MFOA

AMCTO
Association of
Municipal Managers,
Clerks and Treasurers
of Ontario

September 6, 2005

Tim Beauchamp
Principal, Public Sector Accounting
Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto , ON M5V 3H2

Dear Tim:

This is in response to your July 21, 2005, request for comments on PSAB's proposed application of TANGIBLE CAPITAL ASSETS, Section PS 3150, to local governments and the proposed Guideline requiring local governments to disclose information in the notes to their financial statements in the interim.

On receiving the request, the Municipal Finance Officers Association (MFOA) and the Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO) formed a joint committee of their members to review PSAB's proposals. The list of committee members is enclosed. Please note that members participated as individuals—not as official representatives of their municipalities or associations.

A majority of the review committee supports the application of Section PS 3150 to local governments, believing that it will enhance accountability by highlighting the capital component of service delivery costs and offer insights into the implications of infrastructure renewal decisions. Enclosed are the detailed comments from this group in the form of a completed version of the questionnaire that accompanied your July 21 request.

As you will see, while supporting most of PSAB's seventeen proposals in principle, the group also notes that the valuation of existing and future tangible capital assets as required by PS 3150 will mean an increase in workload for municipalities. For smaller municipalities where the required skills are in shorter supply, this workload impact will be particularly acute. Accordingly, the group has put forward a number of suggestions to simplify the process of complying with PS 3150. These include:

- Defining and prescribing consistent asset categories for use by all local governments
- Providing an expected range of useful lives, or additional guidelines, to facilitate reasonably consistent approaches for determining asset useful life estimates
- Recommending capitalization thresholds (could vary by annual revenue or size of municipality)
- Allowing a longer period before requiring full compliance with PS 3150

It is critical that municipalities be given a reasonable lead time to prepare for PS 3150. It would be a perverse effect of PS 3150 if, because they could not be ready by January 1, 2008, some municipalities received a qualified auditor's report in 2009 that could result in higher borrowing costs and slow the pace of infrastructure renewal..

We note that the introduction of PS 3150 has implications for municipal budgeting and taxation. We understand these cannot be fully assessed until PSAB completes its review of the presentation and disclosure standards for government in PS 1200 and the objectives of financial statements for local governments in PS 1700. The joint MFOA/AMCTO committee has asked to participate in the consultation that PSAB is planning for the fall on these two statements.

We also note that the impact of accounting for tangible capital assets on municipal budgeting and taxation processes goes beyond PSAB's mandate and into the jurisdiction of the Ministry of Municipal Affairs and Housing (for Ontario municipalities). We have confirmed that the Ministry will provide MFOA, AMCTO and other stakeholders an opportunity to help the Ministry work through the practical implications of PS 3150 and devise solutions to any problems identified.

It is critical that the implications of PS 3150 for municipal budgeting and taxation be known before the policy is implemented. This is an important reason for our recommendation for moving the implementation date to January 1, 2009.

Subject to these critical concerns being addressed, a majority of the joint MFOA/AMCTO review committee believe that the application of PS 3150 to local government will be beneficial and should proceed.

There was a minority view within the committee that capital asset and depreciation reporting is not appropriate for municipal financial reporting. That view is set out in some detail in the enclosed letter and completed questionnaire from the Finance Department of the City of Mississauga. As you will see, the Mississauga staff support many of the mitigating measures recommended by the larger group (asset categories, useful life guidelines, etc.) in the event that PS 3150 is extended to local government.

We appreciate having had the opportunity to provide input on the issues raised in your July 4 request and look forward to PSAB's forthcoming consultation on the related issues with respect to PS 1200 and PS 1700. Our joint committee will also be providing a response by the September 30 deadline to PSAB's August 9 request for comments on the proposed policy on Government Transfers and Operating and Capital Grant Revenue Recognition.

Please let us know whenever we can be of assistance to PSAB.

Dan Cowin

Dan Cowin
Executive Director
Municipal Finance Officers' Association

A. Koopmans

Andy Koopmans, CMA
Executive Director
Association of Municipal Managers,
Clerks & Treasurers of Ontario

cc: John Burke, Deputy Minister, Ministry of Municipal Affairs & Housing
Pat Vanini, Executive Director, Association of Municipalities of Ontario

MFOA/AMCTO Joint Municipal Accounting Policy Advisory Committee

From MFOA:

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Director of Performance & Internal Audit
Region of Halton

Peter Honeyborne
Director of Treasury Services & Deputy Treasurer
City of Brampton

Dan Chapman
Director of Finance & Treasurer
Township of Woolwich

Barb Cribbett
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Zaneta Horvath
Coordinator, Accounting
Town of Milton

Linda Reed
Commissioner Corporate Services
Town of Oakville

Wesley Snarr
Chief Financial Officer/Treasurer
Township of Centre Wellington

TANGIBLE CAPITAL ASSETS, Section PS 3150 & Guideline

Please read the associates' draft TANGIBLE CAPITAL ASSETS, Section PS 3150 and the Guideline before answering this questionnaire.

