
TANGIBLE CAPITAL ASSETS

Training Seminar

**Association of Manitoba Municipalities
Manitoba Intergovernmental Affairs
June to September, 2007**

TCA Seminar

Why PSAB?: (9:00 to 9:15)

Tangible Capital Assets:

- Requirements of PS3150 (9:15 to 10:30)
- Identifying your TCA (10:45 to Noon)
- Valuation of your TCA (1:00 to 2:30)

Accruals at Dec 31, 2007 & 2008:

- 2008 Comparative Figures (2:45 to 3:30)

Municipal Reporting Entity:

- “A Look Ahead” (3:30 to 4:00)
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Why PSAB?

- **Public Sector Accounting Board** of the Canadian Institute of Chartered Accountants
 - Regulates accounting principles and practices for **all government levels** across Canada
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Why PSAB?

- Created to address inconsistent accounting and reporting practices in the public sector
 - Public sector entities are required to use PSAB GAAP
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Why PSAB?

- Municipalities in other provinces are already complying with PSAB
 - B.C
 - Alberta
 - Saskatchewan
 - Ontario
 - Nova Scotia
 - Quebec municipalities will comply with PSAB in 2009
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Why PSAB? - Benefits

- Transparency & Accountability:
 - PSAB F/S present the “full” financial picture:
 - 1 set of summary F/S with the elimination of inter-fund balances & transactions
 - Capitalization & amortization of TCA
 - Consolidation of entities under control or shared control
 - “full” accrual accounting
 - Councils will have better information to make decisions
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Why PSAB? - Benefits

- Useful & understandable statements
 - Council
 - Public
 - Comparability
 - one accepted set of accounting rules reinforces credibility of public sector financial statements
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Why PSAB? - Benefits

- The reporting and amortization of TCA will provide:
 - Better recognition of the cost of using an asset to deliver services
 - Full costing of services – e.g. garbage services
 - Better recognition of future funding needs
 - Cash reserves do the same but they are optional
 - Improved data for capital planning & reporting
 - Info on the age of your TCA & remaining service life
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Why PSAB? - Noncompliance

- Municipal auditor must qualify his audit opinion
 - Could affect financing costs with banks
 - Public concern over council's management practices
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Why PSAB? - Noncompliance

- Federal Gas Tax agreements require that municipalities comply with PSAB
 - Affect eligibility for other future Federal & Provincial programs
 - Contravention of Provincial legislation
 - Municipal Act already requires GAAP statements
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Requirements of PS3150

- What Are TCA?
 - Betterments
 - Cost
 - Amortization
 - Write-downs
 - Disposals
 - Presentation & Disclosure
 - Transitional Provisions
-

PS3150 - What Are TCA?

- Definition of TCA per Handbook (HB):
 - **Non-financial** assets having physical substance that are:
 - a) Used in the production or supply of goods and services
 - b) Have useful economic lives beyond 1 year
 - c) Are used on a continuing basis; and
 - d) Are not for resale in the ordinary course of business
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PS3150 - What Are TCA?

- “Non-financial” assets do not provide resources to discharge liabilities, but:
 - a) Are used to deliver government services
 - b) Consumed in the normal course of operations
 - c) Not for sale in the normal course of operations
 - Cash, Temporary Investments, AR, Inventories for Resale, Portfolio Investments are “Financial” assets
-

PS3150 -What Are TCA?

■ Examples of TCA:

- ❑ Roads & Streets
 - ❑ Bridges
 - ❑ Water Systems
 - ❑ Sewers
 - ❑ Land
 - ❑ Buildings
 - ❑ Vehicles
 - ❑ Equipment
 - ❑ Computers & Software
- Infrastructure**
- General TCA**
-
- The diagram uses red curly braces to group the list items. The top four items (Roads & Streets, Bridges, Water Systems, and Sewers) are grouped under the label 'Infrastructure'. The bottom five items (Land, Buildings, Vehicles, Equipment, and Computers & Software) are grouped under the label 'General TCA'.

PS3150 - What Are TCA?

- PS3150 **does not** apply to:
 - ❑ Intangible Assets (i.e. goodwill, patents)
 - ❑ Natural Resources (gold, oil, diamond deposits, etc.)
 - ❑ Crown lands **that have not been purchased**
 - ❑ Land held for resale
 - e.g. properties taken over for taxes owed
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PS3150 - What Are TCA?

- Works of art and historical treasures are not TCA:
 - Priceless
 - Cannot be replaced
 - Intend to preserve indefinitely
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PS3150 - What Are TCA?

- Works of art & historical treasures include:
 - Library collections
 - Museum collections
 - Paintings & sculptures
 - Arts & craft
 - Antiques
 - Statues, monuments & plaques
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PS3150 - What Are TCA?

- Works of art & historical treasures do not include heritage buildings that are still being used to provide services to the public:
 - City hall
 - Libraries
 - Museums
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PS3150 - Betterments

- Betterment is a cost incurred to enhance the service potential of a TCA:
 - Increase the service capacity (quality or quantity)
 - Lower the operating costs
 - Extend the useful life
 - Anything else is R&M
 - R&M is an expense of the accounting period
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PS3150 - Betterments

- Maintenance & repairs maintain the service potential
 - Betterments increase the service potential
 - Road reconstruction that either widens, raises, or strengthen the road is a betterment
 - New gravel is R&M
 - Fixing potholes or filling cracks is R&M
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PS3150 - Betterments

- Sometimes the exact same construction activity can be a betterment or R&M
 - e.g. Roof replacement
 - Replacing a roof in yr 20 of a building (40 yrs useful life) is R&M
 - Replacing a roof which will add 20 yrs of use to a 40 yr old building is a betterment
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PS3150 - Cost

- TCA should be recorded at cost
 - Cost is historical cost not replacement cost or fair value
 - Historical cost is objective and reliable – transaction based
 - Replacement cost may be more relevant but it is subjective
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PS3150 - Cost

- Costs includes all costs directly attributable to the acquisition, construction or development of the TCA:
 - ❑ Labour & materials (includes donated labour & materials at their FMV)
 - ❑ Site preparation
 - ❑ Delivery & handling costs
 - ❑ Installation & assembly
 - ❑ Design & engineering fees
 - ❑ Legal fees
 - ❑ Direct overhead
-

