



CENTRAL OKANAGAN REGIONAL HOSPITAL DISTRICT
BOARD INAUGURAL STATUTORY MEETING
AGENDA

Thursday, January 16, 2020
8:30 a.m.
Woodhaven Board Room
1450 K.L.O. Road, Kelowna, BC

Pages

1. Call to Order

Brian Reardon, Chief Administrative Officer, acknowledged that this meeting is being held on the traditional territory of the syilx/Okanagan peoples.

2. Election of Chair for 2020

3. Election of Vice Chair for 2020

4. Adoption of Minutes

4.1 **Regional Hospital District Board Meeting Minutes - October 10, 2019**

1 - 3

(All Directors - Unweighted Corporate Vote - Simple Majority - LGA 208.1)

Recommended Motion:

THAT the Regional Hospital District Board meeting minutes of October 10, 2019 be adopted.

5. Finance

5.1 **CORHD Audit Plan for 2019**

4 - 23

(All Directors - Unweighted Corporate Vote - Simple Majority - LGA 208.1)

Recommended Motion:

THAT the Board receives for information BDO's 2019 Audit Planning Letter to the Board of Directors, dated December 18, 2019;

AND FURTHER THAT the Board does not have any further direction or questions for the auditors at this time.

6. Adjourn

Minutes of the meeting of the Central Okanagan Regional Hospital District Board held in the Woodhaven Board Room, Regional District Offices on Thursday October 10, 2019

Directors: J. Baker (District of Lake Country)
M. Bartyik (Central Okanagan East Electoral Area)
C. Basran (City of Kelowna)
W. Carson (Central Okanagan West Electoral Area)
M. DeHart (City of Kelowna)
C. Fortin (District of Peachland)
G. Given (City of Kelowna)
C. Hodge (City of Kelowna)
D. Findlater, alternate for G. Milsom (City of West Kelowna)
L. Stack (City of Kelowna)

Absent: S. Johnston (City of West Kelowna)
B. Sieben (City of Kelowna)
L. Wooldridge (City of Kelowna)
Representative for Westbank First Nation

Staff: B. Reardon, Chief Administrative Officer
M. Rilkoff, Director of Financial Services
S. Horning, Supervisor-Corporate Services (recording secretary)

1. CALL TO ORDER

Chair Given called the meeting to order at 12:12 p.m.

It was acknowledged that this meeting is being held on the traditional territory of the syilx/Okanagan peoples.

2. ADDITION OF LATE ITEMS

There were no late items for the agenda.

3. ADOPTION OF THE AGENDA

#H18/19 FORTIN/HODGE

THAT the agenda be adopted.

CARRIED unanimously

4. ADOPTION OF MINUTES

4.1 Regional Hospital District Board Meeting Minutes – May 9, 2019
(All Directors – Unweighted Corporate Vote – Simple Majority – LGA 208.1)

#H19/19 **FORTIN/BARTYIK**

THAT the Central Okanagan Regional Hospital District Board meeting minutes of May 9, 2019 be adopted.

CARRIED unanimously

5. NEW BUSINESS

- 5.1 Interior Health Authority Additional Funding Request for the Kelowna Urgent and Primary Care Centre (In attendance: James Kinakin, Director Business Support, John Cabral, Acute Health Service Administrator, and Deborah Preston, Community Health Services Administrator)
(All Directors – Unweighted Corporate Vote – Simple Majority – LGA 208.1)

IHA Staff presented their capital update including the timeline for the 2020/21 planning cycle and responded to questions from the Board.

IHA Staff presented their mid-cycle funding request for the Kelowna Urgent Primary Care Centre, including an overview of the services that will be offered. The Centre has a planned opening for early 2020. The planning opening is contingent on completion of substantial tenant improvements to make the space functional for the Centre. Interior Health is requesting 40% funding for the capital tenant improvement costs.

IHA Staff responded to questions from the Board.