The purpose of this questionnaire is to determine whether you agree with the associate's draft of TANGIBLE CAPITAL ASSETS, Section PS 3150 that is intended to apply to all levels of government and the proposed Guideline is intended to apply to local governments only.

The Public Sector Accounting Board (PSAB) needs your views and input not only from applying Section PS 3150 to local governments but also the suggested changes being made to the Section for the purposes of other levels of government.

A series of questions have set out below requesting that you indicate your support for or disagreement with the proposal. The questionnaire also provides an opportunity for you to explain your reason(s) for your position.

Your response will be used by the task force and PSAB to assess the acceptability of the proposals.

Name: MFOA/AMCTO Joint Committee (Majority View)

Employer: ______________________________

Province: Ontario

(This helps PSAB for purposes of profiling the responses in terms of type of respondent and geographic location)

QUESTIONS

Section PS 3150

Tangible capital assets are non-financial assets having physical substance that:

(i) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
(ii) have useful economic lives extending beyond an accounting period;
(iii) have been acquired to be used on a continuing basis; and
(iv) are not intended for sale in the ordinary course of operations. [3150.05 (a)]

	Agree	Disagree
Reason(s) The definition is in line with generally accepted accounting principles and should work for the local government sector. However, we wonder if item (iii) should not say "constructed, developed or acquired" in order to capture assets that a municipality produces rather than acquires from another party.	X	

Cost is the gross amount or consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all of the costs directly attributable to the acquisition, construction, development, or betterment of the tangible capital asset including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. The cost of a leased tangible capital asset is determined in accordance with LEASED TANGIBLE CAPITAL ASSETS, PSG – 2. [3150.05 (b)]

	Agree	Disagree
Reason(s) The historical cost approach to valuation is in line with generally accepted accounting principles and should, in principle, work for the local government sector. However, we note that Ontario municipalities owning a water and/or sewer system will be required under the Sustainable Water and Sewage Systems Act, 2002, to undertake a replacement costing and cost recovery modeling process for related tangible capital assets. Determining the replacement cost valuation and evaluating the condition these assets will be a costly exercise. That exercise would dovetail nicely with PSAB's tangible capital assets reporting requirements and the costs by Ontario municipalities of complying with the act would be lower if replacement cost rather than historical cost were the basis of Section PS 3150.09. We understand, however, that PSAB may not be able to use replacement cost given the national scope of PSAB's mandate. If the historical cost approach is followed, it is essential that PSAB provide clarification and guidance on the precision expected for determining historical cost, asset amortization period (equivalent to historical asset design life), remaining life of the asset, resulting net book values, etc. Ontario	X (in principle)	

municipalities specifically need to know whether applying the value by current fair market value against the ratio of remaining design life (i.e. current fair market value * estimated remaining life/estimated original design life) will be an acceptable methodology. Whatever the valuation methodology, there will be significant work involved for municipalities in establishing net book values. PSAB should explicitly recognize the burden being placed on municipalities in its communications plan so that it does not come as a surprise to municipal elected officials or the public.		

Tangible capital assets should be accounted for and reported as assets in the statement of financial position. [3150.07]

	Agree	Disagree
Reason(s) The valuation of existing and future tangible assets can be greatly simplified if PSAB develop standards or guidelines governing: • asset categories • useful lives for each asset category (could vary by size and location of municipality, and/or other factors) • thresholds for capitalizing expenditures The guidelines or standards would not be iron-clad rules but "rules of thumb" designed to minimize debate between municipal management and auditors. Every municipality could develop its own standards where it can make the case for an alternative to the guideline or standard. The purpose is not only to reduce the administrative burden on municipalities, but also to promote comparability across the local government sector. Municipalities need to be able to demonstrate comparability to other local governments that are their local benchmarks. (The Ministry of Municipal Affairs & Housing has indicated that the FIR will be reformatted to bring it into line with PS 3150.) If neighbouring municipalities adopt a significantly different design life for their watermains, for example, a municipality could be perceived as performing differently in the eyes of council and the public. Staff will be put in the position of explaining that a	X (in principle)	

difference arises out of an accounting practice rather than actual municipal performance. This is key difference between the private sector and government – the opportunity for public scrutiny and the need for readily understood explanations. The categories need to be discrete enough to add value and allow for meaningful comparison (i.e. "various utility systems" would be too broad — this could include water, electricity, and telephone utilities all in one for some municipalities)		