PS3150 - Cost

- Interest expense can be capitalized when it is the government's policy
 - Policy has to apply to all asset categories
 - Capitalization of interest ceases when the asset is available for use
 - Capitalization of interest ceases if there is no construction activity
-

PS3150 - Cost

- Only interest owed to external debt holders can be capitalized (i.e. debenture holders, banks)
 - No capitalization of internal interest charges
 - Interest on debentures of your own municipality which you hold as an investment is an internal interest charge
-

PS3150 - Cost

- If 2 or more assets are purchased for a single purchase price, the cost must be allocated based on their relative fair values (i.e. land & building)
 - Intend to tear down the building then the entire purchase price can be allocated to the cost of the land **plus demolition costs**
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PS3150 - Cost

- N.B. - Costs is the gross cost of the asset
 - Cannot net capital grants or donations against the cost of the asset
 - E.G. – MWSB bills municipalities for 60% of the construction costs. Cost has to include the 40% that was paid by the Province.
 - Also applies to Canada/MB Infrastructure Program
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PS3150 - Cost

- Government capital grants must be accounted for in accordance with Government Transfers (PS3410)
 - The proper treatment of capital government transfers for 2009 is currently uncertain
 - You will be informed on the proper accounting treatment for government capital transfers at a later date
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PS3150 - Cost

- Cost of a donated or contributed TCA must be equal to its fair value at the date of contribution:
 - Transfers of TCA from senior governments
 - Transfers of infrastructure (roads, water systems, sewers) from developers
 - Costs may be determined by an estimate of replacement costs
 - If impossible to determine replacement cost, TCA would be recognized at a nominal value
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PS3150 - Amortization

- Any TCA with a limited life should be amortized
 - HB requires that amortization be calculated on a:
“Rational and systematic manner appropriate to its nature and use by the government”
 - Amortization is an expense of the period
 - Land normally has an infinite life and is therefore not amortized
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PS3150 - Amortization

- Amortization method and useful life should be reviewed on a regular basis
 - Straight line method is the easiest and most common method
 - $(\text{cost} - \text{residual value}) / \text{yrs useful life} = \text{annual amortization}$
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PS3150 - Amortization

- Unit of output and declining method balances are acceptable but are rarely used
 - Province only uses the unit of output method for airplane engines
 - Nova Scotia is the only province that uses the declining balance method
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PS3150 - Amortization

- Useful life is the shorter of:
 - Physical life (assumes normal required maintenance)
 - Technological life (common for computers & software)
 - Commercial life
 - Legal life
 - E.G. of “Commercial Life”
 - Parking lot with a useful life of 10 years but plans are to redevelop the property in 5 years
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PS3150 - Amortization

- Conditions that indicate that a decrease in the useful life of a TCA is warranted:
 - Physical damage
 - Technological change
 - Change in the extent that an asset is to be used
 - E.G. of a change in use:
 - May be required to reduce the useful life of a road from 40 years b/c heavy trucks are now using the road
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PS3150 - Amortization

- A decrease in the useful life of an asset is a change of estimate and not a change in accounting policy
 - A change in accounting policy requires the restatement of prior year numbers
 - You will not be required to restate prior year numbers b/c you changed the useful life of a TCA
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PS3150 – Write-downs

- PSAB requires that the cost of a TCA should be reduced when conditions indicate that a TCA:
 - a) “no longer contributes to a government’s ability to provide goods and services, or*
 - b) the value of future economic benefits is less than its NBV”.*
 - The write-down should be accounted for as an expense of the period
 - A write-down should not be reversed
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PS3150 – Write-downs

- E.G. of TCA that would require a write down:
 - Loss of land due to river erosion
 - Road which is damaged by flooding and not repaired
 - Machinery put out of service before the end of its useful life
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PS3150 - Disposals

- Difference between the net proceeds and the net book value (NBV) should be accounted for a gain or loss of the period
 - Vehicle (cost of \$20K and accumulated amortization of \$5K) = NBV of \$15K
 - Vehicle is sold for \$18K, then gain is \$3K
 - Vehicle is sold for \$11K, then loss is \$4K
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PS3150 - Disposals

- When a TCA is disposed, the cost and accumulated amortization have to be removed from the accounts:
 - E.g. vehicle sold for \$18,000

Dr. Cash	\$18,000	
Dr. Accm Amort	\$ 5,000	
Cr. Vehicle (i.e. cost)		\$20,000
Cr. Gain on sale		\$ 3,000

PS3150 – Capital Leases

- Leases are classified as either capital or operating
 - Under a capital lease “***all of the benefits and risks of ownership are transferred to the government***”
 - Transfer of legal ownership is not necessary to be considered a capital lease
 - Property under a capital lease is accounted for as a TCA and a liability
 - Operating lease payments are expenses of the period
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PS3150 – Capital Leases

- One or more of the following conditions would indicate a capital lease:
 - a) Ownership transferred or bargain purchase option
 - b) Government essentially receives all of the economic benefits (75% of useful life)
 - c) PV of minimum lease payments covers the FMV of the asset (90%)
 - d) Other indicators of rewards and risks of ownership
-

PS3150 – Presentation & Disclosure

- The F/S should disclose for each major category of TCA:
 - a) Cost at the beginning and end of the period
 - b) Additions in the period
 - c) Disposals in the period
 - d) Amount of any write-downs
 - e) Amount of amortization
 - f) Accumulated amortization at the beginning and end of the period
 - g) NBV at the beginning and end of the period
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PS3150 – Presentation & Disclosure

- F/S should also disclose the following information:
 - a) Amortization method and rate used for each major category of TCA
 - b) NBV of assets not being amortized b/c they are under construction or removed from service
 - c) Nature and amount of contributed assets received in the period
 - d) Nature and use of TCA recognized at a nominal value
 - e) Nature of works of art and historical treasures held by the government
 - f) Amount of interest capitalized in the period
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PS3150 – Presentation & Disclosure

