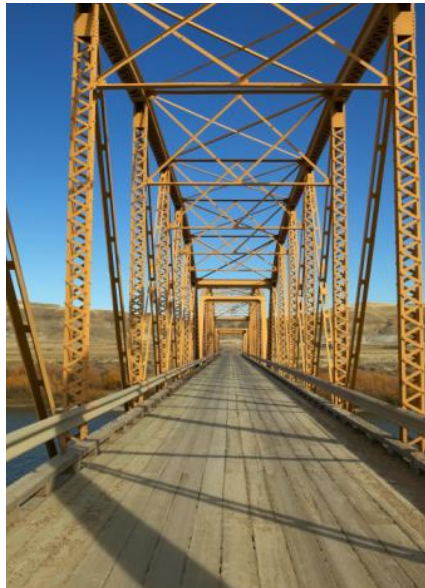


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*TANGIBLE CAPITAL ASSETS PROJECT*  
Implementation Toolkit

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## 1.0 Overview

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The tangible capital asset (TCA) accounting standard impacts all Canadian municipalities. Implementation of the standard will be one of the most challenging efforts that many local governments will face as municipalities will now be required to inventory, track and report on the value of their capital assets.

This change is effective for the 2009 fiscal year however if this date is to be achieved municipalities should begin project planning work immediately. The information and resources provided here will improve the potential for successful implementation of the new accounting standard. We hope this information will be useful. Please contact us with any comments or suggestions for the toolkit.

The Tangible Capital Asset Project Toolkit is the result of a collaborative effort involving many stakeholders that are impacted by this important change. Members of the Government Finance Officers Association, Alberta Chapter, have volunteered many hours of their time and expertise in the development of the recommended guidelines and other project materials. Appreciation is expressed to the TCA Liaison Committee which includes representatives from the Alberta Urban Municipalities Association, the Alberta Association of Municipal Districts & Counties, the Alberta Association of Rural Municipal Administrators, the Local Government Administration Association, and the Government Finance Officers Association. Harold Johnsrude of HJC Consulting has been instrumental in guiding the toolkit research and development.

Two icons are used in this toolkit to easily identify various sections:



**Internet Link**



**Important Information**

This toolkit is organized into five main areas, including implementation, policies and guidelines, asset inventory and valuation, budgets, and financial reporting. It also includes definitions, project newsletters, frequently asked questions, and information on how to obtain other resources.



An electronic version of the toolkit is available on the Municipal Excellence Network website ([www.menet.ab.ca/TCA](http://www.menet.ab.ca/TCA)) and is updated on a regular basis so you are encouraged to check the site regularly for new materials and updates.

## 2.0 Implementation

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The TCA project has borrowed from the concepts and work of the Ontario Municipal Benchmarking Initiative ([www.ombi.ca/accounting.asp](http://www.ombi.ca/accounting.asp)). As well, the Association of Municipal Clerks and Treasurers of Ontario website ([www.amcto.com/db/assetmgmt.asp](http://www.amcto.com/db/assetmgmt.asp)) is an excellent resource for draft implementation plans and other sample documents.



The materials below have been prepared specifically for the Alberta TCA project and are focused on implementation issues. We recommend that as a first step you become familiar with the requirements of Public Sector Accounting Board (PSAB) handbook section 3150.

### 2.1 PSAB Handbook Section 3150 – Summary of Key Provisions

“What is the benefit?” is one of the most often asked questions related to the tangible capital assets project. Chapter 1 of the CICA/PSAB *Guide to Accounting For and Reporting Tangible Capital Assets* ([www.psab-ccsp.ca/index.cfm/ci\\_id/37536/la\\_id/1.htm](http://www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm)) provides some helpful information to answer this question. An excerpt from Section 5.0 outlines the answer as follows:



*“From a management perspective, the key benefit to having local governments adopt tangible capital asset accounting is to obtain better information for decision making. While financial statements themselves will not necessarily provide detailed information about the stock, condition and costs of a local government’s assets, it is the underlying information, records and discipline that allows such to be reported that gives local government the information it needs to make informed decisions.”*

Those individuals with responsibility for implementation of the tangible capital asset requirements should be familiar with the contents of Public Sector Handbook Section 3150 (PS3150). The following information is organized in a summary format according to the key criteria, by paragraph references, which should be adhered to in order to comply with the new accounting standard. A complete text of the standard is also provided for reference as part of the implementation toolkit.



