3 – 2013 & 2014 - Assessment & Computation
- Phase 4 – 2015 – Recognition on Financial Statements

Additionally it is being recommended to provide Audit Committee an annual update on the status of implementation through 2015

Finance and Engineering are collaborating to successfully complete this initiative

COMMITTEE REPORT



TO **Audit Committee**

SERVICE AREA Finance
DATE April 11, 2012

SUBJECT Preliminary Overview – PSAB 3260 – Liability for Contaminated Sites

REPORT NUMBER FIN-12-04

SUMMARY

Purpose of Report:

To provide Audit Committee members with an overview of a new accounting standard PSAB 3260 – Liability for Contaminated Sites and provide a plan for implementation of this standard as requested by Committee at the November 14, 2011 Audit Committee meeting.

Committee Action:

THAT Report FIN-12-04 dated April 11, 2012, entitled "Preliminary Overview – PSAB 3260 – Liability for Contaminated Sites" be received.

RECOMMENDATION

THAT Report FIN-12-04 dated April 11, 2012, entitled "Preliminary Overview – PSAB 3260 – Liability for Contaminated Sites" be received.

THAT the staff proceed with the phased approach for implementation of PSAB 3260 as presented in FIN-12-04 and that a preliminary listing of contaminated sites be presented to Audit Committee in 2012.

THAT staff provide, an annual status report to Audit Committee on the implementation of accounting standard PSAB 3260 - Liability for Contaminated Sites.

BACKGROUND

Effective for the year ended December 31, 2015, the City is required to be compliant with a new accounting standard, PSAB 3260 – Liability for Contaminated Sites. This section establishes a standard for municipalities to account for and report on liabilities associated with the remediation of contaminated sites.

Identification of potential sites and the subsequent analysis to determine if there is a liability and the value of the liability will take considerable staff time. There may also be situations where an external valuation or an expert opinion is required in which financial resources may be needed. For this reason, Audit Committee has directed staff to complete a review of city properties to identify the sites that may fall within the scope of this new standard.

REPORT

The new accounting standard PSAB 3260- Liability for Contaminated Sites becomes effective for the City's 2015 financial statements. The purpose of this standard is to require governments (including municipalities) to identify, assess and report on liabilities that exist when contamination exceeds an environmental standard.

Under current accounting practices, these expenses are normally only recognized when a government performs remediation activities. Under the new guidelines, the government would be required to recognize these expenses in the year that the contamination is found to exceed an environmental standard, regardless of the government's intention of taking action on the remediation.

The likely impact of this standard will be an increase in the reported liabilities on the City's balance sheet and an increase in expenses in the year this standard is adopted – both of which will have a negative impact on many of the City's financial reporting ratios. Additionally, in the future, an annual review of contaminated sites will be required in order to identify new sites or significant changes in the estimated cost of remediation. Given that this liability is an estimate, there is substantial professional judgment involved in valuing this liability and it will require integrated knowledge from many city departments in order to maintain its accuracy.

It should be noted that although financially the recognition of this liability will likely have a negative impact in the year it is adopted, it is very positive from an enterprise risk management perspective. This liability will act as an annual reminder to management and Council that prudent financial planning is required for these types of "hidden" or "unknown" liabilities. Although we may not have budgeted to remediate these sites currently, at any point the Ministry of the Environment could mandate that we do address these issues and therefore, a proactive risk and financial strategy is warranted.

The main recognition criterion for this liability is as follows:

A liability for remediation of contaminated sites should be recognized when ALL of the following exist, as at the financial reporting date:

- (a) an environmental standard exists;
- (b) contamination exceeds the environmental standard;
- (c) the government:
 - (i) is directly responsible; or
 - (ii) accepts responsibility;
- (d) it is expected that future economic benefits will be given up; and
- (e) a reasonable estimate of the amount can be made.

There are many other considerations and intricacies that factor into the assessment and these will be reviewed in detail by staff on a site by site basis.

Staff is proposing that the implementation of this standard be addressed through a phased approach.

Phase 1 – 2012 - Identification: Complete a full review of city property to identify potential contaminated sites through discussions with appropriate personnel from each department. Gather documentation on analysis and valuations that have already been completed to date. Report back to Audit Committee in 2012 with preliminary listing of contaminated sites.

Phase 2 – 2012 - Resource Planning: Review each potential site and create a resource planning document that outlines expected staff and financial resources. Include any financial requests in the 2013 budget process.

Phase 3 – 2013 & 2014 - Assessment & Computation: Perform a detailed review and assessment on a site by site basis documenting rationale and computation of liability. Contract out any external consulting work as previously identified. If required, assess if any further financial requirements are required to be requested in the 2014 budget process.

Phase 4 – 2015 – Recognition: Finalize the computation for the liability for contaminated sites. Provide report to Audit Committee that summarizes the analysis and computation of the liability for contaminated sites prior to its inclusion on the 2015 financial statements.

Currently staff from finance and engineering are collaborating to identify all the potential contaminated sites and we expect a listing will be available for Audit Committee meeting in October of 2012.

Next Steps:

Staff will proceed with the phased approach for implementation of PSAB 3260 as outlined and that a preliminary listing of contaminated sites be presented to Audit Committee in October 2012.

Staff will provide an annual status report to Audit Committee on the implementation of this accounting standard.

CORPORATE STRATEGIC PLAN

5.3 Open, accountable and transparent conduct of municipal business

FINANCIAL IMPLICATIONS

The financial implications for 2012 are nil. There may be budget requests identified through the implementation process that will be presented to Council through the normal 2013 and 2014 budget process. The final results in 2015 of the implementation of PSAB 3260 will likely increase liabilities and expenses in that year and will have a negative impact on financial ratio trending. A strategy on the City's approach to funding these liabilities will need to be developed to ensure appropriate financial planning relating to contaminated sites.

DEPARTMENTAL CONSULTATION


Finance and Engineering have collaborated to develop this implementation process. Consultation with all City departments will be required over the next 3 years to successfully implement compliance with this new accounting standard.

COMMUNICATIONS

None noted.

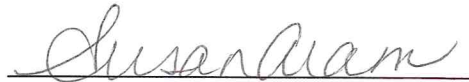
ATTACHMENTS

Appendix A: Decision Tree – Liability for Contaminated Sites



Prepared By:

Tara Johnston
Senior Financial Analyst, Financial Reporting
519-822-1260 x2084
tara.johnston@guelph.ca



Prepared By:

Sue Aram
Acting Treasurer
519-822-1260 x2300
susan.aram@guelph.ca

Report FIN-12-04 APPENDIX A
Decision Tree – Liability for Contaminated Sites