- PS3150 does not prescribe asset classes and major asset groupings
 - The recommended asset classes and major groupings are presented in Appendix 2
 - Presentation & disclosure issues will be examined closer when the manual on the new F/S is released in the fall of 2008
 - There will be training sessions on the F/S shortly afterwards
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PS3150 – Transitional Provisions

- Changes in accounting policies to adopt PSAB can normally be applied:
 - retroactively, or
 - prospectively
 - PS3150.44 overrides this: “This section applies to all TCA”.
 - TCA has to be applied retroactively therefore the 2008 comparatives have to be restated
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PS3150 – Transitional Provisions

- You can implement PS3150 before Jan 1, 2009 but not on a piece-meal basis
 - Its all your TCA or nothing
 - Public Sector Guideline 7 (PSG-7) is effective for fiscal years starting Jan 1/07 (i.e. Dec 31, 2007 & 2008 Y/E's)
 - (PSG-7) Local Governments should disclose how much work they have done or not done on TCA
 - Disclose the same information you need for PS3150
 - If you have done nothing then just say so
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Identifying Your TCA

- TCA Listing
 - TCA Accounting Policy
 - Asset Classes
 - Assessment of Useful Lives
 - Capitalization Thresholds
 - Single Asset vs. Component Approach
 - Segmentation of Network systems
 - Sources of Information
 - Develop a Work Plan
-

Identifying Your TCA – Listing

- Questions to remember when preparing your TCA listing:
 1. What TCA do we have (i.e. completeness)?
 2. Where is it located?
 3. What is its useful life?
 4. What is its condition?
 5. When did we get it?
 6. What did it cost?
 - This section covers the first “5” steps
 - Step “6” is covered in the next section
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Identifying Your TCA – Listing

- Preparing a TCA Listing is similar to taking “inventory”
 - Ensure that your listing is complete
 - N.B. Include all network systems even if fully amortized at Dec 31/07:
 - Roads & streets
 - Water systems
 - Sewers
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Identifying Your TCA – Listing

- A complete listing of your infrastructure may save work in the future:
 - 1) First step in calculating funding requirements for “infrastructure deficit”. You need to know how much infrastructure you own
 - 2) Listing may be needed for coming PSAB requirements to provide condition assessments on all infrastructure
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Identifying Your TCA – Listing

- A TCA listing should include:
 - Description of the asset/class
 - Year of acquisition or construction
 - Expected useful life at time of acquisition
 - Betterments made to TCA since acquisition
 - Useful life of betterments
 - Estimated residual value, if any, on disposal
 - Manual includes a sample template -
Appendix 1
-

Identifying Your TCA – Asset Classes

- Asset classes with descriptions will help you identify TCA
 - Appendix 2 provides an extensive list of asset classes with descriptions
 - Based on the asset classifications used by the Province
 - Asset classes for water systems & sewers have been added
 - Recommended that everyone uses the same asset classes
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Identifying Your TCA – Useful Lives

- Appendix 2 lists the useful life for each asset class
 - These are the recommended maximum useful lives
 - Should use amortization rates that are *“appropriate to the nature and use of the asset”*
 - Remember the example of the road with the increase in heavy truck traffic
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Identifying Your TCA – Thresholds

- In theory any asset that meets the definition of a TCA should be capitalized
 - e.g. stapler meets the definition of a TCA
 - In practice most organizations use capitalization thresholds
 - Minimum amount that an asset must exceed before it will be capitalized
 - Items below the threshold are expensed
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Identifying Your TCA – Thresholds

- The proper capitalization threshold is a balance between the:
 - Accurate presentation of results
 - Cost of acquiring & maintaining the accounting records
 - Thresholds for your initial listing at Dec 31/07 should be the same thresholds that you use for future additions in 2008 and beyond
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Identifying Your TCA – Thresholds

- Appendix 2 lists the recommended thresholds for each asset class
 - Thresholds are normally based as a % of revenues
 - Did not use % of revenues to determine thresholds for MB municipalities
 - Determining revenues with the current F/S is very difficult
 - Used population numbers instead
 - Revenue levels for municipalities in MB are proportionate to the population of the municipality
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Identifying Your TCA – Thresholds

- 2 recommended threshold levels for each class:
 - Populations < 5,000 (~ 175 munis)
 - Populations > 5,000 (~ 22 munis)
 - All munis should use the recommended threshold levels in Appendix 2
 - Municipalities have expressed a desire for standardization and comparability between municipalities
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Identifying Your TCA – Single Asset vs. Component

- Complex networks (roads, water systems, sewers) consists of a number of components
 - Network systems can be accounted as a single asset or as separate components
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Identifying Your TCA – Single Asset vs. Component

- E.G. - Possible separate components for a road could include:
 - Grade
 - Culverts
 - Paved surface
 - Or you can see a paved road as a “single asset”
-

Identifying Your TCA – Single Asset vs. Component

- E.G. - Possible separate components for a water utility system:
 - Water mains
 - Treatment plant
 - Filtration units
 - Reservoirs
 - Pumps
 - Water meters
 - Or you can see the entire water utility system as a “single asset”
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Identifying Your TCA – Single Asset vs. Component

- Single asset approach:
 - system is accounted for as 1 TCA
 - As components are replaced they are expensed
 - Estimated useful life is an average for the entire system
 - Less expensive and simpler - does not require detailed records and estimates of useful lives
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Identifying Your TCA – Single Asset vs. Component

- Component approach:
 - System is broken down into major components
 - Does not mean that each and every component is separately identified - just material components
 - Component approach provides better information for asset management
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Identifying Your TCA – Single Asset vs. Component

- Choice of approach will affect:
 - Amortization levels
 - Betterment vs. maintenance & repairs
 - E.G. roads (grade 40 yrs) & (20 yrs)
 - Under the component approach the cost of your roads will be amortized quicker than the single asset approach
 - Under the component approach, resurfacing is a betterment
 - Under the single asset approach, resurfacing is R&M
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Identifying Your TCA – Single Asset vs. Component

- Effect on water & sewer systems can even be more dramatic
 - Water mains – 40 to 60 years
 - Filtration unit – 10 years
 - Both methods are acceptable
 - Munis are free to choose
 - The choice is a balance b/t the usefulness of the information & the cost of collecting and maintaining it
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Identifying Your TCA – Single Asset vs. Component