Tangible capital assets should be recorded at cost. [3150.09]

	Agree	Disagree
Reason(s) The proposed rule is in line with generally accepted accounting principles and should work for the local government sector. However, see our comments above in relation to PS 3150.07.	X (in principle)	

Capital grants would not be netted against the cost of the related tangible capital asset. [3150.10]

	Agree	Disagree
Reason(s) The proposed rule is in line with generally accepted accounting principles and should work for the local government sector. Tangible capital assets should recorded at purchase cost. Cost is the “laid-down” cost, regardless of the funding source.	X	

The cost, less any residual value, of a tangible capital asset with a limited useful life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the government. [3150.22]

Reason(s)	Agree	Disagree
The proposed rule is in line with generally accepted accounting principles and should work for the local government sector. However, see our comments above in relation to PS 3150.07. Without some guidance about a relevant range to use when determining an asset's useful life, the risk is higher that useful lives will be selected, in part, to manipulate a municipality's annual reported surplus.	X (in principle)	

The amortization period for a tangible capital asset should be limited to its useful life. [3150.23]

Reason(s)	Agree	Disagree
The proposed rule is in line with generally accepted accounting principles and should work for the local government sector. However, see our comments above in relation to PS 3150.07. PSAB should develop standardized useful lives for different classes of assets to facilitate the task facing municipalities.	X (in principle)	

The amortization of the costs of tangible capital assets should be accounted for as expenses in the statement of operations. [3150.24]

Reason(s)	Agree	Disagree
This is an area of major concern because the details of how expensing the amortization or write down on a statement of operations will impact the net municipal position and the municipal budgeting process is unknown at this time. Municipalities currently budget for transfers to reserves based on future capital replacement needs. Budgeting for both transfers to reserves and amortization expense could result in unnecessary tax increases. Maintaining the existing current and capital funds in conjunction with the introduction of the new statement of operations and recording depreciation	X (pending clarification)	

expense in the capital fund could avoid this problem. These issues must be sorted out before PS 3150 is applied to Ontario municipalities. We understand that no firm answers can be provided until PSAB has considered adjustments to the standards of presentation and disclosure for government in PS 1200 and the objectives of financial statements for local Governments in PS 1700 in light of the proposed application of PS 3150 to local government. We understand as well that the Ontario Ministry of Municipal Affairs and Housing will be considering whether legislative amendments are needed to accommodate PS 3150 and related changes. We look forward to being able to contribute to these consultations. Recording tangible capital assets and depreciation in municipal financial statements may impact the way that the provincial and financial grants are awarded and calculated. This may or not be a good thing or a bad thing, but it is something that should be kept in mind. Over and above the actual impact on municipal budgeting and taxation processes, the introduction of accounting for capital assets on an accrual basis will create major communication challenges for municipal staff in presenting budget and financial information, something that PSAB should explicitly address its communications plans.		

The estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated. [PS 3150.30]

	Agree	Disagree
Reason(s) While it will mean more work for municipalities, the proposed rule is in line with generally accepted accounting principles and should work for the local government sector. However, see our comments on 3150.24	X (in principle)	X

When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. [PS 3150.32]

	Agree	**Disagree**
Reason(s) While it will mean more work for municipalities, the proposed rule is in line with generally accepted accounting principles and should work for the local government sector. It is worth noting, however, that because of the unique nature of many local government capital assets, it may be difficult to establish reasonable criteria for determining whether a decline in value has occurred. As well, see our caveats for 3150.24.	X (in principle)	

The net write-down of tangible capital assets should be accounted for as expenses in the statement of operations. [3150.33]

	Agree	**Disagree**
Reason(s) The proposed rule is in line with generally accepted accounting principles and should work for the local government sector. However, see our caveats for PS 3150.24.	X (in principle)	

A write-down should not be reversed. [3150.34]

	Agree	**Disagree**
Reason(s) The proposed rule is in line with generally accepted accounting principles and should, in principle work for the local government sector. However, PSAB may wish to allow for a situation in which a municipal water system, for example, is deemed obsolete because of scientific developments or a change in regulatory policy, but shortly thereafter is found to still have useful life because of new scientific findings or the issuance of new regulations. As well, see our caveats for PS 3150.24.	X (in principle)	

The difference between the net proceeds on disposal of a tangible capital and the net book value of the asset should be accounted as a revenue or expense in the statement of operations. [3150.40]

