PSAB/Asset Management

NEWSLETTER NO. 20

CONSOLIDATIONS - WHAT ABOUT YOUR ABCs?

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The switch to tangible capital asset accounting is mandatory for your municipality. But what about your agencies, boards and commissions (ABCs)? Are they exempt? Or do you have to report them separately, or consolidate them into your municipality's tangible capital asset data? If you consolidate, then how do you report the information in your consolidated financial statements?

This newsletter will try to give some guidance on how to deal with such related organizations.

Background

Your municipality probably has a number of agencies, boards, commissions and corporations through which you provide goods and services to the community. The *Municipal Act, 2001*, Section 1, states that a "local board" *means a municipal service board, transportation commission, public library board, board of health, police services board, planning board, or any other board, commission, committee, body or local authority established or exercising any power under any Act with respect to the affairs or purposes of one or more municipalities, excluding a school board and a conservation authority; ("conseil local")*".

Public Sector Accounting Handbook Section PS1300.07 and .08

"*The government reporting entity should comprise the organizations that are controlled by the government.*" (PS1300.07)

"*Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government of the other organization's activities.*" (PS1300.08)– whether the government chooses to exercise that power or not. PS1300.17 to 24 discusses indicators of control. You have control if your municipality:

a) *has the power to unilaterally appoint or remove a majority of members of the governing body of the organization;*
b) *has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has the ongoing responsibility for losses;*
c) *holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization; and*

d) *has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations.*" (PS1300.18)

Note that PS1300.27 excludes any government business enterprise from consolidation, because it" *represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, equity accounting is appropriate*" (PS1300.32).

PS1300.28 to 31 further defines a government business enterprise and its characteristics. PS1300.33 through .36 address accounting for government business enterprises.

ABCs Controlled by Your Municipality

These would include special purpose boards and commissions, government business type organizations and government not-for-profit organizations. You are consolidating the financial statements of these entities into your municipality's financial statements now, in accordance with PS1300.07, PS2500, PS2510 and the *Municipal Act*. The implementation of PS3150 simply requires you to consolidate your future reporting with respect to tangible capital assets as well, as part of this consolidated reporting.

While your municipality may have paid for all of the assets, they will be effectively controlled and "owned" by the ABC, which will report on the tangible capital assets in its own financial statements. To consolidate, this may be simply a matter of adding the summary TCA gross book value, accumulated amortization and amortization expense for each ABC that you have to your own municipal values, for each class of asset that you identify, especially if there have been no inter-unit transfers of assets. We can summarize this as:

$Municipality + $Agencies + $Boards + $Commissions = $Consolidated

for gross book value of tangible assets, accumulated amortization and net book value. There will be no netting out of asset data, such as inter-unit transactions, as every asset will be reported in one location only – either in your municipality itself, or in the specific ABC. An asset is nearly always either here, or there

Unfortunately, the reality will likely be more complicated than this for the following reasons.

Are you and your ABCs using the same, or a very similar schema for classifying your assets?

If someone classifies assets differently, then that data will have to be restated on the same basis as for your core municipal statements. It would also be helpful to use similar capitalization thresholds, so that the data is even more comparable, though different thresholds will be much easier to deal with than will the use of a different set of asset classes.

While this consolidation will not take place until you are preparing your 2009 financials early in 2010, it would be prudent to work with your ABCs, to ensure that they are using the same sorts of asset classes and asset sub-classes that you are. If they do, when it comes time to consolidate their data and yours, this will be relatively straight-forward, as opposed to requiring a major rework of their data to get data compatibility and comparability, before even trying to consolidate.

Are your ABCs preparing their statements according to public sector GAAP, or something different?

If they are using commercial GAAP for example, it may be necessary to restate the tangible capital asset data to be consistent with public sector GAAP, just as you have to with respect to other balance sheet and income statement line items. For asset valuations this should not be an issue, but it may be for the determination of amortization expense and accounting for disposals.