**This summary may also be useful for discussions with elected officials, senior management in the organization and/or the public.**

## **What is the Definition of a Tangible Capital Asset?**

Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges. (.02)

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. are to be used on a continuing basis; and
- iv. are not for sale in the ordinary course of operations. (.05(a))

## **What are the Recording Requirements?**

- Tangible capital assets should be recorded at cost. (.09)
- The cost, less any residual value, should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the government. (.22)
- The amortization of the costs should be accounted for as expenses in the statement of operations. (.23)
- The amortization method and 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. (.29)
- 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 book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. (.31) The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations (.32) and should not be reversed. (.33)
- The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations. (.38)
- Fully amortized assets still in use need to be recorded. (.48)

### **What are the Reporting Requirements?**

- Tangible capital assets should be accounted for and reported as assets on the statement of financial position. (.07)
- The financial statements should disclose, for each major category of tangible capital assets, the total cost, accumulated amortization and net book value at the beginning and end of the period and the total additions, disposals, write-downs and amortization for the period. (.40)
- The financial statements should also disclose other information about tangible capital assets such as amortization methods and rates, tangible capital assets under construction, donated tangible capital assets, the nature of tangible capital assets recorded at a nominal value or considered to be works of art or historical treasures and the amount of interest capitalized in the period. (.42)

### **When is this Requirement Effective and What are the Transitional Provisions?**

- The effective date for this requirement is for fiscal years beginning on or after January 1, 2009. (.43)
- A progress report on implementing this requirement is to be included in the notes to the financial statements beginning with the 2007 fiscal year. (.45)
- When a government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets. (.47)

## **2.2 PSAB Handbook Section 3150 – Tangible Capital Assets**

### **Purpose and Scope**

- .01 This Section establishes standards on how to account for and report tangible capital assets in government financial statements.<sup>1</sup>
- .02 Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges.
- .03 This Section does not apply to intangible assets, natural resources, and Crown lands that have not been purchased by the government.
- .04 Government capital grants and government transfers of tangible capital assets would be accounted for in accordance with GOVERNMENT TRANSFERS, Section PS 3410.

### **Definitions**

- .05 For the purposes of this Section:
  - (a) **Tangible capital assets** are non-financial assets<sup>2</sup> 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) are to be used on a continuing basis; and
    - (iv) are not for sale in the ordinary course of operations.
  - (b) **Cost** is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to 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. Capital grants would not be netted against the

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<sup>1</sup> The term "financial statements" refers to the summary financial statements prepared by a government to report on its financial condition and results of operations.

<sup>2</sup> For the purposes of this Section, tangible capital assets are defined to include computer software.



cost of the related tangible capital asset. The cost of a leased tangible capital asset is determined in accordance with PUBLIC SECTOR GUIDELINE PSG-2, Leased Tangible Capital Assets.

- (c) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.
- (d) **Net book value** of a tangible capital asset is its cost, less both accumulated amortization and the amount of any write-downs.
- (e) **Residual value** is the estimated net realizable value of a tangible capital asset at the end of its useful life to a government.
- (f) **Service potential** is the output or service capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.
- (g) **Useful life** is the estimate of either the period over which a tangible capital asset is expected to be used by a government, or the number of production or similar units that can be obtained from the tangible capital asset by a government. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a government. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life.

## Accounting

- .06 Governments need to present information about the complete stock of their tangible capital assets and amortization in the summary financial statements to demonstrate stewardship and the cost of using those assets to deliver programs and provide services.
- .07 Tangible capital assets should be accounted for and reported as assets on the statement of financial position.<sup>3</sup>
- .08 Works of art and historical treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually. Works of art and historical treasures would not be recognized as tangible capital assets in government financial statements because a reasonable estimate of the future benefits associated with such property cannot be made. Nevertheless, the existence of such property should be disclosed (see paragraph PS 3150.42(e)).