	Agree	Disagree
Reason(s) The proposed rule is in line with generally accepted accounting principles and should work for the local government sector. However, see our caveats for PS 3150.24.	X	

The financial statements should disclose, for each major category of tangible capital assets and in total:
(a) cost at the beginning and end of the period;
(b) additions in the period;
(c) disposals in the period;
(d) the amount of any write-downs in the period;
(e) the amount of amortization of the costs of tangible capital assets for the period;
(f) accumulated amortization at the beginning and end of the period; and
(g) net carrying amount at the beginning and end of the period. [3150.41]

	Agree	Disagree
Reason(s) The proposed rule is in line with generally accepted accounting principles and should work for the local government sector.	X	

Financial statements should disclose the following information about tangible capital assets:
(a) the amortization method used, including the amortization period or rate for each major category of tangible capital asset;
(b) the net book value of tangible capital assets not being amortized because they under construction or development or have been removed from service;
(c) the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements;
(d) the nature and use of tangible capital assets recognized at nominal value;
(e) the nature of the works of art and historical treasures held by the government; and
(f) the amount of interest capitalized in the period. [3150.43]

Reason(s)	Agree	Disagree
The proposed rule is in line with generally accepted accounting principles and should work for the local government sector. However, PSAB should consult further with municipalities on complications arising from the implementation of (e).	X	

This Section applies to local governments for fiscal years beginning on or after January 1, 2008. [3150.45]

Reason(s)	Agree	Disagree
We recommend a longer implementation period (at least one year) to 2009 to ensure local governments have the necessary time to deal with all the practical challenges that local governments will face, including: • Uncertainties regarding asset classes, historical/replacement costs, useful life and financial statement presentation • Location of historical records dating back to pre-amalgamation is not known in some cases • Time and resources required to test and implement an Asset Management System for financial reporting. • Concerns regarding auditors' level of testing for compliance, the probability of a qualified audit opinion and the reaction from financial institutions and credit rating agencies if a qualified audit opinion is reported. Alternatively, phase-in by asset class, starting with water, sewer and waste disposal assets for fiscal year 2008, to be followed by other classes in 2009 should be considered. We note GASB offered state and local governments up to seven years to comply with capital asset reporting provisions of Statement 34. Irrespective of the implementation date, training and additional guidance will be required for councillors, staff and		X

the general public to help improve understanding about the rationale for this guidance, effort required to comply with it and the benefits available from doing so		

PROPOSED GUIDELINE

The guideline provides disclosure requirements for local government financial statements to comply with OBJECTIVES OF FINANCIAL STATEMENTS – LOCAL GOVERNMENTS, paragraph PS 1700.110. The disclosures reflect the disclosure requirements in Section PS 3150. Do you agree with these disclosures?

	Agree	**Disagree**
Reason(s) Given that PS 3150 will apply to all local governments after January 1, 2008, it is difficult to see the need for an interim accounting guideline for a period that amounts to only two reporting cycles. The guideline could would divert resources that could otherwise be directed to the preparation of the restatements and entries required on the effective date for PS 3150. The note disclosures contemplated under the guideline would be at best piecemeal and not comparable across the province and country, thus limiting their usefulness.		X

This questionnaire was intended to make responding to PSAB material simpler and less time consuming. Please indicate whether you think this type of questionnaire is useful.

Very Useful	**Somewhat Useful**	**Not useful**
Reason:	Reason:	Reason:

August 25, 2005

Frank Nicholson, MBA
Manager, Legislative Services
AMCTO-Association of Municipal Clerks and Treasurers of Ontario
2680 Skymark Avenue, Suite 910
Mississauga, Ontario
L4W 5L6

Mr. Dan Cowin
Executive Director
MFOA-Municipal Finance Officers' Association of Ontario
512 King Street East, Suite 306
Toronto, Ontario
M5A 1M1

Dear Mr. Nicholson & Mr . Cowin,

This letter is in response to your request for comments regarding the proposed PSAB tangible capital asset reporting requirements. The Corporation of the City of Mississauga appreciates the opportunity to participate on this review committee that's being organized by the Association of Municipal Clerks & Treasurers of Ontario (AMCTO) and the Municipal Finance Officers' Association (MFOA).

This proposal represents a major accounting and financial reporting standard for all municipalities and will ultimately change the future of financial reporting for local governments. However, its implementation will require time, money and resources, not to mention future support and maintenance costs.

The City of Mississauga has always been proactive in the adoption of recommended PSAB standards. In fact, we were one of the first municipalities to convert to a PSAB reporting format. However, we continue to have and maintain serious concerns with this initiative moving forward.