#H20/19 **BASRAN/DEHART**

THAT the Central Okanagan Regional Hospital Board requests Interior Health pursue the designation of “health facility” for the Kelowna Urgent and Primary Care Centre for the purposes of the *Hospital District Act*.

CARRIED (opposed Fortin)

- 5.2 Financial Consideration of Urgent Care Facility
(All Directors – Weighted Vote - LGA 210.1)
- 5.2.1 CORHD 2019-2023 Financial Plan Amendment Bylaw No. 2-2019
(All Directors – Weighted Vote – LGA 210.1)
[Section 228 – 2/3 Vote for Adoption]
- 5.2.2 CORHD Capital Expenditure Bylaw No. 237
(All Directors – Weighted Vote – LGA 210.1)
[Section 228 – 2/3 Vote for Adoption]

Staff report dated October 1, 2019 outlined the request received from IHA to fund 40% of the Kelowna Urgent Primary Care Centre, financial plan amendments and a related capital bylaw.

It was noted that the 40% funding equates to \$789,600 of the Kelowna Urgent Primary Care Centre Capital Tenant Improvements costing \$1.974 million. The funding for this project could be provided in 2019 by reducing the amount that was to be transferred to reserves. For 2019, amendments can also be made to several projects that were previously approved. IHA has indicated that these projects have been completed, and some have come in under budget by a total of \$161,514. The net reduction to the reserve transfer would then be \$625,086.

Staff responded to questions from the Board.

#H21/19 **HODGE/DEHART**

THAT the Regional Hospital Board approves funding and capital bylaw approvals subject to the projects and/or facilities qualifying as designated facilities pursuant to the *Hospital District Act*.

AND THAT Central Okanagan Regional Hospital District 2019-2023 Financial Plan Amendment Bylaw No. 2-2019 be given 1st, 2nd and 3rd readings, and be adopted.

AND FURTHER THAT Central Okanagan Regional Hospital District Capital Expenditure Bylaw No. 237 be given 1st, 2nd and 3rd readings, and be adopted.

CARRIED (Opposed – Fortin)

6. ADJOURN

There being no further business the meeting was adjourned at 1:05 p.m.

CERTIFIED TO BE TRUE AND CORRECT

G. Given (Chair)

B. Reardon (Chief Administrative Officer)



Regional Hospital District Board Report

TO: Regional Hospital District Board

FROM: Marilyn Rilkoff
Director of Financial Services

DATE: December 19, 2019

SUBJECT: BDO 2019 Audit Planning Letter for CORHD

Voting Entitlement: *All Directors – Unweighted Corporate Vote – Simple Majority – LGA 208.1*

Purpose: The Regional Hospital District auditors, BDO Canada LLP, have provided the Audit Planning Letter to the Board of Directors for the 2019 Fiscal Year Audit. This is for information purposes and to ensure the Board is provided with an opportunity to provide further direction or address any questions they may have.

Executive Summary:

The audit process for the Regional Hospital District occurs annually, and BDO communicates their process with the Board and ensures they provide an opportunity for input or direction. BDO will not be making any presentation at this meeting; however, if the Board wishes to discuss any further direction or concerns, staff will arrange for the auditors to attend a future In Camera Board Meeting to receive that confidential direction or review any concerns.

RECOMMENDATION:

THAT the Board receives for information BDO's 2019 Audit Planning Letter to the Board of Directors, dated December 18, 2019;

AND FURTHER THAT the Board does not have any further direction or questions for the auditors at this time.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read "M. Rilkoff".

Marilyn Rilkoff
Director of Financial Services

Approved for Board's Consideration

A handwritten signature in black ink, appearing to read "Brian Reardon".

Brian Reardon, CAO

Implications of Recommendation:

Financial:	It is a requirement to have audited Financial Statements. It is also an annual third party external review of financial and internal controls of the corporation.
Legal/Statutory Authority:	The Province of BC requires the audited Financial Statements to be adopted and submitted by May 15 th .