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<sup>3</sup> APRIL 2005

## Measurement Cost

- .09 Tangible capital assets should be recorded at cost.<sup>4</sup>
- .10 The cost of a tangible capital asset includes the purchase price of the asset and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties. The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. The activities necessary to prepare a tangible capital asset for its intended use encompass more than the physical construction of the tangible capital asset. They include the technical and administrative work prior to the commencement of and during construction.
- .11 The cost of each tangible capital asset acquired as part of a single purchase (for example, the purchase of a building and land for a single amount) is determined by allocating the total price paid for all of the tangible capital assets acquired to each one on the basis of its relative fair value at the time of acquisition.
- .12 Many tangible capital assets, particularly complex network systems such as those for water and sewage treatment, consist of a number of components. Whether a government decides to record and account for each component as a separate asset will be determined by the usefulness of the resulting information to the government and the cost versus the benefit of collecting and maintaining it.
- .13 When, at the time of acquisition, a portion of the acquired tangible capital asset is not intended for use, its costs and any costs of disposal, net of any estimated proceeds, are attributed to that portion of the acquired tangible capital asset that is intended for use. For example, the cost of acquired land that includes a building that will be demolished includes the cost of the acquired property and the cost of demolishing the building.
- .14 Governments may receive contributions of tangible capital assets. The cost of a contributed asset is considered equal to its fair value at the date of contribution. Fair value of a contributed tangible capital asset may be estimated using market or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset would be recognized at nominal value.
- .15 The cost of a tangible capital asset that is acquired, constructed or developed over time includes carrying costs directly attributable to the

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<sup>4</sup> SEPT. 1997

acquisition, construction or development activity, such as interest costs when the government's policy is to capitalize interest costs.

- .16 Carrying costs incurred while land acquired for building purposes is held without any associated construction or development activity do not qualify for capitalization.
- .17 Capitalization of carrying costs ceases when no construction or development is taking place or when a tangible capital asset is ready for use in producing goods or services. A tangible capital asset is normally ready for productive use when the acquisition, construction or development is substantially complete.
- .18 Determining when a tangible capital asset, or a portion thereof, is ready for productive use requires consideration of the circumstances in which it is to be operated. Normally it would be predetermined by a government by reference to factors such as productive capacity, occupancy level, or the passage of time.
- .19 Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. In general, for tangible capital assets other than complex network systems, service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, the useful life of the property is extended or the quality of the output is improved.
- .20 This definition of a betterment is more difficult to apply to tangible capital assets that are complex network systems and are very long-lived, such as highway and water systems, because identifying expenditures that would extend their lives may not be practicable. For example, expenditures on road systems to widen the roads or add to the number of lanes expand the capacity of the road system to provide services and are clearly betterments. On the other hand, expenditures incurred to maintain the originally anticipated service potential of a road, or its estimated useful life, are more in the nature of maintenance.
- .21 For complex network systems, therefore, the following basic distinctions can be used to identify maintenance and betterments:
  - (a) Maintenance and repairs maintain the predetermined service potential of a tangible capital asset for a given useful life. Such expenditures are charged in the accounting period in which they are made.

- (b) Betterments increase service potential (and may or may not increase the remaining useful life of the tangible capital asset). Such expenditures would be included in the cost of the related asset.

## **Amortization**

- .22 The cost, less any residual value, of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the government.<sup>5</sup>
- .23 The amortization of the costs of tangible capital assets should be accounted for as expenses in the statement of operations.<sup>6,7</sup>
- .24 Land normally has an unlimited life and would not be amortized.
- .25 Most tangible capital assets, however, have limited useful lives. This fact is recognized by amortizing the cost of tangible capital assets in a rational and systematic manner over their useful lives. Amortization expense is an important part of the cost associated with providing government services, regardless of how the acquisition of tangible capital assets is funded. Information about a program or activity's total costs is relevant to any assessment of the benefits the program or activity provides.
- .26 Different methods of amortizing a tangible capital asset result in different patterns of cost recognition. The objective is to provide a systematic and rational basis for allocating the cost of a tangible capital asset, less any residual value, over its useful life. A straight-line method reflects a constant charge for the service as a function of time. A variable charge method reflects service as a function of usage. Other methods may be appropriate in certain situations.
- .27 Where a government expects the residual value of a tangible capital asset to be significant, it would be factored into the calculation of amortization.
- .28 The useful life of a tangible capital asset depends on its expected use by the government. Factors to be considered in estimating the useful life of a tangible capital asset include:
- (a) expected future usage;
  - (b) effects of technological obsolescence;
  - (c) expected wear and tear from use or the passage of time;

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<sup>5</sup> SEPT. 1997

<sup>6</sup> SEPT. 1997

<sup>7</sup> Editorial change — January 2003.