After reviewing the proposed interim guidelines and PS standard 3150 (Tangible Capital Assets), we identified no significant technical concerns over the proposals used for capital asset reporting. These concepts, which are currently being practiced in the private sector seem to be working well, and our concerns are driven only from a philosophical and practical perspective as they relate to local governments.

It is evident, through the feedback from fellow municipalities on the committee, that there is strong support to implement this initiative. However, the City of Mississauga is one of the few municipalities averse to this direction. It is our position that capital asset and depreciation reporting does not fit within the municipal financial reporting framework. Municipalities primarily manage their operations on a cash and accrual basis of accounting, which is directly tied into our property tax rate calculations. Most municipalities currently have systems in place to track and manage infrastructure inventory and condition. Therefore, we believe that municipalities should be presenting their infrastructure replacement gaps as challenges within the context of their budgetary and fiscal policies. Even if this new financial reporting standard is adopted, municipalities, including management will continue to budget the same way as they did in past, through operational and capital budgets and will continue to rely on infrastructure studies to build their capital budget requirements. W strongly believe that the issue of adequate infrastructure reinvestments and lack of funding is a public policy matter, not one of accounting.

Taxpayers are a municipality's biggest stakeholder and they will see no direct benefit from this financial information. Most are mainly concerned with the level and quality of service provided in relation to the property tax dollars that they pay. The property tax rate is based primarily on a cash based budgeting model. Expenditures are matched against user fees and general revenues and any shortfall is made up through property tax rates. This new financial reporting model completely moves away from the current practice.

As an alternative to PSAB 3150, the City suggests providing fixed asset accounting information on a separate, non-consolidated schedule to the financial statements that would not be audited.

It is a foregone conclusion that this initiative will not go away and PSAB is aggressively moving forward with a planned implementation by 2008. In order to help the committee prepare a collective response to PSAB, we have compiled a list of concerns and recommendations to pass on for their consideration. Please see the attached Appendices for additional comments.

- Appendix 1: Concerns
- Appendix 2: Implementation Recommendations
- Appendix 3: PSAB Questionaire

Hopefully, and in cooperation with PSAB, we will be able to achieve the new reporting requirements without too many implementation difficulties. Time, finances and resources can at times be quite critical thereby hampering a successful implementation.

Once again, the City of Mississauga thanks you for the opportunity to comment and provide input in this initiative, as well as your support during this process. We look forward to working with the AMCTO, MFOA and fellow municipalities to further pursue these comments and recommendations in the near future.

Should you have any questions or concerns, please contact Roberto Rossini, Director of Finance at 905-896-5003.

Sincerely,

Brenda R. Breault.
Commissioner of Corporate Services and Treasurer

MB
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Appendix 1

Concerns:

1. Potential costs to set up and manage this new reporting system:
    - cost of building or buying a new system
    - staff complement to manage the information
    - costs of professional appraisals and the inherent subjectivity of those results
    - costs of consulting/audit services and the possibility of a qualified audit opinion because of the difficulty in obtaining historical asset cost information
    - will the Province provide funding for implementing a new system?

2. How municipalities will manage and track this information?
    - are there software applications that will fit into this municipal fixed asset model?
    - municipalities must buy or develop a database
    - municipalities will require a lot of time to develop and/or purchase new systems (i.e. research, assessing technical requirements, RFP process, etc.)
    - will there be standard development requirements if a new system has to be developed?
    - is standard development requirements possible or will it be up to each municipality to figure out?

3. Potential budgeting impacts:
    - reconciling the budget to the financial statements will be difficult.
        - the current budgeting model is primarily based on a cash model, which helps determine the property tax rate.
        - the proposed financial reporting model is based on a full accrual basis, amortizing values, depreciation, etc.
    - taxpayers will lose the ability to compare budgeted information with actual financial results and the simple connection between revenues less expenditures equalling a surplus or deficit will be lost.

4. Implementation Issues & Timelines:
    - Municipalities need adequate lead time to implement this complex reporting requirement.
    - Municipalities will require at least 3 full years to build the database and collect the asset information (i.e. propose December 31, 2009)
    - Workshops and working groups need to be established during this time frame, to help with the transition
    - If year 2008 is being considered for an implementation date, we are not sure it will allow our municipality enough time to get everything in place. There must be some reporting flexibility allowed to move this forward or consideration be given to phase-in reporting different services similar to how MPMP has been expanded and phased-in over time.

