PSAB/Asset Management

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YOUR 2009 FINANCIAL REPORTS
- what should you be doing about them?

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This is probably the last thing you want to hear about or think about, when you have been swamped trying to finish up the 2008 fiscal year. However, this is probably the best of time because this year's experience will put what is awaiting you next year into a better context.

We have dealt at length with what the 2009 financial report might look like for a municipality, and discussed the issue of providing comparative numbers. Earlier newsletters looked at issues relating to budgeting for tangible capital assets, as well as the multitude of issues relating to accounting for tangible capital assets for the first time.

In this newsletter, we will try to summarize this into what you need to be doing to create the 2009 annual financial report that you will be able to publish with pride.

The Objectives

These will not change at all. They are:

1. to produce a complete, reliable and informative annual financial report;
2. to file a complete and reliable (Ontario) Financial Information Return with the Ministry of Municipal Affairs and Housing; and
3. to receive an unqualified audit opinion on the annual financial report.

Now

You should already be accounting for tangible capital assets – acquisitions, disposals and write-downs. This will provide the information you require on changes that occur during 2009.

To do that, you need to have tangible capital asset (TCA) accounting policies in place, so that managers and staff throughout your organization are facilitating TCA accounting. Capitalization thresholds determine what TCAs will be tracked and what will be expensed. But are your disposals being logged when they are taken out of service? All of them?

How are you charging programs with amortization expense? Beginning of the year, July 1, year-end, or quarterly or monthly? Has this been agreed upon, and is the accounting being done on time?

Last and definitely not least, are your asset inventories complete, and valued at historical cost as much as possible? Are your asset pools documented, and do you have in place a process for regular updating of the information from the interested responsibility area?

Have you documented all of your capital leases, and determined the total cost of each lease, and how much remained unamortized, as of January 1, 2009?

> If the answer to any of the above is "No, my municipality has not done that yet?". Ask yourself "Why not?", and how are you going to address the problem. It is not going to go away. If you have not even started, concentrate on capturing the 2009 and going forward TCA information, so that you can report on 2009 TCA transactions. Then work on completing your inventories as of December 31, 2008 as soon as possible.
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> Non-compliance is not an option. It is also understood that non-compliance may jeopardize any potential Provincial and Federal grants and transfers due to incomplete financial reporting.

During 2009

Are changes to asset inventories being tracked and recorded? Are you conducting spot checks to ensure that they are?

Have you updated your TCA accounting policies at least once to address issues that the previous version(s) could not address effectively?

Are you updating your TCA inventories to complete records of earlier acquisitions that had incomplete information and/or supporting documentation?

Have you documented your works of art and historical treasures, at least as to what, where, date of acquisition and value for insurance purposes?

Have you listed all of your assets which have been assigned a nominal value, at least as to what, where, who is responsible, the value assigned (normally CAD 1.00), and the reason that it was assigned a nominal value?

Have you documented all of your assumptions in determining asset valuations, such as inflation rates, asset life expectancies, estimates of age? Have you identified which valuations are based on actual historical cost, and which have been calculated or estimated?

Have you invited your auditor to come in and audit your asset inventory valuations, accumulated amortization, and to confirm the reasonableness of the assumptions that you made?

If you have not even started, you are going to have a very busy year, but all of this is still doable. The need to complete these activities will not go away. Again, make sure you are tracking TCA transactions in 2009, and accounting for amortization expense. Have your set of TCA accounting policies in place, even if you copy those of another municipality. Then work on your inventories.

After December 31, 2009

Do you have documentation for all disposals and write-downs that occurred during 2009?

Have all 2009 acquisitions of TCAs been reported in the accounting system, or at least tracked, if off-line?

Has amortization expense for the year been charged out in full to program areas?

Have the accounting records been closed out for those assets that have been disposed of, and for those capital leases that have been terminated or expired?

For those TCAs received around year-end, have you determined whether the later of the date of acquisition or date of capitalization is in 2009 or 2010?

