PSAB/Asset Management

NEWSLETTER NO. 37

A LOOK AT PSG-7

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Section PS 3150 of the Public Sector Accounting Handbook has 48 paragraphs, comprising 8½ pages of text. The Section is the primary source of generally accepted accounting principles (GAAP) for accounting for tangible capital assets by a public sector entity or organization.[i] Starting in 2009, this is the yardstick or standard against which your financial reporting for tangible capital assets will be measured.

Public Sector Guideline 7 (PSG-7) deals with the transition to full tangible capital asset accounting. The purpose of PSG7 is "*to provide transitional guidance to a local government on reporting information related to tangible capital assets in notes or schedules to its financial statements*."

Members have asked for some guidance on the requirements for PSG-7, such as what kind of information is required to be disclosed in the financial statement notes. This Newsletter tries to shed some light in this area. **Please be advised that what follows is one professional accountant's interpretation of the Guideline, and is itself only guidance.**

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[1] Primary sources of GAAP are, in descending order of authority:
(i) standards in Sections PS 1200-PS 3800;
(ii) Public Sector Guidelines; and
(iii) appendices and illustrative material of those pronouncements described in (i)-(ii) above. When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:
(a) the primary sources of GAAP; and
(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.
Public Sector Guidelines [(PSG) are a primary source of GAAP] and set out the Board's interpretations of existing Handbook Sections, or its opinions on other issues of concern with respect to matters of financial accounting policies and disclosures for which the process of issuing exposure drafts and eventual Handbook Sections does not apply or cannot be undertaken on a timely basis.

Public Sector Accounting Handbook, Accounting Guideline PSG-7

Paragraph PSG-7.13 states "*This Guideline applies to fiscal years beginning on or after January 1, 2007. Earlier adoption is encouraged.*"

At the same time, full compliance with PS 3150 is mandatory as of January 1, 2009, whether you actually commence full accrual accounting and accounting for tangible capital assets as of that date, or have to do it retroactively later in the year. Your financial statements for 2009, and your Ontario Financial Information Return must be fully compliant with PS 3150, if you want to receive an unqualified opinion from your auditor. PSG 7 does not permit piecemeal adoption of full accrual accounting. The waiver of disclosure implied in Paragraph PSG-7.05 for those categories of assets for which a municipality does not have relevant information available does not apply. For your 2009 statements and all subsequent fiscal years, the expectation and requirement is full disclosure, and 100% inclusion (or at least consideration) of all non-financial assets.

Unfortunately there are no exceptions, or "ifs", "ands" or "buts", except those specifically identified in Section PS 3150 (see PS3150.03 and .08).

You currently prepare comparative statements, and the expectation is that your 2009 financials will be comparative as well, showing 2008 and 2009 data. The requirement for comparative data is found in PS 1200.19:

> "A comparison of current period amounts with those of the prior period(s) is important financial statement information. It helps users identify or compute trends in a government's financial position and changes in financial position, and make comparisons from one period to the next. *To facilitate meaningful comparisons, prior period information needs to be reported on a basis* and for a scope *consistent with that used to report current period information*." (Italics added for emphasis).

Paragraphs PSG-7.06 and .07 summarize the type of information to be disclosed in Schedules and in notes (respectively) in your financial statements for 2007 and 2008. Finally, Paragraphs PSG-7.08 to .11 expand on how to deal with certain valuation issues that you may encounter with respect to your initial asset inventories. These have been dealt with in previous newsletters, and also at the Fall 2007 PSAB workshops. They will no longer be generally applicable after the end of 2008, as you will have current cost information, except for donations or transfers.

Incomplete Information

For 2009 and subsequent years, your tangible capital asset data is expected to include every relevant asset that your municipality has. There have been several years warning to prepare for this accounting change. There may be the odd gap in your data base come 2009, such as incomplete fields for the odd asset, but PSG-7.05 cannot be invoked for not reporting on one or more categories or types of tangible capital asset.