Appendix 2

Implementation Recommendations:

1. Implement capital asset reporting on a go-forward basis only:
   Re-creating a historical capital asset database will be a huge undertaking. Municipalities should build their databases on a going forward basis. Over time, municipalities will eventually have a sizable data base for information purposes. To supplement the capital asset reporting during the implementation phase, additional financial and infrastructure information can be provided for complex asset networks such as roads and water/sewers (i.e. the number of kms, average age, etc).

2. Implement reporting through a phased-in approach:
   Municipalities should report on the more complex asset networks first; or maybe choose the less complicated asset groupings first. For example, report on water/sewer in 2008; roads in 2009; buildings in 2010, etc.. This approach will allow municipalities the time to collect information and develop a common standard for each category reporting. Working groups or workshops should also be set up each year to address and develop the specific reporting requirements. We believe this approach to be more efficient and effective for implementation.

3. Establish workshops and/or working groups:
   Most municipal accountants have been out of the fixed asset reporting world for some time. It would be beneficial for the CICA, PSAB, MFOA, AMCTO to set up workshops and working groups to help municipalities tackle this new reporting requirement. A municipal sub-group could work together to establish templates or common standards for all municipalities to follow. These workshops and working groups should be made available well in advance of the implementation timelines.

4. Establish standardized templates for municipalities:
   All municipalities should use the same information and reporting template to collect, manage and calculate information for capital asset reporting. This model will allow municipalities to assign their assets into a common aligned asset category.

   A common standard template should include the following areas:
   - Asset grouping (i.e. Equipment, buildings) and sub-asset classifications (i.e. traffic equipment, playground equipment, etc.)
   - Asset Life: each asset grouping or sub-asset classification should have a common asset life assigned
   - Depreciation method: depreciation should be standardized for each asset grouping or sub-asset classification for consistency amongst municipalities.
   - Materiality: materiality levels should be assigned and standardized for each asset grouping or sub-asset classification
   - Estimation: PSAB guidelines should be made clear to auditors that the required level of precision are "reasonable estimates" only

- Simple/straightforward methodologies should be provided by PSAB as to what is acceptable. This will prevent confusion and provide clarity to auditors when giving opinions on fixed asset reporting.

5. Implementing capital asset reporting in 2 phases:

1. Continue to report current and capital expenditures in the consolidated financial statements. Capital assets would be reported in a separate schedule (possibly for 2008), subject to auditor review and comments (optional). No audit opinion is required.

2. For those municipalities that are ahead of the process, they can convert to consolidated financial reporting earlier, with auditor assistance. Municipalities can work with their auditor to slowly transition to the consolidated level, if needed.

In both phases, we believe there would be sufficient information in the financial statements for financial stakeholder review and analysis.

6. Recommending pilot projects prior to all municipalities moving forward:
Pilot projects would be a good idea to establish the template and guidelines for other municipalities to follow. Information must be shared with all municipalities. Pilot projects need to work out all of the development and reporting details, before other municipalities embark on this initiative.

Appendix 3

TANGIBLE CAPITAL ASSETS, Section PS 3150 & Guideline

Please read the associates' draft TANGIBLE CAPITAL ASSETS, Section PS 3150 and the Guideline before answering this questionnaire.

The purpose of this questionnaire is to determine whether you agree with the associate's draft of TANGIBLE CAPITAL ASSETS, Section PS 3150 that is intended to apply to all levels of government and the proposed Guideline is intended to apply to local governments only.

The Public Sector Accounting Board (PSAB) needs your views and input not only from applying Section PS 3150 to local governments but also the suggested changes being made to the Section for the purposes of other levels of government.

A series of questions have set out below requesting that you indicate your support for or disagreement with the proposal. The questionnaire also provides an opportunity for you to explain your reason(s) for your position.

Your response will be used by the task force and PSAB to assess the acceptability of the proposals.

Name: Robert Rossini, Director, Finance

Employer: City of Mississauga

Province: Ontario

(This helps PSAB for purposes of profiling the responses in terms of type of respondent and geographic location)

Questions

Section PS 3150

Tangible capital assets are non-financial assets having physical substance that:
(i) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
(ii) have useful economic lives extending beyond an accounting period;
(iii) have been acquired to be used on a continuing basis; and
(iv) are not intended for sale in the ordinary course of operations. [3150.05 (a)]

	Agree	Disagree
Reason(s)		
1. Agree with definition.	X	
2. Disagree with the reporting requirement.		X
• Standard asset categories should be established for municipalities to choose from for consistency and comparability. Each asset category should have a definition of the items to be included. • Standard useful life should also be assigned to each asset category for consistency and comparability. If necessary, create an asset category for each useful life requirement. • Need to establish a standardized minimum threshold before an item is capitalized individually or as a pooled asset (i.e. $25,000?)		