- I have heard from many municipalities that *“they don’t have the time to go out & count every culvert”*
 - Why not use the single asset approach for your roads?
 - Replacing a culvert would be repairs and maintenance under the single asset approach
 - Capitalizing your culverts as a separate component is OK if that’s what you want to do!
-

Identifying Your TCA - Segmentation

- Roads, water systems & sewers have linear assets that can be segmented by:
 - Unit of measure (roads – 1 mile is a segment)
 - Geographic reference (water utility by communities)
 - Starting & end point (streets – between major arteries)
 - Age (roads – old fully amortized vs. recently built)
 - Material (water mains – plastic & ductile iron)
 - Quality (roads – 1st grade, 2nd grade, etc.)
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Identifying Your TCA - Segmentation

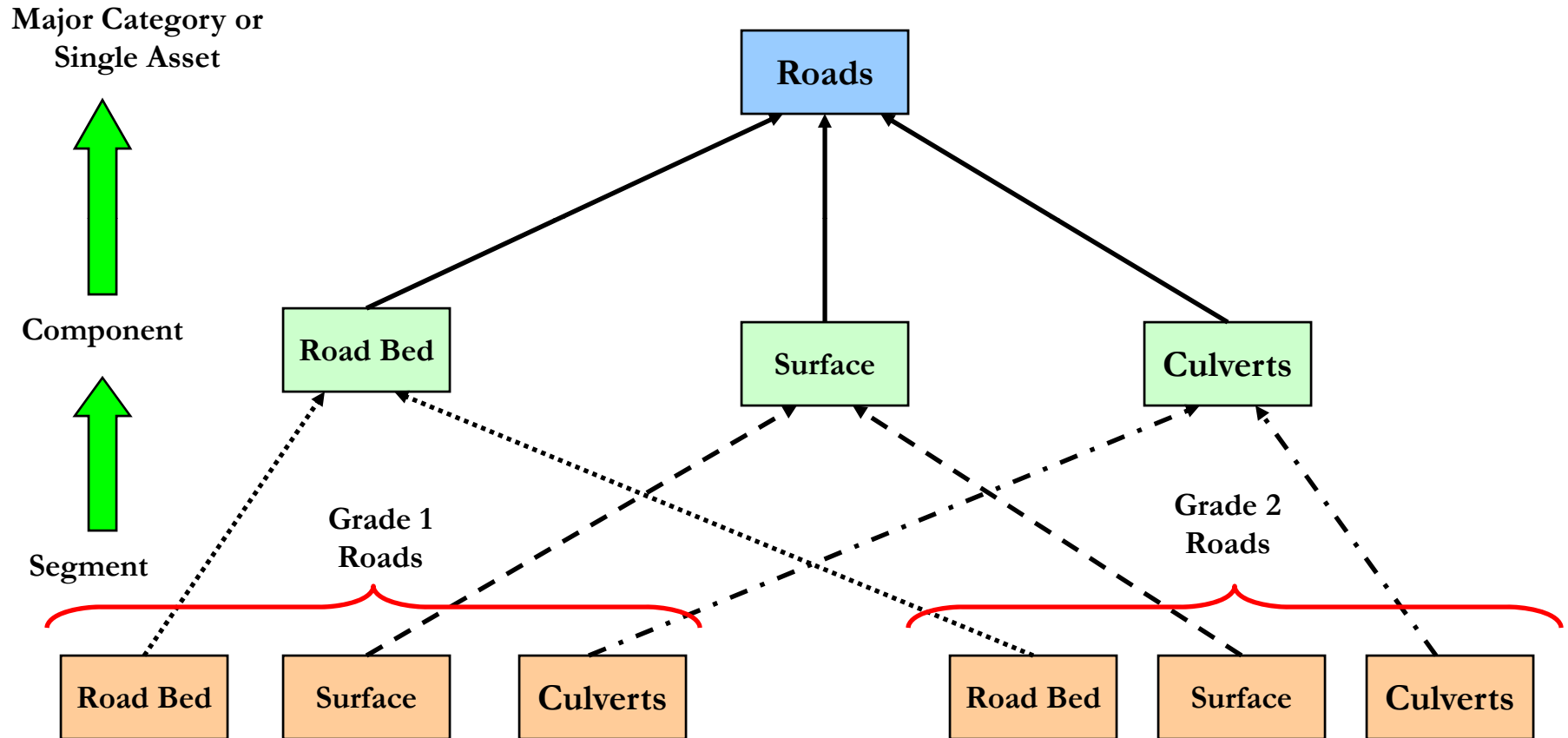
- Segmentation makes the accounting for linear assets easier:
 - i.e. betterments vs. repairs & maintenance
 - How big is a segment?
 - Replace water main with new pipe:
 - 10 meters – probably R&M
 - Replace a KM – probably a betterment
-

Identifying Your TCA - Segmentation

- Level of segmentation is a balance between the usefulness of the information and the cost of acquiring & maintaining it
 - Sound familiar?
 - Every municipality will have to decide:
 - 1) Single asset or component approach
 - 2) Level of segmentation
 - Many municipalities are already segmenting their water utilities by communities
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Identifying Your TCA - Segmentation

ILLUSTRATION OF SEGMENTATION WITH SEPARATE COMPONENTS



Identifying Your TCA – Sources of Information

- Sources of information for identifying TCA:
 - Land & Buildings - Tax Assessment Rolls
 - Buildings & Equipment – Insurance Policies
 - Vehicles – MPI Billings
 - Hidden Assets – Detailed Engineering Maps
 - Roads & Streets – Satellite Images
 - Visual inspection is still one of the best methods for ensuring completeness
-

Identifying Your TCA – Sources of Information

- Reviewing the Capital Funds (CF) is a dual purpose procedure:
 - Identify TCA
 - Obtain cost information
 - Remember when reviewing the CF:
 - Infrastructure assets are consistently not recorded in the GCF
 - Not all entries in the CF are TCA or betterments
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Identifying Your TCA – Sources of Information