- (d) the maintenance program;
  - (e) studies of similar items retired; and
  - (f) the condition of existing comparable items.
- .29 The amortization method and 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.<sup>8</sup>
- .30 Significant events that may indicate a need to revise the amortization method or the estimate of the remaining useful life of a tangible capital asset include:
- (a) a change in the extent to which the tangible capital asset is used;
  - (b) a change in the manner in which the tangible capital asset is used;
  - (c) removal of the tangible capital asset from service for an extended period of time;
  - (d) physical damage;
  - (e) significant technological developments;
  - (f) a change in the demand for the services provided through use of the tangible capital asset; and
  - (g) a change in the law or environment affecting the period of time over which the tangible capital asset can be used.

### **Write-Downs**

- .31 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.<sup>9</sup>
- .32 The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations.<sup>10 11</sup>

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<sup>8</sup> SEPT. 1997

<sup>9</sup> SEPT. 1997

<sup>10</sup> SEPT. 1997

<sup>11</sup> Editorial change — January 2003.

- .33 A write-down should not be reversed<sup>12</sup>.
- .34 A government would write down the cost of a tangible capital asset when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:
- (a) a change in the extent to which the tangible capital asset is used;
  - (b) a change in the manner in which the tangible capital asset is used;
  - (c) significant technological developments;
  - (d) physical damage;
  - (e) removal of the tangible capital asset from service;
  - (f) a decline in, or cessation of, the need for the services provided by the tangible capital asset;
  - (g) a decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition; and
  - (h) a change in the law or environment affecting the extent to which the tangible capital asset can be used.
- .35 The persistence of such conditions over several successive years increases the probability that a write-down is required unless there is persuasive evidence to the contrary.
- .36 When the tangible capital asset no longer contributes to the government's ability to provide goods and services, it would be written down to residual value, if any. This would be appropriate when the government has no intention of continuing to use the asset in its current capacity, and there is no alternative use for the asset.
- .37 In other circumstances, it will be necessary to estimate the value of expected remaining future economic benefits. Where a government can objectively estimate a reduction in the value of the asset's service potential to the government, and has persuasive evidence that the reduction is expected to be permanent in nature, the tangible capital asset would be written down to the revised estimate of the value of the asset's remaining service potential to the government.

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<sup>12</sup> SEPT. 1997

## Disposals

- .38 The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations.<sup>13 14</sup>
- .39 Disposals of government tangible capital assets in the accounting period may occur by sale, destruction, loss or abandonment. Such disposals represent a reduction in a government's investment in tangible capital assets, regardless of how that investment is reported.

## Presentation and Disclosure

- .40 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.<sup>15</sup>
- .41 Major categories of tangible capital assets would be determined by type of asset, such as land, buildings, equipment, roads, water and other utility systems, and bridges.
- .42 Financial statements should also 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 are under construction or development or have been removed from service;

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<sup>13</sup> SEPT. 1997

<sup>14</sup> Editorial change — January 2003.

<sup>15</sup> APRIL 2005

- (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.<sup>16</sup>

### **Transitional Provisions for Local Governments**

- .43 This Section applies to local governments for fiscal years beginning on or after January 1, 2009. Earlier adoption is encouraged.
- .44 This Section applies to all tangible capital assets.
- .45 When, during the period of transition, a local government has information on some but not all categories of its tangible capital assets, the local government would disclose information in accordance with PUBLIC SECTOR GUIDELINE PSG-7<sup>17</sup>, Tangible Capital Assets of Local Governments.
- .46 All government tangible capital assets would be recorded in a government's accounting system according to this Section. The information recorded would include the actual or estimated original cost of the tangible capital assets, their estimated useful lives and the related estimated accumulated amortization. When recording the initial value of a tangible capital asset for the purposes of applying this Section, consideration would be given to whether the net book value of the tangible capital asset is in excess of the future economic benefits expected from its use and, therefore, whether a write-down is required to establish more appropriate cost and accumulated amortization amounts for the asset.
- .47 When a government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets. It may be possible to derive information for recording tangible capital assets from records of government departments that manage those assets. A government would apply a consistent method of estimating the cost of the tangible capital assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset.