Cost is the gross amount or consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all of the costs directly attributable to the acquisition, construction, development, or betterment of the tangible capital asset including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. The cost of a leased tangible capital asset is determined in accordance with LEASED TANGIBLE CAPITAL ASSETS, PSG – 2. [3150.05 (b)]

	Agree	Disagree
Reason(s)		
1. Agree with definition,	X	
2. Disagree with the reporting requirement.		X

• No Comments		

Tangible capital assets should be accounted for and reported as assets in the statement of financial position. [3150.07]

	Agree	Disagree
Reason(s) **1. Disagree with the reporting requirement.** • If tangible capital assets are classified as a non-financial asset, asset information should be disclosed on a separate independent schedule and not included in the consolidated financial statements. The separate schedule will serve the same purpose for financial stakeholders. • Adding capital asset information to the consolidated financial statements will only confuse the average taxpayer. Taxpayers are only concerned with the level and quality of services received in relation to the property tax dollar paid and annual surplus/deficit position. • If tangible capital assets are to be reported on the statement of financial position, municipalities will need direction and information on the reporting format.		X

Tangible capital assets should be recorded at cost. [3150.09]

	Agree	Disagree
Reason(s) **1. Agree with definition,** **2. Disagree with the reporting requirement.** • When the historical cost cannot be obtained, municipalities should be able to use their best estimate (without a professional appraisal); going forward capturing original cost will not be an issue.	X	X

Capital grants would not be netted against the cost of the related tangible capital asset. [3150.10]

Reason(s)	Agree	Disagree
1. Agree with recommendation	X	
• Tangible capital asset should reflect the purchase cost only. • Capital grants is a funding component and should not be factored into the cost.		

The cost, less any residual value, of a tangible capital asset with a limited useful life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the government. [3150.22]

Reason(s)	Agree	Disagree
1. Disagree with definition,		X
2. Disagree with the reporting requirement.		X
• Most tangible assets for a municipality should not have a residual value; therefore do not over-complicate the cost calculation by including residual value. The materiality of residual value is minimal and will not distort the financial results. • Eliminate residual value from the equation.		

The amortization period for a tangible capital asset should be limited to its useful life. [3150.23]

	Agree	Disagree
Reason(s) **1. Agree with definition,** **2. Disagree with the reporting requirement.** • Standardized useful life should be assigned to established asset categories.	X	X

The amortization of the costs of tangible capital assets should be accounted for as expenses in the statement of operations. [3150.24]

	Agree	Disagree
Reason(s) **1. Disagree** • Amortization or depreciation should not be reported on the statement of financial activities; Municipal financial statements do not report on a net income basis nor are they subject to income tax calculations. • Amortizations should be reflected on a separate independent asset schedule; not affecting the financial statements. • Amortizing municipal capital spending information will only over-complicate the presentation of the statement of operations for the average taxpayer. • Amortized spending has not and will not affect the property tax rate calculation, only actual or budgeted spending will. • Departments will continue to manage their asset infrastructure and condition through their existing operational and capital systems.		X

The estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated. [PS 3150.30]

	Agree	Disagree
Reason(s) **1. Disagree** • There is no real value for this requirement. The process should be simple and straight forward for municipalities to set up and administer. • Standardized useful life assignments would eliminate this concern.		X

When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. [PS 3150.32]

	Agree	Disagree
Reason(s) **1. Agree with definition,** **2. Disagree with the reporting requirement.** • There is no real value for this requirement. Therefore the process should be simple and straight forward to set up and administer. • Optional and not mandatory for municipalities to do.	X	X

The net write-down of tangible capital assets should be accounted for as expenses in the statement of operations. [3150.33]

	Agree	Disagree
Reason(s) **1. Agree with definition,** **2. Disagree with the reporting requirement.** • Write-downs should not be reported on the statement of financial activities; Municipal financial statements do not report on a net income basis nor are they subject to income tax calculations. • Write-downs <u>should be</u> reflected on a <u>separate independent asset schedule</u>; not affecting the financial statements. • Write-downs will over-complicate the presentation of the statement of operations. • Write-downs will not affect the property tax rate calculation. • Departments will continue to manage their asset infrastructure and condition through their existing operational and capital systems.	X	X

A write-down should not be reversed. [3150.34]

	Agree	Disagree
Reason(s) • This recommendation is over-complicating the intentions of this asset reporting process.		