- When reviewing the CF detail keep the useful life of the asset classes in mind
 - No point in looking for general TCA that are fully amortized at Dec 31/07:
 - Vehicles (5 yrs) - Jan 1/03
 - M&E (10 yrs) - Jan 1/98
 - Computers (4 yrs) - Jan 1/04
 - Signage (10 yrs) - Jan 1/98
-

Identifying Your TCA – Work Plan

- Prepare a plan before you begin working on your TCA listing
 - Your work plan should consider:
 - TCA you likely own (i.e. applicable asset classes)
 - Likely locations of assets
 - Person responsible for identifying the TCA
 - Capitalization thresholds
 - Single asset or component approach
 - Segmentation of network systems
 - Valuation method
 - Person responsible for the valuation of the TCA
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Identifying Your TCA – Work Plan

- A work plan template is available in the TCA Reference Manual – Appendix 5
 - Your work plan should be completed by August 31/07
 - Identification (completeness) of your TCA should be completed by Dec 31/07
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Valuation of TCA

- Guiding Principles
 - Valuation Methods
 - Construction Price Indices
 - Valuation Method Decision Tree
 - Valuation of Leased TCA
 - Role of the Auditor
 - Amortization & Entry for Opening Balances
 - TCA Continuity Schedule
-

Valuation of TCA – Guiding Principles

1. Valuation of TCA is not an exercise in precision
 - Reasonable estimates and assumptions to meet audit requirements
 2. The need for precision decrease proportionately with the length of time the asset has been in use
 3. Don't bother finding the cost for short lived fully amortized assets
 4. More important to be accurate on a go-forward basis
- **N.B. Valuation of TCA at Dec 31/07 must be completed by March 31/08**
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Valuation of TCA – Guiding Principles

- Historical cost is the most appropriate method because it is the most objective
 - Historical cost must be used where it is known or readily available
 - When historical cost information is not available, valuation can be based on:
 - 1) Discounted Reproduction Costs
 - 2) Discounted Replacement Costs
 - 3) Discounted Appraisal Values
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Valuation of TCA – Methods

Reproduction Costs:

- Cost of replacing an asset with a substantially similar asset
 - It does not take into account changes in technology or construction methods
 - Reproduction can be thought of in terms of “restoration”
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Valuation of TCA – Methods

Replacement Cost:

- Cost of replacing an asset with a “replacement” asset
 - Asset has the same functionality but uses current technology or construction methods
 - Insurance policies normally refer to replacement cost
 - Can think of replacement in terms of “renovation”. You get something new but it’s different.
-

Valuation of TCA – Methods

Appraisal Value:

- Some assets have a “market value” or “fair value”
 - Appraisal values are mainly used for buildings and land
 - Will need reports from qualified appraisers or valuers to support values
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Valuation of TCA – CPI

- Reference Manual includes 2 regression tables to discount costs:
 - Southam Construction Price Index (SCPI) – **Appendix 3**
 - Federal Aid Highway Construction Index (FAHCI) – **Appendix 4**
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Valuation of TCA – CPI

- SCPI was used by the Province when they recorded their buildings at April 1, 1999
 - SCPI is also being used by the Department of Education for their buildings at July 1, 2005
 - SCPI should always be used to discount the cost of buildings
-

Valuation of TCA – CPI

- FAHCI is prepared by the U.S. Federal Highway Administration
 - Should be used to discount all heavy construction costs:
 - Road Beds - “Grade”
 - Paved Surfaces - “Resurfacing”
 - Bridges/Dams - “Structures”
 - Water & Sewer - “Composite”
 - Use SCPI for discounting TCA constructed before 1970
-

Valuation of TCA – CPI

- Discounting is not limited to current reproduction or replacement costs
 - Also you are not limited to reproduction or replacement cost for your own municipality
 - E.G.
 - The neighboring RM built a (1) KM of gravel road in 2001
 - Historical cost information is available. The road cost the neighboring RM \$100K
 - Your municipality built 1KM of similar road (i.e. height & width of grade) in 1987. Historical cost is not available.
-

Valuation of TCA – CPI

- E.G. (cont'd)
 - FAHCI – “Grade” for 1987 is 100.0
 - FAHCI – “Grade” for 2001 is 125.9
 - $(100.0/125.9) \times \$100K = \$79.4K$
 - Your road built in 1987 has an estimated cost of \$79.4K
 - The same approach can be used for water and sewer systems
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Valuation of TCA – CPI