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<sup>16</sup> SEPT. 1997

<sup>17</sup> Section 6.1 of this handbook.



- .48 Some government tangible capital assets that are still in use by the government may not have any unamortized cost remaining because of their age and the amortization period set for that type of tangible capital asset. A record of such tangible capital assets would, however, need to be set up for asset control purposes. If a government has the information to estimate the historical cost and accumulated amortization of such fully amortized assets, then that information would be recorded in the accounting records. If a local government does not have this detailed information on its fully amortized assets, it would disclose them at an initial value equal to their residual value, where material and previously known. Otherwise it would disclose them at a nominal value.

## 2.3 Developing an Implementation Plan

The objectives of the tangible capital asset (TCA) project are clearly linked to improving the information that municipalities have available to drive good decision making and planning for capital asset needs. Successful implementation of the TCA requirement is an important step towards achieving better and more effective asset management. Developing an understanding of the concepts around better asset management will be beneficial as you build the implementation plan.

### Getting Started

As you begin to create a TCA project implementation plan, it is essential to take the time to familiarize yourself with the general requirements of Public Sector Handbook Section 3150. As well, other more detailed information is available from sources such as the Ontario “OMBI” initiative



([www.ombi.ca/docs/db2file.asp?fileid=187](http://www.ombi.ca/docs/db2file.asp?fileid=187)) and the Public Sector Accounting Board manual

([www.psab-ccsp.ca/index.cfm/ci\\_id/37536/la\\_id/1.htm](http://www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm)).

The tangible capital assets project is a major undertaking for any municipality, no matter the size or sophistication of the organization. Your implementation plan will need to address such things as:

- The status of your existing financial records
- Other sources of information available that could assist with assembling the necessary information; for example, engineering and maintenance records or asset replacement plans
- The kinds of assets the municipality owns, and where they are
- How to gather the necessary information such as asset descriptions, historical costs and valuation
- How the project will be prioritized in the organization
- How the project should be staged.

Creating an implementation budget is discussed in more detail below. However, part of the project planning process includes the development and approval of a multi-year budget up to and including 2009 in your overall implementation plan.



**It is critical to review your implementation plan with your auditor.**

### Project Organization

The TCA project is more complex than a data collection process for the accounting staff and that message must be communicated at the outset throughout your organization. Rather, the project is an important step and an opportunity to develop a complete asset management system. A successful implementation will require assistance from throughout the organization to complete the work.

As a first step arrange to meet with other department managers to provide a summary of the PSAB requirements and to stress the importance and the magnitude of the project. Other managers should be aware of the 2009 completion date and the 2007 work-in-progress report card that will be required. The fact that the TCA work will need to meet audit requirements is very important as well.

You will need assistance from the other departments to determine the types of tangible capital assets that will need to be inventoried. Use the recommended guideline on Asset Classification as your reference so that your reporting categories are consistent and will meet provincial financial reporting requirements in 2009 and beyond.

Depending on the size of the municipality, you should establish a project team, with a project manager and team leader for each department. Please note that the project manager should be conversant with all aspects of the project and be available to coach and instruct staff involved in this project; this is to ensure that the data will be consistent and reliable. Determine what resources will be required such as current staff, additional staff, and contracted work.

### **Project Schedule**

Prepare a multi-year timetable for the project. Consider staging this project by starting with a major asset class that is relatively easy to inventory and to record, such as vehicles. The timetable should be in sufficient detail with target dates so that adjustments can be made as you proceed in order to stay on track for 2009.

### **Policy Development**

The TCA project is as much about the future and improving asset management as it is about establishing the historical costs. Consequently, the development of capital policies such as asset definition, single asset versus component approach, valuation methods, amortization methods, capitalization thresholds, useful life, maintenance or betterment, and subsequent additions/disposals, will position your municipality to move forward following the 2009 initial implementation date.

