

Not Quite PSAB 3150 Compliant?

Strategies on becoming compliant before the deadline

As most Municipal Treasurers and Managers know, the requirement to comply with Public Sector Accounting Board (PSAB) section 3150 begins with the 2009 calendar year. Given that we are now approaching the end of the second quarter of 2009, there is not that much time to complete the compliance exercise and have the results audited (likely before the end of the second quarter of 2010).

Watson & Associates has assisted over 40 municipalities in Ontario with PSAB related compliance services. For those municipalities that are still working on PSAB 3150 compliance, the following four process steps have been beneficial to a number of municipalities during the compliance process:

1. Develop TCA Policies
2. Creation of a TCA Asset Listing
3. TCA Valuation
4. PSAB 3150 Calculations and Disclosures

1. Develop TCA Policies

The TCA policies set the groundwork for determining how the asset listing will be created and maintained in years to come. What's more, the policies will determine the level of effort and resources required to become PSAB 3150 compliant.

Regarding your initial TCA listing, the policy document is a great way to ensure all people involved in the compliance process (department

staff, Council, and the auditors) understand and agree to the process and initial policy decisions. With the compliance deadline quickly approaching, staff don't want to be performing data collection and valuation procedures multiple times due to a disagreement on the preferred methods. Some of the decisions to consider include:

- What types of assets are included and should they be broken down into sub-components?
- How do I determine historical cost?
- How do I categorize my assets to ensure I meet reporting requirements?

Regarding maintaining your asset listing moving forward, the following are some of the decisions that should be considered:

- How do I account for contributed assets, leased assets, and assets owned by local service boards?
- What is the impact of assets being constructed over multiple years?
- What process do I follow to ensure all asset additions, replacements, betterments, write-offs, and disposals are recorded accurately in the future?
- What amortization policy should I establish?

It is important to consider that in most municipalities, it will be the accounts payable staff (not Managers or Directors) that will be recording most asset transactions as they receive invoices. Therefore, asset policies and procedures would assist them in recording asset transactions using an accurate and consistent approach.

2. Create a TCA Listing

Before time and resources are spent collecting the asset data required for PSAB 3150 purposes, it may be advantageous to decide exactly what data is to be collected. The policies established in your municipality and the planned uses of the asset data will determine the types of asset characteristics required to be collected.

If you plan on establishing a current value for each asset (i.e. replacement cost), then characteristics such as asset type, size, material, and length will assist in applying benchmark values to similar assets. If you are required to use some actual historical cost values (check with your auditor), it may be more efficient for staff to collect these values while they are collecting all other asset characteristics.

If your municipality is planning on implementing asset management practices using the new TCA asset listing, then characteristics such as replacement cost and asset condition may be useful. The benefits of asset management will be discussed in more detail in a future Wat-

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Upcoming Newsletters

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3. TCA Valuation

PSAB requires the use of historical cost valuation, which is the original cost to purchase or construct each asset. Given that there has been no requirement to maintain these values in the past, many municipalities are faced with the need to estimate historical cost for many of their assets. Before this estimation process takes place, it is important to determine where your auditor will allow you to estimate historical cost, and where you should be attempting to use actual historical cost (from existing municipal records).

Once the use of estimation has been agreed to (your TCA policies is a great place for this agreed approach), the next step involves developing an estimation process. The most common approach used by municipalities is to “deflate” or “discount” the current value of the assets using appropriate indexes. These appropriate indexes can come from a number of sources, but it is important to ensure your preferred approach is consistent and accepted by everyone involved.

There are a number of indexes available to municipa-

lities, including the indexes contained in the Watson & Associates report prepared for MFOA and AMCTO entitled “*Historical Cost Indices for PSAB 3150 Purposes*” (please see the MFOA/AMCTO PSAB website for a copy). Other resources include the Book Value Calculator (from the Province), various published indexes (i.e. ENR index), or even internally generated indexes.

4. PSAB 3150 Calculations and Disclosure

Once a complete and accurate TCA listing has been established and valued, the next step is to ensure you can meet all disclosure requirements. Unfortunately, there is more to PSAB 3150 compliance than simply calculating Historical Cost, Accumulated Amortization, and Net Book Value. Other disclosure requirements include:

- Additions, disposals, write-offs, and amortization for the period
- Amortization methods and rates used
- Contributed assets, nominally valued assets, and interest capitalized during the period
- Nature of Works of Art and Historical Treasures

at your municipality

Also, keep in mind that the financial statements are changing significantly due to the move to full accrual accounting. This will be discussed in more detail in Watson Newsletter 3.

Haven't Started Yet?

We acknowledge that there are some municipalities that have not started the PSAB 3150 compliance process (or they are in the early stages of compliance). Keep in mind, your 2009 financial statements (including 2008 comparatives) that will be produced in early 2010 must be compliant with PSAB standards.

Based on Watson's experience, a typical PSAB 3150 compliance process can take 4 to 5 months, with the majority of the time spent collecting asset data. Therefore it is not too late to become compliance by the deadline, however it would be a good idea to start as soon as possible.

To get the process started, a brief discussion with your auditor might give you an idea of their expectations in this area. Also, feel free to give someone at Watson & Associates a call to discuss strategies on how your municipality can be PSAB 3150 compliant by the deadline.



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Questions / Comments?

If you have any questions or comments regarding this or any Watson Newsletter, please contact us. We welcome the opportunity to discuss your specific municipality's needs.

Have a Suggestion for Additional Newsletters?

If there is a related topic you would like covered in a future Watson Newsletter, please contact one of the Watson staff members indicated below with your ideas.

Watson & Associates Economists Ltd.

Watson & Associates Economists Ltd. is a firm of economists, planners and accountants which has operated in Ontario for over 25 years. With a client base of more than 250 municipalities, utility commissions and school boards, many of which are long-term repeat clients, the firm is recognized as a leader in the municipal finance/local government field. The firm has a committed thirty person staff that has worked together for many years. The firm's principals have participated extensively as expert witnesses on municipal finance matters at the Ontario Municipal Board for 25 years.

Watson & Associates Economists Ltd. has been engaged by a number of municipalities across the province to provide water/wastewater financial planning, development charges, PSAB 3150 compliance and asset management related services. The Watson PSAB 3150 and asset management approaches have been created to assist in the development of policies and procedures that are unique to the situations in each municipality. Watson has provided PSAB 3150 related services to over 40 municipalities in Ontario, all differing in size and services provided (i.e. Municipalities, Towns, Townships, Cities, Regions, etc.). Also, the Watson approach to PSAB 3150 has been widely accepted among municipal auditors.

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