- If you know the reproduction costs for new neighborhoods

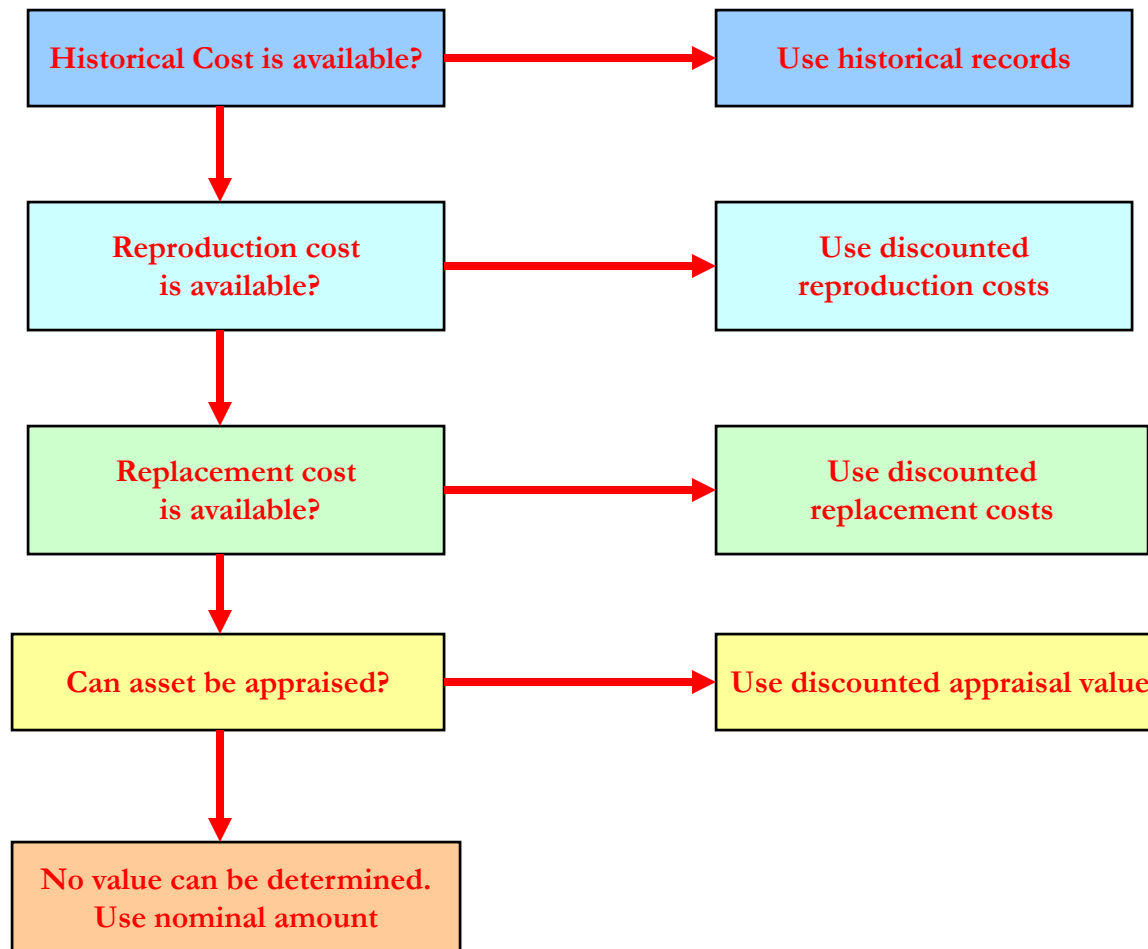


- You can estimate the cost of infrastructure in older neighborhoods
 - E.G. Town recently built a new development. The new street, water mains & sewers are exactly like the streets in the older neighborhoods which were reconstructed in the 1980s.
-

Valuation of TCA – CPI

- Don't compare “apples to oranges”
 - Has to be the same materials, conditions, construction, etc.
 - Use reasonable assumptions
 - Use common sense
 - Solve problems – be “creative”
-

Valuation of TCA – Decision Tree



Valuation of TCA – Decision Tree

- Can use nominal values for:
 1. For full amortized network assets
 - Roads & streets
 - Water systems
 - Sewer systems
 2. That are still in use and being maintained by the municipality
 3. Appropriate reproduction & replacement cost information is not available
-

Valuation of TCA – Decision Tree

- Nominal values are:
 - Roads & streets - \$18,000/km
 - Water systems - \$15,000/km
 - Gravity sewers - \$14,000/km
 - Low pressure sewers - \$ 9,000/km



Valuation of TCA – Leased TCA

- Beginning of a capital lease, the value of the leased TCA, less any down payments or trade-ins, = lease obligation
 - Fair value of the leased TCA = PV of the minimum lease payments (PVMLP)
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Valuation of TCA – Leased TCA

- PVMLP does not include executory costs
 - Insurance
 - Maintenance
 - Property Taxes
 - **Implicit rate of interest** in the lease is the rate of interest that discounts the lease payments to the fair value
-

Valuation of TCA – Leased TCA

- Lease agreement normally discloses:
 - The implicit rate of interest, or
 - Amount of interest over the lease term
 - FMV of leased vehicle is \$21,000. Lease term is 6 yrs & payments are \$375/month
 - Total lease payments = \$27,000
 - Interest over the lease term is \$6,000
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Valuation of TCA – Role of Your Auditor

- The municipality's F/S are the responsibility of management
 - Responsibility of the auditor is to express an opinion on the F/S
 - Your auditor can help you develop your work plan
 - Your auditor cannot be directly involved in the valuation process or information gathering
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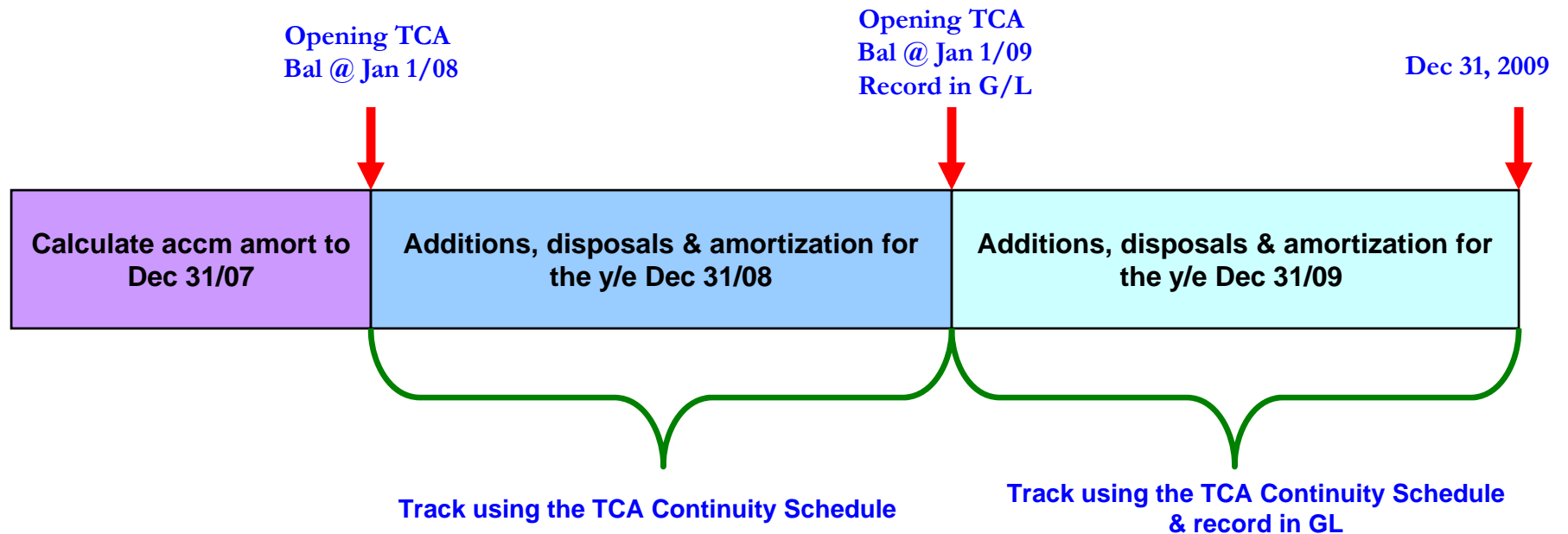
Valuation of TCA – Role of Your Auditor