Did you and your ABCs transfer tangible capital assets between yourselves?

If a tangible capital asset is transferred between your municipality and an ABC, you will be required to remove it from the asset inventory of the transferor, and add it to the asset inventory of the transferee. In theory, the transferor will record this disposition at the current discounted or amortized net value on the books of the transferor. The transferee is to record the acquisition at fair value. These values may not be the same, in which case a gain or loss may be recorded on the books of the transferor.

You could establish an accounting policy that all such internal transfers shall be deemed to be at the net book value of the transferor. Then the issue would not arise. While not theoretically consistent with PS3150.14, one could argue that that requirement to use fair value is really more applicable to transfers from external third parties, not to transfers between entities of the same government, when any difference will be taken out during consolidation. For the transferee, the difference will likely not be significant. This would be something to discuss with your auditor.

Alternatively, you may want to come to terms with the ABC as to what the transfer value will be, as though this is an arm's length transaction. Both will then use this value: the transferor as disposition price, and record a gain or loss on disposition, as appropriate; and the transferee as acquisition cost, which will form the basis for future amortization, and be the net gross book value, subject to any directly attributable costs being added in.

On consolidation, any such unrealized gains or losses must be taken out regardless, and the asset's book value be restated to exclude any such change in value.

EXAMPLE

Department X transfers office equipment to the Capitol Heritage Theatre, an agency of the municipality, at no charge to the theatre. It has a book value of $5,000 and a fair value of $6,000. The accounting entries will be:

For Department X:

DR	Accumulated Amortization	$15,000
	Grant in kind	$ 5,000
CR	Tangible Capital Assets – Equipment	$20,000

To record donation and transfer of office equipment out of the Department to CHT at book value.

For the Capitol Heritage Theatre:

DR	Tangible Capital Assets – Equipment	$ 6,000
CR	Grant in kind	$ 6,000

To record receipt of donation and transfer of office equipment from Department X at fair value.

This is effectively a grant of $5,000, that is an expense for Department X, and $6,000 in "revenue" or benefit for the Theatre. Consolidation would net this "grant" out, as an inter-unit transfer, with the assets reduced in net value back to $5,000, and the municipality would still have office equipment with a consolidated net book value of $5,000. Because the equipment was transferred out at book value, the accumulated amortization will be netted out by the Department on its disposal of the asset. The Theatre will start amortizing the equipment on a historical cost of $6,000, which was its fair value price at the time of transfer.

Public Sector Accounting Handbook Section PS2500 and PS2510

These two sections cover the basic principles of consolidation and additional areas of consolidation, respectively. PS2500.18 discusses in some detail the issue of unrealized gains and loss on inter-governmental sale or transfer of assets. There will be adjustments required to the reported value of tangible capital assets, to the amortization expense recorded in the statement of results, and the cost and amortization expense reported in any schedules or notes to the financial statements to eliminate the effect of any unrealized gain or loss arising from the transfer of a tangible capital asset between two units of your municipality.

Reporting Consolidated Financial Information

This will be similar to what you do now. You will likely provide only the consolidated capital asset book value and the accumulated amortization in your Statement of Financial Position or Balance Sheet. As a note to this statement, it may be helpful to a reader to show the individual figures for each agency, board and commission, as well as for the municipal departments and operations, at least for each asset class, similar to how you will be required to report in the revamped Financial Information Return.

The revamped Financial Information Return for 2009 will require PSAB-compliant consolidation as well, but on the same basis as for your financial statements, so that no separate restatement will be required. It is understood that this will also be the case for District Social Services Administration Boards in northern Ontario.

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We have mentioned two abstract concepts several times in earlier newsletters, so that our next newsletter will look at the notion of significance and of materiality in relation to financial statements, and try to answer as to whether these are really a material consideration.

For more information and resources regarding tangible asset management, go to PSAB/Asset Management, or contact:

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