Background:

An annual external financial audit has been done every year to meet legislative requirements.

BDO communicates their process with the Board and ensures they provide an opportunity for confidential input or direction. In the past, the report was more detailed and specific as to the methods BDO uses, and was presented In Camera due to proprietary information as to BDO's methods. The Board indicated that their preference would be to move this to a regular Board Meeting. The report has been made more general in nature. BDO will not be making any presentation at the meeting, however, if the Board wishes to discuss any further direction or concerns, staff will arrange for the auditors to attend a future In Camera Board Meeting to receive that direction or review any concerns.

Financial Considerations and External Implications:

Audited Financial Statements are required public reporting.

Alternative Recommendation:

THAT the Board receive for information BDO's 2019 Audit Planning letter dated December 18, 2019;

AND FURTHER THAT the Board requests that BDO attend a future In Camera meeting to discuss confidential audit details.

Considerations not applicable to this report:

- Strategic Plan
- General
- Organizational
- Policy
- Organizational Issues

Attachment(s):

- BDO Audit Planning Letter



CENTRAL OKANAGAN REGIONAL HOSPITAL DISTRICT

AUDIT PLANNING REPORT TO THE BOARD OF DIRECTORS

December 18, 2019

TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
YOUR DEDICATED BDO AUDIT TEAM.....	4
MATERIALITY	6
APPENDIX A: BDO AUDIT STRATEGY.....	8
APPENDIX B: COMMUNICATION REQUIREMENTS.....	9
APPENDIX C: INDEPENDENCE LETTER	10
APPENDIX D: RESPONSIBILITIES	12
APPENDIX E: BDO RESOURCES	14

EXECUTIVE SUMMARY



Your BDO Audit Team

Markus Schrott, BBA, CPA, CA will be the lead on the engagement team, supported by experts as deemed necessary. Please refer to page 4 for contact information should you have any questions or concerns regarding the financial statement audit.



Significant Audit Risks

Our audit is focused on risks specific to your business and key accounts. Specifically, we have identified the following areas on which to focus:

- ▶ Management override of internal controls



Engagement Objectives

Our overall responsibility is to form and express an opinion on the financial statements. The performance of this audit does not relieve management or those charged with governance of their responsibilities.

YOUR DEDICATED BDO AUDIT TEAM

In order to ensure effective communication between the Board of Directors and BDO Canada LLP, the contact details of the engagement team are outlined below. We attempt to provide continuity of service to our clients to the greatest extent possible in accordance with mandated partner rotation rules. When rotation is required for key members of the engagement team, we will discuss this matter with the Board of Directors and determine the appropriate new individual(s) to be assigned to the engagement based on particular experience, expertise and engagement needs.

NAME	ROLE	PHONE NUMBER	EMAIL
Markus Schrott, CPA, CA	Engagement Partner	250.545.2136 ext: 1882	mschrott@bdo.ca
Brennen Giroux, CPA, CA	Assurance Senior Manager	250.763.6700 ext: 8179	bgiroux@bdo.ca
Jessica Treat	Assurance Auditor Senior	250.763.6700 ext: 8187	jtreat@bdo.ca
Alexis Semeschuk	Assurance Auditor Intermediate	250.763.6700 ext :8156	aseseschuk@bdo.ca

SIGNIFICANT AUDIT RISKS AND PLANNED RESPONSES

Based on our knowledge of the Entity’s business, our past experience, and knowledge gained from management and the Board of Directors, we have identified the following significant risks; those risks of material misstatement that, in our judgment, require special audit consideration.

Significant risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them. We request your input on the following significant risks and whether there are any other areas of concern that the Board of Directors has identified.