- Keep all your supporting documentation and calculations for your opening TCA balances at Jan 1/08
 - Audit fee (\$) will be affected by the amount & quality of work done by the municipality
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Valuation of TCA – Amortization & Entry for Opening Balances

- After you have identified & valued all your TCA, you will have to:
 1. Calculate the accm amortization to Dec 31/07
 2. Track additions & disposals for the Y/E Dec 31/08
 3. Calculate amort expense for the Y/E Dec 31/08
 4. Reverse your existing Fixed Asset balance at Dec 31/08
 5. Enter the opening balances at Jan 1/09 into your GL
-

Valuation of TCA – Amortization & Entry for Opening Balances



Valuation of TCA – Amortization & Entry for Opening Balances

- Need to reverse your existing Fixed Asset balances in the GCF and UCF
- Entry to reverse your Fixed Asset balances at Jan 1/09 would be:

Dr. GCF - Surplus	\$80,000	
Dr. UCF – Surplus	\$75,000	
Cr. GCF - Bldgs		\$80,000
Cr. UCF – Other		\$75,000

Valuation of TCA – Amortization & Entry for Opening Balances

- Should create a cost & accm amort GL account for each class of asset
- Entry to record your opening TCA into your GL at Jan 1/09 would be:

Dr. GCF - Land	\$ 1,000	
Dr. GCF - Buildings	\$100,000	
Dr. GCF - Vehicles	\$ 10,000	
Cr. GCF - Accm Amort – Bldgs		\$75,000
Cr. GCF - Accm Amort – Vehicles		\$ 8,000
Cr. GCF - Surplus		\$28,000

Valuation of TCA – Continuity Schedule

- TCA Continuity Schedule is available on the AMM web-site
 - Rolls up your TCA information into a Summary Schedule
 - Summary Schedule can be used to prepare your TCA note in the 2009 F/S
 - Separate worksheet for each class
 - Designed for TCA amortized on a straight line basis
-

Valuation of TCA – Continuity Schedule

- Not required to use the Continuity Schedule
 - Can design your own or use someone else's
 - Only have to enter 4 pieces of information for each asset:
 - 1) Description of the asset
 - 2) Cost
 - 3) Date acquired or put into use
 - 4) Date of disposal if applicable
-

Valuation of TCA – Continuity Schedule

- Continuity Schedule will:
 - 1) Calculate accm amortization to Dec 31/07
 - 2) Calculate NBV at Dec 31/07
 - 3) Calculate amortization for 2008 & 2009
 - 4) Calculate accm amortization to Dec 31/07 & Dec 31/08
 - 5) Calculate NBV at Dec 31/08 & Dec 31/09
 - 6) Track your addn's & disposals for 2008
-

END OF TCA

Critical Dates

August 31, 2007:

Complete work plan

Dec 31, 2007:

Identify all your TCA

March 31, 2008:

Value all your TCA @ Dec
31/07

Full Accrual Accounting

- Modified cash basis is the current practice
 - PSAB GAAP requires that all liabilities be recorded as incurred
 - 2009 F/S will require 2008 comparatives prepared in accordance with PSAB
-

Full Accrual Accounting

- Proper cut-off has to be done at Dec 31/07
 1. Amounts Receivable
 2. Inventories
 3. Accounts payable & accrued liabilities
 - Easier to do proper cut-off in the weeks and months after Dec 31/07 rather than later
 - Proper cut-off will also be required for Dec 31st 2008 & 2009
-

Full Accrual Accounting

- Characteristics of a liability per PSAB are:
 1. *Duty of responsibility to others - little or no discretion to avoid*
 2. *Future transfer or use of assets to 3rd parties at a determinable date*
 3. *Events obligating the transfer has already occurred*
-

Accounts Payable

- Goods & services have been invoiced but not paid by the cut-off date
 - Some municipalities “often keep the books open” to account for goods & services received but not paid
 - Some municipalities also use “held cheques”
 - Either case, the credit side of the entry is to Cash or Bank when it should be Accounts Payable
-

Accounts Payable

- Your Bank balance at Dec 31/07 s/b:

	Balance per statement
+	O/S deposits
-	<u>O/S cheques</u>
	<u>Balance per GL</u>

- You should not include held cheques or payments issued after Y/E as part of your bank balance at Dec 31/07
-

Accounts Payable

- All goods and services invoiced but not paid by Dec 31/07 s/b credited to an A/P in your GL
 - Ensure that you're A/P are complete by reviewing your invoice file
-

Accounts Payable

- **Entry at Dec 31/07:**

Expense	\$25,000	
Account Payable		\$25,000

- **When A/P is paid in 2008 after Dec 31/07:**

Account Payable	\$25,000	
Cash/Bank		\$25,000

Accounts Payable

- **Entry at Dec 31/07:**

Expense	\$25,000	
Account Payable		\$25,000

- **Alternate method to reverse A/P in 2008:**

Expense	\$25,000	
Cash/Bank		\$25,000
Account Payable	\$25,000	
Expense		\$25,000

Accrued Liabilities

- Liability exists at Dec 31/07 but the invoice has not yet been received or there will be no invoice
 - Salaries payable
 - Wages payable
 - Source deductions payable
 - Holidays payable
 - Severance payable
 - Vested sick leave
 - Audit fees
-

Accrued Liabilities

- Bi-weekly payroll for salaries is \$12,000. Salaried employees were last paid on Friday, Dec 21/07. Next pay date is Jan 4/08. What is the accrual at Dec 31/07?