Have you determined what constitutes work-in-progress as of December 31, 2009? What payments have been made to date for assets that are still under construction, or which are not ready to go into service? For example, you may receive a cube van in December, but it will not be ready to go on the road as an ambulance until January 2nd. The cost of the cube van and any conversion costs to December 31st would be part of the "work-in-progress" total.

Do you have December 31st data for all asset pools, so that you can value each pool as of that date?

Have you been informed of all outstanding claims with respect to TCAs, such as ownership disputes, potential financial liability with respect to acquisition or third-party claims, which may affect the valuation of the asset(s) involved?

Are your asset inventories as complete and as well-documented as they can be? Has every item been assigned a gross cost and a net cost as of January 1, 2009?

If you have not started your TCA accounting long before December 31, 2009, it will be impossible for you to complete these tasks in the time available, unless you have just a handful of tangible capital assets, say less than 50. Whatever situation is preventing you from starting now will make it impossible for you to make up for lost time in the first part of next year. It will be much more time-consuming to have to construct pertinent data from digging through last year's records, than by capturing it on the fly as it happens. You will be between the proverbial rock and a hard place.

The 2009 audit

In principle, the audit process and the auditor's requirements will not change at all from what they were in 2008. To quote the auditor from Irgendwo's published 2007 annual financial report, *"These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. .... An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.*

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation."

The objective – an unqualified audit opinion – will not change for 2009. What will change is the scope of the engagement. You will be reporting on tangible capital assets for the first time. Your auditor will want to conduct tests on your data to confirm that your disclosures are reasonable. If you have not already invited this, your TCA inventories and your TCA valuations will be audited.

The auditor will also want a copy of your TCA accounting policies, and will check to determine the extent to which the policies are adhered to.

While your municipality can choose whatever capitalization thresholds seem appropriate to your political and financial situation, your auditor will want data on the assets that have been expensed and excluded from the asset inventories, to determine whether the amounts involved are material or not. There will be a similar follow-up on assets for which you assigned a nominal value, and on works of art and historical treasures that your municipality may own.

This will add substantially to the 2009 audit effort, unless you bring the auditor in during the year, when both of you have more time. Because this is the first time, the auditor may want to check everything, whereas in future years, the previous year-end balances would effectively be a given, and the audit would focus only on changes – acquisitions, disposals and write-downs - that occurred during the year.

Finally, though the auditor's letter quoted referred only to "financial statements", the audit team did audit all 19 Notes, because these are related disclosures.

If your financial statements do not conform to the new reporting model, your auditor will certainly note that in expressing an opinion on them. Guideline PSG-7 does recognize that some information on tangible capital assets may not be complete, particularly asset inventories, so that there may be some potential latitude in what will be disclosed for what is a transition year. However, this is definitely not a license to continue using the current reporting model. PSG-7, paragraph 5 states that the local government "*would disclose the information required and, in addition, those categories of tangible capital assets excluded from that disclosure until the relevant information about the complete stock of TCAs can be provided*", While this may allow for some relief or dispensation for reporting for fiscal 2008 in your 2009 statements, it does not apply at all to reporting for 2009 and subsequent years.

The 2009 Ontario Financial Information Return requires every municipality to report in a format that is consistent with the new reporting model. Failure to do so may jeopardize future Provincial grants and transfer payments, as noted earlier. Ditto for Federal grants and incentive plans.

Summary

Hopefully, these notes will serve as a checklist or a guide to help you through the preparation of your 2009 financial statements, schedules and notes.

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You have developed and valued your tangible capital asset inventories, have established accounting policies for TCAs, and are updating you asset records on an on-going basis. You have seen what sort of statements are part of the new financial reporting model, and how you will be reporting on your assets. You have hopefully learned how to deal with this change, or at least to cope with it.

Our next and final newsletter will look at what may well be the next frontier in municipal accounting – international financial reporting standards, or IFRSs.

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

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