

## PSAB Decision on PS 3150

On June 12, the Public Sector Accounting Board (PSAB) met to consider responses to the recent exposure draft on accounting for tangible capital assets for local government (PS 3150). One of the main issues before the Board was the implementation date for PS 3150. Earlier this year, the Board had moved the implementation date from January 1, 2008 to January 1, 2009. On June 12, the Board confirmed the implementation date of January 1, 2009. This means that municipal financial statements for the fiscal year 2009 will need to comply with the provisions of PS 3150.

Paragraph PS 1700.48 and the new reporting model proposal require financial statements for a given period to present comparable data from the preceding period. This would generally mean that municipalities would be required to present 2008 information in the 2009 financials in a comparable format. However, PS 2120.13 permits flexibility with respect to new accounting changes. Municipalities can apply such changes retroactively or prospectively. Retroactive treatment would involve re-stating 2008 financials in a way that is comparable to 2009. Obviously, this means that you must be prepared to obtain asset information with regard to 2008 as well as 2009. In most cases, this will not be difficult and will only require an adjustment for a single year's depreciation. In cases where new assets are acquired in 2009, they will simply be added to the balance sheet at their 2009 cost and expensed. A prospective approach would involve stating 2009 according to the new PSAB standard, without comparable data until the following year when data would be available for both 2009 and 2010. Generally, restating 2008 would be seen as the "best practice" approach. Although prospective application addresses new transactions and adjusts only existing balances, because municipalities do not have capital asset balances to begin with, when applying a prospective approach, PSAB has required that PS 3150 is to apply to all existing tangible capital assets, not just those from 2009 and forward.

### What You Can Do To Prepare:

- **Learn About PS 3150:** The following readings are suggested as an ideal starting point for learning about the requirements of PS 3150.
  - [OMBI's Guide \(Version 1\)](#). OMBI is preparing a detailed reference guide with regards to PS 3150 and a comprehensive "how to" training manual. It will include lessons from a variety of pilot project that are currently underway. See also the [OMBI presentation](#) at the Canadian Day of the 2006 GFOA conference in Montreal for more information.
  - [PS 3150](#) (note: this link will take you to the Exposure Draft that was circulated previously for comment. This document differs slightly from what the Board approved at its mid June meeting. The most significant differences are the deletion of paragraph .43 on deferred maintenance and a transitional provision to ensure that PS 3150 applies to all capital assets. We will alert you when the final approved version is available).
  - [Reporting Model](#). This document helps you understand how tangible capital assets will be treated in the financial statements and how the statements will appear under the new rules.

We suggest that acquiring a good overview from the above readings is important before you actually begin the work of compiling assets, valuing them, etc. For example, there are a variety of issues with regard to classification, segmentation, aggregation, materiality, acquisitions, dispositions, betterments and improvements, etc. that you should think about before you structure your asset inventory. This will help to avoid revisiting the inventory to add additional information later in the process.

- **Prepare a PSAB action plan** to ensure compliance for 2009 financial statements. You can build your action plan around [OMBI's 10 steps to getting started](#) . As noted in OMBI's 10 steps, initial activities should include the following, discussions with your auditor, compiling your asset inventory and asset records (see comments below with regard to inventories), and raising awareness of PSAB requirements (and asset management requirements) with your senior management team, CAO and council.
- **Identify Needed Resources:** You will wish to give particular attention to the need for additional resources. We are aware that many large urban municipalities are anticipating the need for consulting services and additional staff. In smaller jurisdictions, you might benefit greatly from the assistance of a summer student or two who can compile asset inventories and collect other required data.
- **PSAB and Asset Management:** As you plan the structure of your asset inventory, we would encourage you to consider the full range of needs that such an inventory will serve. You should use the inventory of assets as the foundation of an asset management exercise. As the current OMBI Guide notes with regard to asset inventories, "the level of precision required for financial statement purposes may be significantly different from the level of precision required to manage operations, user rate setting and asset management purposes" (p. 7). You will almost certainly want more detail in your inventory for asset management purposes than is required by PS 3150.

Your inventory of assets is the common denominator between PSAB requirements on the one hand and a comprehensive approach to asset maintenance on the other. Given that asset maintenance strategies are increasingly being required (anticipate Sustainable Water and Sewage Systems Act regulations, provincial transit funds, federal gas tax), it seems appropriate to ensure that your asset inventory is capable of satisfying financial reporting requirements as well as your strategic management needs to manage assets effectively and efficiently.

### **PSAB and the Municipal Act:**

We are aware that the *Municipal Act* currently requires municipalities to have balanced budgets and prohibits budgeting for a deficit or surplus. The new requirements of PS 3150 will raise the possibility that municipalities might have an annual deficit/surplus or an accumulated deficit/surplus. In addition, we have also heard concerns from our members with regard to costs associated with post-employment benefits and post-closure costs for landfills. It is argued that if all of these costs must be funded immediately, there will be significant increases in municipal tax rates.

In our view, changes are likely to be required to the *Municipal Act* in light of the new requirements. In addition, PSAB changes may have implications for the structure of the annual Financial Information Return and potentially for MPMP measures. The province is aware of the need to review these areas. Municipal associations are assisting

### **Next Steps for the MFOA AMCTO, OMMA OGRA**

Over the summer of 2006, the municipal associations, along with OMBI, will be planning the roll out of educational products and services that will be provided beginning in the fall of 2006 and extending into 2007 and 2008. Over the summer, you can expect to receive periodic updates from the associations with regard to PSAB with more focused training services and products to flow in the fall.