AREAS OF FOCUS	RISKS NOTED	AUDIT APPROACH
<p>Management Override of Internal Controls</p> <p><i>(Mandatory audit consideration)</i></p>	<p>Per CAS 240.32, irrespective of our assessment of the risk of management override of controls, audit procedures must be performed to address the risk.</p>	<p>Review of transactions recorded in various ledgers for unusual or non-recurring adjustments not addressed by other audit procedures.</p>

MATERIALITY



Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the non-consolidated financial statements.

Judgments about materiality are made in light of surrounding circumstances and include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

Preliminary materiality was determined to be \$510,000, based on 3% of a 3 year average of revenues.

Our materiality calculation is based on the Entity's preliminary results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to the Board of Directors as part of our year end communication.

We will communicate all corrected and uncorrected misstatements identified during our audit to the Board of Directors, other than those which we determine to be "clearly trivial". Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

We encourage management to correct any misstatements identified throughout the audit process.

APPENDICES

Appendix A: BDO audit strategy

Appendix B: Communication requirements

Appendix C: Independence letter

Appendix D: Responsibilities

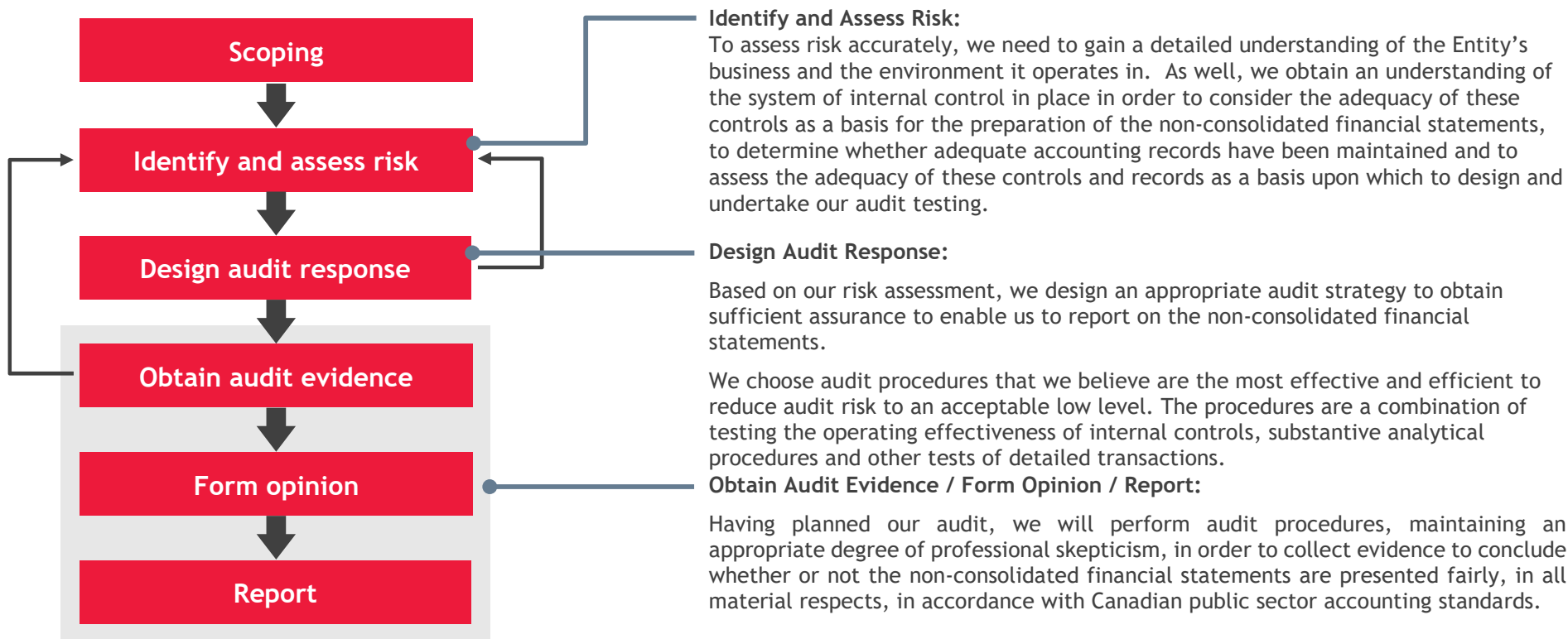
Appendix E: BDO resources

Appendix F: Changes in Accounting Standards with Potential to Affect the Central Okanagan Regional Hospital District

APPENDIX A: BDO AUDIT STRATEGY

Our overall audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit and is based on our overall understanding of the Entity.