The difference between the net proceeds on disposal of a tangible capital and the net book value of the asset should be accounted as a revenue or expense in the statement of operations. [3150.40]

Reason(s)	Agree	Disagree
1. Agree with definition.	X	
2. Disagree with the reporting requirement.		X
• Currently, Mississauga reports the full value of the asset sale on the statement of financial activities as revenue. • Calculating the net difference and reporting it as revenue on the financial statement will over-complicate the accounting and presentation. • Municipalities primarily manage their operations on a "cash" basis which is tied into the property tax rate calculation.		

The financial statements should disclose, for each major category of tangible capital assets and in total:

(a) cost at the beginning and end of the period;
(b) additions in the period;
(c) disposals in the period;
(d) the amount of any write-downs in the period;
(e) the amount of amortization of the costs of tangible capital assets for the period;
(f) accumulated amortization at the beginning and end of the period; and
(g) net carrying amount at the beginning and end of the period. [3150.41]

Reason(s)	Agree	Disagree
1. Agree with definition.	X	
2. Disagree with the reporting requirement.		X
• This information should be presented as a <u>separate and independent schedule</u> from the financial statements.		

Financial statements should disclose the following information about tangible capital assets:

(a) the amortization method used, including the amortization period or rate for each major category of tangible capital asset;
(b) the net book value of tangible capital assets not being amortized because they under construction or development or have been removed from service;
(c) the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements;
(d) the nature and use of tangible capital assets recognized at nominal value;
(e) the nature of the works of art and historical treasures held by the government; and
(f) the amount of interest capitalized in the period. [3150.43]

	Agree	Disagree
Reason(s) **1. Agree with definition,** **2. Disagree with the reporting requirement.** • This information should be presented as a separate and independent schedule from the financial statements.	X	X

This Section applies to local governments for fiscal years beginning on or after January 1, 2008. [3150.45]

	Agree	Disagree
Reason(s) **1. Agree with definition,** **2. Disagree with the reporting requirement.** • Soft implementation date for 2008; all municipalities must work towards…will not affect external audit opinion but will be identified as non-compliant (management letter, audit letter comment). • Final implementation date for 2009…non-compliance "may" affect external audit opinion unless there is a valid explanation by the municipality. • Can municipalities implement capital asset reporting in phases (i.e. Roads in 2008, Vehicles in 2009, etc…) to ease the burden of data collection and implementation?	X	X

PROPOSED GUIDELINE

The guideline provides disclosure requirements for local government financial statements to comply with OBJECTIVES OF FINANCIAL STATEMENTS – LOCAL GOVERNMENTS, paragraph PS 1700.110. The disclosures reflect the disclosure requirements in Section PS 3150. Do you agree with these disclosures?

	Agree	Disagree
Reason(s) **1. Satisfied with the guideline information: contains much of the same information as PS 3150.,** **2. Disagree with the reporting requirement.** • Municipalities still need direction on: o standardized asset categories, o standardized useful life by asset category o minimum asset threshold level o acceptable valuation methodologies • Municipalities still need direction and information on final reporting format.	X	X

This questionnaire was intended to make responding to PSAB material simpler and less time consuming. Please indicate whether you think this type of questionnaire is useful.

Very Useful	Somewhat Useful	Not useful
Reason:	Reason: X • Not much different than PS 3150.	Reason:

Please add any other comments you wish to make on the proposals.

Implementation: Questions and Recommendations
• Workshops would be useful during the implementation phase. • How will a City's capital budgeting process be integrated into this asset reporting model? For example, will only <u>closed capital projects</u> be classified as an asset and all

works-in-progress be classified as WIP?

- Implement capital asset reporting in a phased format (i.e. roads in 2008, vehicles in 2009, etc…) to ease the burden of data collection and implementation. This initiative will be a huge undertaking for municipalities in terms of time and financial resources. It will allow municipalities to focus on 1 key area before moving on to the next area.

- Implement capital asset reporting on a go forward basis and supplement this information with other asset information and statistics. Over time, municipalities will have a sizeable database and any "old" assets would no longer be relevant.

- Establish standardized templates wherever possible.

- Establish a standardized template for "Network Assets" which are more difficult to track.

- Implement capital asset reporting in 2 phases:

  Phase 1: Report capital assets as a separate independent schedule to the financial statements; subject to external audit review but no audit opinion.

  Phase 2: For municipalities that are ahead of the process, they can convert to consolidated financial statement reporting earlier. The goal is to slowly move municipalities over to financial statement reporting over time.

- Will there be any pilot projects before this is adopted, to work out any accounting, reporting, and audit problems. All municipalities could benefit from the results of such a pilot before implementation.

- Cost to develop or buy a capital asset database or system could be significant. Will the provincial government provide any financial support to help municipalities with this initiative?

THANK YOU FOR YOUR TIME AND CONSIDERATION