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Members of Council
Town of The Blue Mountains
Box 310
26 Bridge Street
Thornbury, Ontario
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Dear Sir/Madam:

As you are aware, the CICA's Public Sector Accounting Board (PSAB) issued a number of new standards which significantly alter financial reporting for local governments. These new standards include:

- PS 1000 – Financial Statement Concepts
- PS 1100 – Financial Statement Objectives
- PS 1200 – Financial Statement Presentation
- PS 3150 – Tangible Capital Assets

These sections apply to local governments for fiscal years beginning on or after January 1, 2009. Each of these new sections is significant in its own right, however, the work effort required to implement PS 3150 – Tangible Capital Assets (TCA) warrants special attention.

I want to be sure that we respond to your questions and address your issues adequately with respect to your audit. The audit of the opening balances of capital assets as required under PSAB is outside of the scope of the annual audit. This creates two distinct issues; additional audit fees and timing constraints.

The fee for auditing the opening balances will be dependent on the amount of assets to be audited and the organization of the material that backs up the numbers reported by the municipality. Our audit fees, like those of other professional service firms, are based upon actual time spent and are determined using standard hourly rates. Standard hourly rates vary with the experience level of the professional staff assigned to the engagement. As a policy we endeavor to stratify our staff mix to achieve the optimum average rate. Since the complexity of this work is significant, experienced staff with hourly rates between \$105 and \$155 is being assigned to audit the TCA. Some municipalities within Ontario have seen fees for TCA equal to the regular audit fees. We will endeavor to find efficiencies and attempt to keep the fees between $\frac{1}{2}$ and $\frac{3}{4}$ of the regular audit fee.

The second issue involves the timing and completion of the TCA and the impact on the regular audit. It was anticipated that the opening capital asset balances would be prepared and finalized by the municipalities in the fall of 2009 after which we at BDO would be able to complete the audit of those numbers. Many difficulties have arisen and very few municipalities were able to finalize these opening numbers and many are still in the process of gathering and organizing the information. At the Owen Sound office of BDO, we are responsible for the audit of fourteen municipalities. It requires significant planning and time commitments from our staff to ensure that the regular audits of these municipalities are completed on a timely basis in February, March and April. As we are already utilizing our staff at the maximum capacity during these months, it would be impossible to perform TCA audits also. We will undertake to complete your regular audit during the normal scheduled time and will provide draft financial statements (excluding TCA) to corroborate your surplus calculation required for your 2010 budget. If we are unable to complete the TCA audit for your municipality before the end of January 2010 we will schedule the TCA audit after May 1, 2010 and release your final financial statements once the TCA audit is complete.

PS 1000, PS 1100 and PS 1200, are collectively referred to as the Government Financial Reporting Model. The new Government Financial Reporting Model is an "accrual basis of accounting". This model of accounting recognizes the financial effects of transactions in the period(s) in which they occur, irrespective of whether cash has been received or paid.

The new reporting model will have an impact on a government's financial statements in two key areas:

1. Non-financial assets must now be recognized. The current model only required the recognition of financial assets. As a result, the acquisition of non-financial assets is not recorded as expenditures in the year of acquisition. They will now be recognized as assets and expensed as they are used.
2. The definition of revenue and expenses is based on increases and decreases in assets and liabilities. This asset and liability approach to recognizing revenue and expenses will result in volatility in the annual surplus or deficit as there is less focus on matching revenue with expenditures as is done with the current reporting model.

The new reporting model will also impact what financial statements are required to be prepared. Under the current reporting model the financial statements consist of: the statement of financial position, statement of financial activities and statement of changes in financial position. Under the new reporting model the following financial statements will be required to be prepared:

- Statement of financial position
- Statement of operations
- Statement of changes in net debt
- Statement of cash flow

The challenge created by the new reporting model is that in most cases local governments do not budget on an "accrual basis" of accounting. Budgets have typically focused on expenditures and the taxation revenue needed to fund those expenditures. The budget process very much matched "modified accrual basis" of accounting of the current reporting model. The presentation of budget information on an accrual basis does not mean that the budget process must be changed to match the "accrual basis" of accounting. However, a process of reconciling the budget to an "accrual basis" will have to be developed if the budget process isn't changed. If an organization chooses not to modify its budget process to an "accrual basis", a reconciliation of the official budget to the amounts reported on the statement of operations and statement of changes in net debt must be disclosed in the notes to the financial statements. Such disclosure is required so users understand how the government's results for the period compare to the results it planned and the amounts authorized to accomplish those plans.

Although we do not believe the information gathering requirements and work effort to comply with the Government Financial Reporting Model will be as onerous as the tangible capital asset project, it does have its challenges. The challenges relate to completely reformatting the financial statements, ensuring all accruals have been made and reconciling the budget to the new format as required under the new standards. Depending on the extent of the work by our staff to make these changes, additional fees may be incurred.


The significant changes to the accounting standards by PSAB, certainly adds additional effort and complexity to your audit. This will be a challenging time for both your organization and ours, but we believe that together we can overcome these hurdles. We strive to carry out our duties in a professional, cost effective manner. We have added value to the annual audit process through suggestions for improvements in internal controls and accounting processes, and other business matters in our management letters and we are committed to providing guidance and assistance to you during this year's audit process.

We are proud to be your auditor. You are an important and valued client of BDO.

If you have any questions, please feel free to call me directly at 519-376-6110. We have also attached two detailed brochures to help you understand the extent of the changes to the accounting standards.

Yours truly,

BDO CANADA LLP
Chartered Accountants



Traci Smith, C.G.A.

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Encl.