We will perform a risk-based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and the Board of Directors.



APPENDIX B: COMMUNICATION REQUIREMENTS

Required Communication	Audit Planning Presentation	Audit Results Presentation	Communication Completed
1. Our responsibilities under Canadian GAAS	✓		Y
2. Our audit strategy and audit scope	✓		Y
3. Fraud risk factors	✓		Y
4. Going concern matters		✓	N
5. Significant estimates or judgments		✓	N
6. Audit adjustments		✓	N
7. Unadjusted misstatements		✓	N
8. Omitted disclosures		✓	N
9. Disagreements with Management		✓	N
10. Consultations with other accountants or experts		✓	N
11. Major issues discussed with management in regards to auditor retention		✓	N
12. Significant difficulties encountered during the audit		✓	N
13. Significant deficiencies in internal control		✓	N
14. Material written communication between BDO and Management		✓	N
15. Any relationships which may affect our independence	✓		Y
16. Any illegal acts identified during the audit		✓	N
17. Any fraud or possible fraudulent acts identified during the audit		✓	N
18. Significant transactions with related parties not consistent with ordinary business		✓	N
19. Non-compliance with laws or regulations identified during the audit		✓	N
20. Limitations of scope over our audit, if any		✓	N
21. Written representations made by Management		✓	N
22. Any modifications to our opinion, if required		✓	N

APPENDIX C: INDEPENDENCE LETTER

December 18, 2019

Members of the Board of Directors
Central Okanagan Regional Hospital District

Dear Board of Directors Members:

We have been engaged to audit the non-consolidated financial statements of Central Okanagan Regional Hospital District (the "Entity") for the year ended December 31, 2019.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Entity and our Firm that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, we have considered the applicable legislation and relevant rules and related interpretations prescribed by the appropriate provincial institute/order, covering such matters as:

- Holding a financial interest, either directly or indirectly in a client;
- Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- Economic dependence on a client; and
- Provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since May 9, 2019, the date of our last letter.

We are not aware of any relationships between the Entity and our Firm that, in our professional judgment, may

We hereby confirm that we are independent with respect to the Entity within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia as of December 18, 2019.

This letter is intended solely for the use of the Board of Directors, management and others within the Entity and should not be used for any other purposes.

Yours truly,

BDO Canada LLP

Chartered Professional Accountants

APPENDIX D: RESPONSIBILITIES

It is important for the Board of Directors to understand the responsibilities that rest with the Entity and its management, those that rest with the external auditor, and the responsibilities of those charged with governance. BDO’s responsibilities are outlined below and within the annual engagement letter attached as Appendix B to this letter. The oversight and financial reporting responsibilities of management are also summarized below.

AUDITOR’S ENGAGEMENT OBJECTIVES

Our overall objective is to express an opinion as to whether the non-consolidated financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the Entity in accordance with Canadian public sector accounting standards.