### **Completing the Asset Inventory**

Once you have determined the required categories of capital assets and the necessary classifications within your organization, you can begin to identify potential data sources. For example, insurance records will be a good source of data for building assets. Identify the location of major assets. A possible approach is to use a map of the municipality to locate the major assets with unique identifiers. The level of asset detail will not only depend on TCA requirements but what assets should be recorded for risk management, maintenance, security and safety reasons.

Identify the data set required for each asset; for example:

- Asset description
- Location
- Department responsible for asset
- Other unique identifiers
- Date of purchase/construction/placed into service
- Manufacturer and/or supplier
- Historical cost – actual or estimated
- Residual value
- Useful and remaining life

Develop inventory forms based on the information needs identified above. The forms should be designed with the understanding that the municipality will continue to maintain and update the inventory information in the future. In most cases, inventory forms will be somewhat unique to the major class of asset being inventoried and will have to be adapted to correspond to the data set that has been identified. Review the data input sequence with your software vendor to ensure system compatibility.

Other steps in the inventory process include:

- Determine how each asset will be identified for future reference; for example by location, bar code, or unit number
- Determine if the asset data will be collected manually or electronically
- Establish how the data will be transferred to the software system
- Test your inventory process and forms by taking one or two assets in each major class from ‘cradle to grave’, and
- Develop inventory instructions for each major asset class, and train the inventory recording staff.

Asset information will need to be stored in a database. Consider whether the information for each major asset class is best recorded as it is collected or, alternatively, when the entire inventory is completed for a major asset class. The first option is recommended but it may be easier to manage information and data if recording/transferring the data to the data base is done by major asset class upon completion of the respective major asset class or minor class in engineered structures.

Verify that the assets recorded agree with the assets inventoried; for example, the number of vehicles.

### **Valuation, Useful and Remaining Life, Residual Value, and Amortization**

The choice of valuation method will differ between major asset classes and will also depend on the amount of financial data available in existing asset records. In the planning process it should be kept in mind that where the historical cost

information is not available, estimates are acceptable. However, the approach must also be valid from the auditor's perspective.

Start the process by determining the various sources of actual historical cost information.

Identify which assets will predominantly require an estimated historical cost and develop the valuation method to be used. Develop the criteria and method to determine useful and remaining life and residual value.

Determine which amortization method will be applied for each major asset class and if some assets within the respective major class will require a different amortization method.

It should be noted that estimated costs will be available for most bridge files and there are plans to develop standard replacement costs for most engineered structures.

### **Software Requirements**

As with the municipal auditor, your financial software provider is a key stakeholder and should be involved in the process early to avoid difficulties in the future. Meet with your software vendor to determine the following:

- How does the TCA data base interface with the general ledger?
- Is there a match between the data that must be recorded to meet the TCA requirement and what the database capability will allow you to record?
- What are the reporting capabilities of your existing system and what upgrades are scheduled or planned by the software vendor?
- Does the financial system interface with the asset management system?

In the event the TCA software is still under development, obtain the vendor's implementation schedule. Finally, determine what the costs will be to obtain the license to use the TCA module and subsequent annual TCA module license/maintenance.

### **Link the Inventory to Internal Reporting**

The existing general ledger chart of accounts will require additional accounts to record major and minor asset classifications, accumulated amortization, and the annual amortization expense.

Determine the level of detail in the general ledger versus using the TCA module so that most of the detail will be stored in the control accounts rather than in the general ledger.

Different internal users will require reports with varying degrees of detail. Each department should have responsibility for reviewing the respective TCA reports to check for accuracy in recording and amortization.

### **Consult with the Auditor**

In discussing the implementation plan with the auditor, determine what the auditor will require for the following verifications:

- Audit trail – hard copy or electronic data
- Verification of existence of the asset
- Valuation calculations
- Useful and remaining life

It is recommended that you request that the auditor begin reviewing the TCA work in progress as part of the 2007 audit and each subsequent year. Ask the auditor to provide an estimate of additional audit fees related to the TCA project.

### **Budgets and Financial Reporting**

The TCA project will have a significant impact on municipal budgeting practices and on annual financial reporting requirements. For example, 2009 budgets will reflect an amortization expense. Financial statement presentation changes will coincide with the implementation of full cost accounting for tangible capital assets.