2008 is a different story. If your TCA accounting was up and running as of last January 1st, your municipality will be able to fully restate your 2008 financials in the new format for your 2009 financials. For the rest of us, we have a problem. The initial inventories will provide gross book value and accumulated amortization as of December 31, 2008, so that these are the numbers that will appear in the Balance Sheet or Statement of Financial Position for tangible capital assets in the 2008 column.

But what about TCA reporting in the other three financial statements (Operations, Changes in Net Debt and Cash Flow)? Your asset inventories will identify acquisitions in 2008, and you will be able to determine the amortization expense applicable for 2008 for your asset inventories. Your dispositions may likely be gone before you include the items in your inventories, if you are starting the exercise this year. You may or may not have good records of what has been disposed. You will not have any records of write-downs or write-offs, because the current accounting for tangible capital assets writes everything off as an expense in the year(s) incurred. Gain or loss on disposal of an asset is also therefore an inoperative concept.

The preferred approach is to restate 2008 the best one can, and invoke PSG-7.05 for the items that one cannot report on reliably for 2008, such as gain/loss on sale of assets, etc. Note that PSG 7.05 does not apply after January 1, 2009 since PS 1200 will provide the standard for reporting comparative amounts once the transitional period has passed. In actual fact, you can probably report more completely than may appear to be the case at first glance.

This is a situation where you may want to discuss your approach with your auditor before the end of 2009, so that your statements will be acceptable.

Schedules for Tangible Capital Assets

PSG-7.06 states "*A local government would disclose, for each major category of tangible capital assets and in total:*" followed by seven types of asset information. You will, or should, have this information readily available for fiscal 2009 at the end of 2009, and will be expected to comply fully for fiscal 2009 figures. It is expected that only in "rare" circumstances will it be appropriate to invoke the option to not restate prior year amounts on the same basis as current year amounts are reported. You will be expected to reconstruct the events or transactions of 2008 to achieve the restatement. The cases where you opt not to restate would be rare. This is one reason why Newsletters and seminars have been encouraging municipalities to start recording required information as they moved into 2008.

One choice may be not to report any of this for 2008 restated, on the basis that it was not required for fiscal 2008 reporting, and that complete and reliable data is not available. This invokes PSG-7.05 for everything. A better approach is to report what you have reliable data for, such as acquisitions, gross costs and accumulated amortization at the beginning and end of 2008 (the beginning figures for 2008 can be derived by working backwards, at least for what you know). And then disclose that reliable figures for disposals, write-downs, and gains/losses from disposal of assets are not available, and have not been included, citing PSG-7.05. Alternatively, these numbers could be estimated, and so noted, being provided for interest only.

Notes on Tangible Capital Assets

PSG-7.07 states "*A local government would also disclose the following information about tangible capital assets:*" followed by seven items that will be disclosed as notes to the financial statements. Each year for which PSG-7 applies (2007 and 2008), these notes will be provided, with any financial information updated as required.

In terms of what kind of information is to be disclosed in the notes, PSG-7 is quite specific, and this would be the minimum. What you disclose or do not disclose is governed by the materiality test. Would omitting something impact on how a potential reader of your financial statements may use them? Keep the following in mind:

- PS 3150 states only that "the existence of such property should be disclosed."
- PS 1200 provides some additional guidance around the level of detail. "The determination of what information is needed in a particular case.
- PS1200.014 states " The CICA Public Sector Accounting Handbook (CICA PSA Handbook) provides guidance for determining the information required in financial statements for fair presentation of a government's financial position and changes in financial position, and for demonstrating a government's accountability for the financial results of its management of its resources, obligations and financial affairs. The determination of what information is needed in a particular case requires the exercise of professional judgment. No rule of general application can be phrased to suit all circumstances that may arise.
- Reference could also be made to qualitative characteristics of information presented in financial statements in PS 1000... "Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation."

Brevity and succinctness is preferred, rather than a superfluity of facts and figures.

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Our next newsletter will look at the calculation of amortization and whether financing amortization, should you decided to do so, is sufficient from an asset management perspective.

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

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NOTE: This Newsletter is published to assist you with your implementation of tangible capital asset accounting and with related matters. The Public Sector Accounting Handbook is the only authoritative primary source on matters relating to GAAP, and you should consult with your auditor to resolve specific issues that you may have.