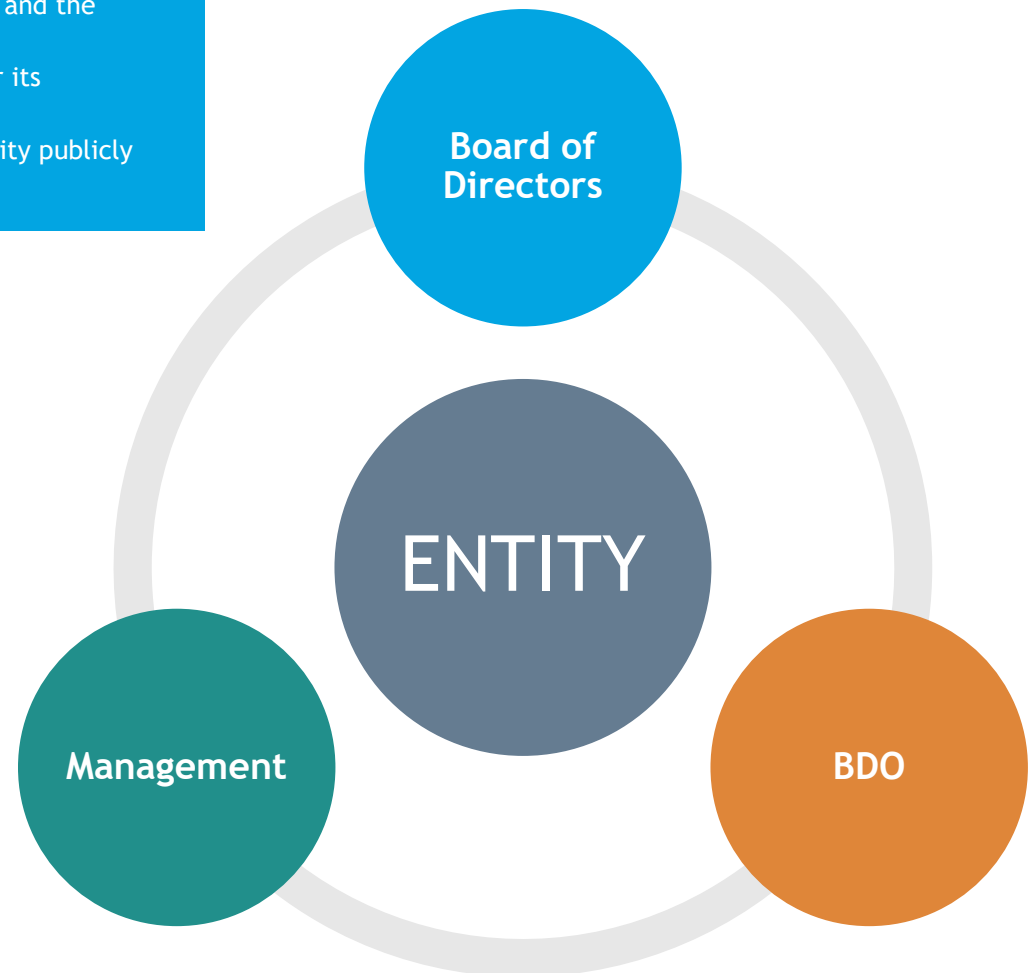
Year-End Audit Work	Other Information
<ul style="list-style-type: none"> ▶ Work with management towards the timely issuance of non-consolidated financial statements. ▶ Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit. ▶ Present significant findings to the Board of Directors including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work. 	<ul style="list-style-type: none"> ▶ Read the other information included in the Entity’s Annual Report to identify material inconsistencies, if any, with the audited non-consolidated financial statements.
	Year-Round Work
	<ul style="list-style-type: none"> ▶ Consult regarding accounting, income tax and reporting matters as requested throughout the year.

RESPONSIBILITIES OF THOSE CHARGED WITH GOVERNANCE

- ▶ Oversee the work of the external auditor engaged for the purpose of issuing an independent auditor’s report.
- ▶ Facilitate the resolution of disagreements between management and the external auditor regarding financial reporting matters.
- ▶ Pre-approve all non-audit services to be provided to the Entity or its subsidiaries by the external auditor.
- ▶ Review the non-consolidated financial statements before the Entity publicly discloses this information.