As a result, the implementation plan should consider the resources required to educate and train elected and appointed municipal officials on the revised budget process and interpreting the new financial statement formats.

More detailed information on changes to budgets and financial reporting will be provided at a later date.

### **And after 2009**

The implementation plan will, by necessity, be focused on the 2009 target date. However, ongoing maintenance of the data base will be required in the future and will be audited annually.

Your plan should include steps to ensure that assets are recorded in the future as acquired or disposed, and that policies are developed that require regular review of asset condition, remaining useful life and amortization methods.

## **2.4 Developing an Implementation budget**

There are many factors that will determine the financial requirements for your tangible capital assets (TCA) project implementation plan. Some of those factors are the size and complexity of the existing asset base, the condition of the municipality's historical records, and available in-house expertise versus the need for outside consulting resources or temporary assistance.

The implementation plan should be developed and used to ensure that the implementation budget includes all the financial requirements for the TCA project. The budget will be multi-year because the TCA project will extend over several years before it is fully completed. There will be some additional costs in the 2009 implementation year and in 2010 as the first full audit and new financial statement presentation is done.

The following section is organized into a series of issues and related questions to consider as you prepare your implementation budget.

### **Planning and Policy Development**

The larger the municipality, the more time will be required by the project manager to coach and co-ordinate various departments and staff.

#### **Questions:**

- How much time is required to become familiar with the TCA requirements, develop a plan, develop capital policies and train staff?
- Will external expertise be required for planning and for policy development?
- Is there a need for a full-time or only a part-time project manager?

### **Human Resources**

The TCA project will be very challenging from a human resource perspective as well as from a financial and planning one. It is important that you communicate the importance of the project throughout the municipality's planning process.

#### **Questions:**

- Can the inventory be done internally or will extra staff be required?
- Are summer students available?
- Will external expertise be required to identify and describe some of the assets?
- What will be required to train elected officials and administration in the revised budgeting and financial reporting?
- Will the auditor or other external expertise be required?

## **Asset Inventory**

As part of the planning process you should estimate the number of assets in each major asset class. This can be done with the assistance of department managers as one of the initial steps of the implementation plan. The estimated number of assets can be used to extrapolate total times and related costs for tasks such as conducting the inventory.

### **Questions:**

- How large is the existing asset base?
- How long will it take to conduct an inventory of the TCA?
- What information sources exist for each of the major asset classes?
- How many assets are in each class?
- What data is required for each asset in a specific asset class?
- How will this data be collected?
- Can some of the on-hand data be obtained electronically, for example, land inventory from assessment roll?
- How many of the assets will require an estimate of historical cost?
- Are replacement cost standards available for most of the assets?

## **Software Needs**

Review the implementation plan and the inventory process with your software vendor. Software considerations should focus not only on accumulating historical costs but on establishing systems that will be useful and manageable in the future.

### **Questions:**

- How much time will be required to learn the new software and to record each asset?
- What upgrades will be required to the IT system; hardware and software?
- Will there be additional software modules required? If so, what will be the initial license cost and annual license fees and maintenance costs? Will the initial cost include required training?
- Will the current hardware support this additional data requirement?

## **Engineering Assistance**

Most engineered structures will require some engineering expertise to identify the required asset data.

### **Questions:**

- Will engineering expertise be required to calculate the valuation?
- What will be required to determine the total useful life, remaining life and residual value?
- Will engineering expertise be required to analyze the engineered structures?



- Is there sufficient internal expertise to determine this information for other assets such as machinery & equipment, vehicles and buildings?

### **Audit Requirements**

Additional time will be required by the auditor to review the implementation plan, policies and processes. The auditor will need to verify that all of the necessary assets have been recorded, valued and amortized accurately. There is also the requirement to audit the new reporting requirements.

### **Questions:**

- How much additional time will be required by the auditor?

## 3.0 Policies and Guidelines

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The recommended guidelines have been developed in consultation with the GFOA, circulated for comment and approved by the board of directors. As well, discussion papers on formulating a capital policy for your municipality and on the issue of recording road and bridge assets are included here.