Dr. Salaries (6/10 x \$12K) \$7,200

 Cr. Accrued Salaries \$7,200



Accrued Liabilities

- Assuming 50% source deductions (for simplicity) the entry when the salaries are paid on Jan 4/08 is:

Dr. Accrued Salaries	\$7,200	
Cr. Bank		\$3,600
Cr. Source Ded Pay (various)		\$3,600

Accrued Liabilities

- For hourly rate workers, ensure that you accrue all wages earned to Dec 31/07
 - The hourly rate payroll for the 2 weeks ended Dec 21/07 was \$30,000. This will be paid on Jan 4/08.
 - From the timesheets, the CAO estimates that the hourly rate payroll for the 10 days ended Dec 31/07 was \$15,000
-

Accrued Liabilities

- The entry for the hourly rate workers would be:

Dr. Wages	\$45,000	
Cr. Wages payable		\$30,000
Cr. Accrued wages		\$15,000

- The best way to ensure your accrued liabilities are complete is to review the subsequent payments after Y/E
-

Inventories

- Will require an inventory count on or around Dec 31/07 & Dec 31/08
 - Consider only material inventories
 - Immaterial supplies can be expensed in the year purchased
 - Likely inventories could include:
 - Sand, gravel, dirt
 - Fuel
 - Culverts
-

Amounts Receivable

- Amounts received after Y/E that were earned in 2007 have to be accrued at Dec 31/07
 - The best manner to ensure that you're A/R is complete is to review your subsequent receipts after Y/E
-

Municipal Reporting Entity

- This section of the presentation is just to make you aware of what is coming
 - The identification & valuation of your TCA is your priority PSAB implementation issue till the spring of 2008
-

Municipal Reporting Entity

- MRE should comprise the organizations that are controlled by the municipality
 - What is meant by control?
 - *“Ability to direct the financial and operating policies of a government organization”*
-

Municipal Reporting Entity

- Examples of control by a municipality:
 - Power to appoint or dismiss the governing body
 - Direct the on going use of assets
 - Own the majority of voting shares
 - Unilateral power to dissolve the entity
 - Ability to appoint & remove key personnel
 - Establish or amend the mandate of the entity
 - Establish borrowing or investment limits
 - Able to amend compensation & collective bargaining
 - Direct the deployment of resources
 - All LUDs are controlled entities
-

Municipal Reporting Entity

- A municipality should consolidate all the entities it controls except GBEs
 - Steps in consolidation:
 1. Restatement of entity F/S into PSAB
 2. Elimination of balances and transactions between the entity & municipality
 3. Combine 100% of the assets, liabilities, revenues & expenses on a line by line basis
-

Municipal Reporting Entity

- Municipalities often enter in partnerships with other municipalities
 - In Government Partnerships (GPs) municipalities have shared control
 - No partner is in a position to exercise unilateral control
-

Municipal Reporting Entity

- Interest in GPs is not limited to generating a financial return
 - GPs include activities that provide benefits to the community
 - E.G. – A joint handi-transit service
-

Municipal Reporting Entity

- GP come in 3 possible forms – Not required to be a legal partnership:
 1. Operations Under Shared Control – Munis contribute assets to the GP but retain ownership of the assets – i.e. municipality provides land for landfill.
 2. Assets Under Shared Control (joint ownership) - i.e. two munis purchase a fire truck and hall.
 3. Organizations Under Shared Control – separate legal entity – i.e. a Community Development Corporation
-

Municipal Reporting Entity

- A municipality should recognize its interest in GPs, except for GBPs, by proportionate consolidation
 - Steps in proportional consolidation:
 1. Restatement of entity F/S into PSAB
 2. Elimination of balances and transactions between the entity & the municipality
 3. Combine assets, liabilities, revenues & expenses on a proportionate line by line basis
-

Municipal Reporting Entity

- Entities that will be included in the MRE will require **audited F/S** prepared:
 1. In accordance with PSAB, or
 2. On another acceptable basis of GAAP
 - Private sector accounting rules
 - Not For Profit (NFP) rules
 - Restating NFP statements into PSAB is very easy
-

Municipal Reporting Entity

- Another acceptable basis of GAAP? Check the Auditor's report.
 - F/S are prepared *“in accordance with Canadian generally accepted accounting principles”*
 - GAAP F/S normally have capital assets and are prepared on an accrued basis.
 - Check the accounting policies
 - Not sure? Talk to the auditor!
-

Municipal Reporting Entity

- If F/S are prepared *“in accordance with generally accepted accounting principles for municipalities”* **then the F/S are probably not GAAP**
 - If controlled and shared control entities are not preparing GAAP F/S then you should consider:
 1. Train the accounting staff yourself, or
 2. Send them to the training seminars, especially TCA.
-

Municipal Reporting Entity

- If separate existence of the entity is not really required then consider winding down the entity by the end of 2008
 - Do “immaterial” entities need to be audited?
 - Audit may be a statutory requirement
 - If not, that’s a decision of the municipal auditor – check with him or her.
-

Municipal Reporting Entity

- Different Y/E's should not exclude entities from consolidation
 - Disclosure is required for Y/Es that do not “substantially coincide”
 - Where Y/Es are not the same, **significant** events and transactions that have occurred in the intervening period should be recorded in the municipality's F/S
-

Municipal Reporting Entity

- The identification & valuation of your TCA is the PSAB implementation task that you be primarily should be focusing on.
 - The AMM & IGA will prepare a manual on the MRE & consolidations by the spring of 2008
 - There will be training sessions on the MRE and consolidations shortly afterwards
-

Remember Your Critical Dates

August 31, 2007:

- Complete your TCA work plan

December 31, 2007:

- Identify and list all your TCA at Dec 31/07

March 31, 2008:

- Complete the valuation of all your TCA at Dec 31/07
-

Have Questions Later On

Michel St. Amant:

Project Manager, PSAB Implementation

Phone: 945 – 4864

Michel.St.Amant@gov.mb.ca

Ron Wells:

Supervisor Municipal Accounting

Phone: 726 – 6570

Ron.Wells@gov.mb.ca

Wendy Wolfe:

Municipal Finance Officer

Phone: 726 – 6571

Wendy.Wolfe@gov.mb.ca

Good Bye!
Drive Safely!
