

BULLETIN



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Of The United States and Canada

Alberta Chapter

Alberta GFOA Special Release Bulletin #4 – October 5, 2006

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) has proposed new accounting standards for Government Transfers. [The deadline for submissions has been extended to Friday, October 13, 2006 although it appears that extensions may be granted](#) (the communication from CICA is attached as an Appendix at the end of this bulletin).

Municipalities will be required to report grants as revenue in the year they have been approved which will likely **result in volatility of annual operating results**. The significance of the proposed new accounting standard can be shown in the following example:

- In December - the Provinces authorizes a grant to Municipality “A” for \$1 Million. Municipality “A” uses the grant the following year. Assume that the municipality normally operates to a balanced budget.

- Under proposed reporting requirements, Municipality “A” would be required to record a surplus of \$1 million in the year, and the following year could show a \$1 million deficit, **since deferral of the grant in the current year is not allowed.**

The Board of the GFOA is not in agreement with many of the proposed reporting requirements of this exposure draft, and our President, George Huybregts has prepared a response on behalf of the GFOA (see below).

The Alberta GFOA suggests that municipalities review the exposure draft located at: <http://www.cica.ca/index.cfm> and encourages members to respond on behalf of your individual municipality. Please feel free to use the Alberta GFOA’s response below to assist you in responding to the CICA.

Alberta GFOA’s Special Release Bulletins

Alberta GFOA, through the Communications Task Force, augments its Quarterly Newsletter Publications with Special Release Bulletins that will be distributed from time to time to all Members. These Bulletins are intended to provide information pertinent to various aspects of municipal finance. They will also be utilized to profile upcoming professional development and training opportunities. The Bulletins are intended to outline information on a specific topic in a brief and concise manner. In some cases, contact references will be provided in order that readers can obtain more detailed information from specific sources.

If you are interested in contributing to the preparation of future Bulletins, please contact Tracey Burkholder at bburkholder@shaw.ca via phone at (403)-934-4765.



September 29, 2006

Public Sector Accounting Board

Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto ON M5V 3H2

Attention: Mr. Tim Beauchamp, Director

Dear Mr. Beauchamp,

Re: Exposure Draft – Government Transfers, Section PS 3410

On behalf of the Government Finance Officers Association of Alberta (Alberta GFOA), I wish to thank you for the opportunity to provide comments on the exposure draft for Government Transfers, Section PS 3410. Alberta GFOA members represent more than 130 local governments in Alberta ranging in size from large cities to small towns, villages and rural municipalities. Alberta municipalities are becoming increasingly aware of the change requirements of Tangible Capital Assets (PS 3150), the new Reporting Model (PS 1200) and Government Transfers (PS 3410), and the significance and impact of these requirements.

These changes, taken together, will, we believe, require a paradigm shift in how local government administrations, elected officials and the public view and understand municipal financial statements. The full implication of these changes (i.e. disappearance of fund accounting, potential for 'deficit' budgets, moving away from the matching principle, etc.) is probably not completely identified and understood yet. We are struggling with the concept that the recognition of provincial/federal capital grants will no longer be 'matched' to the expenditure of these funds for the acquisition of tangible capital assets. As noted in our April 26, 2006 response to the exposure draft for Tangible Capital Assets and our August 15, 2006 response to the exposure draft for the New Reporting Model, we contend that 2010 would have been a more appropriate implementation date to allow for the significant implementation effort to occur and the considerable education focus to take place. However, we recognize the 2009 implementation date has been determined and are working hard to meet this target.

Alberta GFOA has the following additional concerns with the changes proposed to PS 3410, Government Transfers.

Paragraph .07 specifies the revenue recognition criteria for government transfers provided the transfer is authorized and the eligibility criterion has been met by the recipient. There are situations where a municipality is eligible for and authorized to receive provincial or federal grant funding, but the payment of the grant funds is stretched over a period of time (i.e. five years) or is based on proof of expenditure (i.e. Infrastructure Canada-Alberta Program). We are uncertain whether a municipality is to record the full amount of the grant in revenue in the year that eligibility and authorization is confirmed or match the revenue recognition over the period of time or at the time the other levels of government expense the transfer.

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The obligation to a municipality of conditional capital grants provided by another level of government is very similar to the obligation to a municipality of off-site developer levies provided by (private sector) developers. Currently the revenue recognition of these 'restricted' funds is guided by PS 3100. The suggested revisions to PS 3410 (and PS 3100) would treat conditional capital grants differently than off-site developer levies, even though both impose similar obligations on a municipality for the expenditure of these funds.

The highlights section (page vi) recognizes the change in recognition treatment of government transfers may result in volatility of annual (operating) results. This will be particularly true in the case where large, one-time (versus annual ongoing) conditional capital grants are included in revenue. We disagree that volatility in annual results will be easier to explain than a deferred revenue position in the Statement of Financial Position. It may be difficult for elected officials and the public to understand that an annual operating surplus position may not be completely 'unrestricted' due to the inclusion of unexpended conditional grants. Further, the accumulated surplus position may include 'unexpended conditional grants' that will have to be 'protected' due to the restricted nature of these funds.

The inclusion of large, one-time conditional grants in annual operations may result in comparability issues. Difficulty may be encountered comparing (on an 'apples-to-apples' basis) operating results on a year-to-year basis and/or a municipality-to-municipality basis because of the variance in size of one-time grants received in a particular period. In addition, (poor) operational performance may be masked by the size of the one-time grant in operating revenue in a given year.

In summary, given the significant impact the proposed changes to the recognition of Government Transfers will have on municipal financial statements and financial reporting, Alberta GFOA is opposed to the changes outlined in Exposure Draft for PS 3410. As outlined above, we have concerns that will have to be addressed.

Yours truly,
Alberta GFOA

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pc Alberta GFOA Board of Directors

To the Associates of the
Public Sector Accounting Board

Government Transfers Public Exposure Draft

In July 2006 PSAB issued a public exposure draft of revised proposals for changes to **GOVERNMENT TRANSFERS**, Section PS 3410, of the CICA Public Sector Accounting Handbook (**CICA PSA HANDBOOK**) for your review and comment. We have received eight responses to date on these proposals. The topic of government transfers is very controversial and the new proposals may have significant fiscal implications in some jurisdictions. PSAB needs a broad range of respondents to provide comments in order to determine the acceptability of the proposals.

A number of jurisdictions have indicated that they need to consult with interested parties in their governments and have requested additional time to finalize their responses. In order to accommodate these requests and in fairness to all respondents, PSAB has decided to extend the response period for the Government Transfers public exposure draft.

Please provide your views on the proposals in the exposure draft by October 13, 2006. You are urged to respond to PSAB with your views and comments on these proposals. Your input is crucial to the development of final standards. If you intend to respond but expect that your comments will arrive after this date, please indicate such intentions in an e-mail to martha.denning@cica.ca.

Where possible, we would appreciate your comments by e-mail (in Word format) to: ed.psector@cica.ca. Thank you for your advice and continued support. If you have any questions, or need additional information or a new copy of the proposals, please contact me at martha.denning@cica.ca.

Yours truly

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