MANAGEMENT RESPONSIBILITIES

- ▶ Maintain adequate accounting records and maintain an appropriate system of internal control for the Entity.
- ▶ Select and consistently apply appropriate accounting policies.
- ▶ Prepare the annual non-consolidated financial statements in accordance with Canadian public sector accounting standards.
- ▶ Safeguard the Entity’s assets and take reasonable steps for the prevention and detection of fraud and other irregularities.
- ▶ Make available to us, as and when required, all of the Entity’s accounting records and related financial information.



APPENDIX E: BDO RESOURCES

BDO is a leading provider of professional services to clients of all sizes in virtually all business sectors. Our team delivers a comprehensive range of assurance, accounting, tax, and advisory services, complemented by a deep industry knowledge gained from nearly 100 years of working within local communities. As part of the global BDO network, we are able to provide seamless and consistent cross-border services to clients with global needs. Commitment to knowledge and best practice sharing ensures that expertise is easily shared across our global network and common methodologies and information technology ensures efficient and effective service delivery to our clients.

Outlined below is a summary of certain BDO resources which may be of interest to the Board of Directors.

TAX BULLETINS, ALERTS AND NEWSLETTERS

BDO Canada's national tax department issues a number of bulletins, alerts and newsletters relating to corporate federal, personal, commodity, transfer pricing and international tax matters.

For additional information on tax matters and links to archived tax publications, please refer to the following link: [Tax Library | BDO Canada](#)

Government Entities operating in Canada are impacted by commodity taxes in some way or another. These include GST/HST, QST, PST, various employer taxes, and unless managed properly, can have a significant impact on your organization's bottom line. The rules for Government Entities can be especially confusing, and as a result many organizations end up paying more for indirect tax than they need to.

Government Entities must keep on top of changes to ensure they are taking advantage of the maximum refund opportunities. At BDO, we have helped a number of organizations of all sizes with refund opportunities, which can reduce costs for the organization and improve overall financial health.

For more information, please visit the following link: <https://www.bdo.ca/en-ca/services/tax/commodity-tax-services/overview/>

SMART CITY ARCHITECTURE: A BLUEPRINT FOR BUILDING URBAN INFRASTRUCTURE

Transforming a city into a smart city can bring long-term benefits and opportunities for sustainability and innovation for both citizens and businesses. However when undertaking an integration initiative of this magnitude many issues can surface. A well-established plan coupled with active stakeholder engagement can clear the path to realizing this new urban infrastructure vision.

For more information, please visit the following link: <https://www.bdo.ca/en-ca/insights/industries/public-sector/smart-cities-blueprint-urban-infrastructure/>

APPENDIX F: CHANGES IN ACCOUNTING STANDARDS WITH POTENTIAL TO AFFECT CENTRAL OKANAGAN REGIONAL HOSPITAL DISTRICT

The following summarizes the status of new standards and the changes to existing standards as of the fall of 2019. The Appendix also reviews Exposure Drafts, Statements of Principles, Projects and Post Implementation Reviews that provide information on the future direction of CPA Public Sector Accounting Handbook.

NEW STANDARDS - PSAS

Section PS 3430, Restructuring Transactions

This Section addresses a problem area for public sector accounting. In the past there was no Canadian standard that addressed acquisition of services and service areas, therefore, accountants looked to the US and international standards for guidance.

This new Section defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction. A restructuring transaction is defined as a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities, that does not involve an exchange of consideration based primarily on the fair value of the individual assets and liabilities transferred.

- The net effect of the restructuring transaction should be recognized as a revenue or expense by the entities involved.
- A recipient should recognize individual assets and liabilities received in a restructuring transaction at their carrying amount with applicable adjustments at the restructuring date.
- The financial position and results of operations prior to the restructuring date are not restated.
- A transferor and a recipient should disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations.

This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. For entities with a December year, end this means that 2019 is the first year that the standard must be followed.

NEW STANDARDS - PSAS (NOT YET EFFECTIVE)

Section PS 2601, Foreign Currency Translation

This Section revises and replaces *PS 2600, Foreign Currency Translation*. The following changes have been made to the Section:

- The definition of currency risk is amended to conform to the definition in *PS 3450, Financial Instruments*;

- The exception to the measurement of items on initial recognition that applies when synthetic instrument accounting is used is removed;
- At each financial statement date subsequent to initial recognition, non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450 are adjusted to reflect the exchange rate at that date;
- The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued;
- Until the period of settlement, exchange gains and losses are recognized in the statement of re-measurement gains and losses rather than the statement of operations; and
- Hedge accounting and the presentation of items as synthetic instruments are removed.

The new requirements are to be applied at the same time as *PS 3450, Financial Instruments*, and are effective for fiscal years beginning on or after April 1, 2021. For entities with a December year end this means 2022 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3041, Portfolio Investments

This Section revises and replaces Section *PS 3040, Portfolio Investments*. The following changes have been made:

- The scope is expanded to include interests in pooled investment funds;
- Definitions are conformed to those in *PS 3450, Financial Instruments*;
- The requirement to apply the cost method is removed, as the recognition and measurement requirements within Section PS 3450 apply, other than to the initial recognition of an investment with significant concessionary terms; and
- Other terms and requirements are conformed to Section PS 3450, including use of the effective interest method.

The new requirements are effective for fiscal years beginning on or after April 1, 2021. For the Regional District, this means that the year ending December 31, 2022 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3280, Asset Retirement Obligations

This new Section establishes standards on how to account for and report a liability for asset retirement obligations. The main features of the new Section are:

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner.

- Asset retirement costs associated with an asset no longer in productive use are expensed.
- Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset (or a component thereof) at the financial statement date.
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use.
- A present value technique is often the best method with which to estimate the liability.
- As a consequence of the issuance of Section PS 3280:
 - editorial changes have been made to other standards; and
 - SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270, has been withdrawn.

This Section applies to fiscal years beginning on or after April 1, 2021 (2022 fiscal year for organizations with December year ends). Earlier adoption is permitted.

Section PS 3270 will remain in effect until the adoption of Section PS 3280 for fiscal periods beginning on or after April 1, 2021, unless a public sector entity elects earlier adoption.

Section PS 3400 Revenue

This section is related to revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue.

The Public Sector Accounting Handbook has two Sections that address two major sources of government revenues, government transfers and tax revenue. Revenues are defined in Section PS 1000, Financial Statement Concepts. Recognition and disclosure of revenues are described in general terms in Section PS 1201, Financial Statement Presentation.

This section addresses recognition, measurement and presentation of revenues that are common in the public sector. It is less complex than the comparable new IFRS standard, although generally consistent in philosophy.

This new Section will be effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

Section PS 3450, Financial Instruments

This new Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

The main features of the new Section are:

- Items within the scope of the Section are assigned to one of two measurement categories: fair value, or cost or amortized cost.

- Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are measured at fair value.
- Fair value measurement also applies to portfolio investments in equity instruments that are quoted in an active market.
- Other financial assets and financial liabilities are generally measured at cost or amortized cost.
- Until an item is derecognized, gains and losses arising due to fair value re-measurement are reported in the statement of re-measurement gains and losses.
- Budget-to-actual comparisons are not required within the statement of re-measurement gains and losses.
- When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category.
- New requirements clarify when financial liabilities are derecognized.
- The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.
- New disclosure requirements of items reported on and the nature and extent of risks arising from financial instruments.

The new requirements are to be applied at the same time as *PS 2601, Foreign Currency Translation* and are effective for fiscal years beginning on or after April 1, 2021. For entities with a December year end this means 2022 is the first year that the standard must be followed. Earlier adoption is permitted. This Standard should be adopted with prospective application except for an accounting policy related to embedded derivatives within contracts, which can be applied retroactively or prospectively.