The Public Sector Accounting Board manual is available at [www.psab-ccsp.ca/index.cfm/ci\\_id/37536/la\\_id/1.htm](http://www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm). It outlines many of the accounting issues that are key as you establish local policies for TCA implementation and for accounting for capital assets into the future.



Additional recommended guidelines are in development and will be available on the Municipal Excellence Network website ([www.menet.ab.ca/TCA](http://www.menet.ab.ca/TCA)) as they are completed. Examples of those guidelines include recording shared assets and valuing donated assets.



**Note:** This recommended guideline and other information prepared by Alberta Municipal Affairs to assist municipalities in meeting the tangible capital assets requirements may be used by other municipal entities such as commissions.

### **3.1 Asset Classification**

1. A recommended list of asset classifications will be available for use by all sizes and types of municipalities.
2. Major, minor and subclasses of tangible capital assets will be defined as:
  - *Major* A group of tangible capital assets that is significantly different in design and use.
  - *Minor* A classification within a major class that has unique characteristics.
  - *Subclass* A further classification that may be required due to unique tangible capital asset criteria, applications, methodologies and asset lives. There is the option to classify further into subclass one, subclass two, subclass three, etc.
3. Tangible capital assets recorded in the Major classification will include:
  - *Land*
  - *Land improvements*
  - *Buildings*
  - *Engineered structures*
  - *Machinery and equipment*
  - *Vehicles*
  - *Cultural and historical assets*
4. Definitions of major asset classifications:
  - a. **Land**

Land includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (highways, dams, bridges, tunnels, etc.) and other program use, but not land held for resale.
  - b. **Land improvements**

All improvements of a permanent nature to land such as parking lots, landscaping, lighting, pathways, and fences.
  - c. **Buildings**

Permanent, temporary or portable building structures, such as offices, garages, warehouses, and recreation facilities intended to shelter persons and/or goods, machinery, equipment and working space.
  - d. **Engineered structures**

Permanent structural works such as roads, bridges, canals, dams, water and sewer, and utility distribution and transmission systems, including plants and substations.

**e. Machinery and equipment**

Equipment that is heavy equipment for constructing infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware and software. This class does not include stationary equipment used in the engineered structures class.

**f. Vehicles**

Rolling stock that is used primarily for transportation purposes.

**g. Cultural and historical assets**

Works of art and historical treasures that have cultural, aesthetic or historical value that are worth preserving perpetually. These assets are not recognized as tangible capital assets in the financial statements, but the existence of such property should be disclosed. Buildings declared as heritage sites may be included in this asset classification.

5. Engineered Structures minor asset classifications

Minor classifications in the Engineered Structures major classification will be:

- Roadway system
- Light rail transit system
- Water system
- Wastewater system
- Storm system
- Fibre optics
- Electricity system
- Gas distribution system

Buildings, and machinery and equipment, will be grouped in a subclass for the minor classes of water, light rail transit, wastewater, storm water, electric, gas and fibre optics. This treatment is an exception to the recommended approach to classifying tangible capital assets to better report the cost of distribution and transmission systems.

6. Definitions of Engineered Structures minor classes

**a. Roadway system**

Assets intended for the direct purpose of vehicle or pedestrian travel or to aid in vehicle or pedestrian travel. Includes roads, bridges, overpasses, ramps, parkades, lights, sidewalks and signage.

**b. Light rail transit system**

A system to provide light rail transit service to the public. Includes track, stations, tunnels, bridges, lines, fare collection equipment, communications and electrical systems.

**c. Water system**

Systems for the provision of water through pipes or other constructed convey. It is normally comprised of assets for the intake, distribution, storage and treatment of safe potable water. It may also be comprised of assets required to distribute non-potable water. Includes mains, services, pump and lift stations, plants and equipment, reservoirs and fire hydrants.

**d. Wastewater system**

Wastewater is defined as water that has been used for household, business and other purposes, which flows from private plumbing systems to public sanitary sewers and on to a treatment plant. This system is comprised of assets used for the collection and treatment of non-potable water intended for return to a natural water system or other originating water source or used for other environmentally approved purposes. Includes mains, services, pump and lift stations, plants and equipment and lagoons.

**e. Storm system**

Assets used for the collection, storage and transfer of water as a result of rain, flood or other external source to a natural water system. Includes mains, services, catch basins, pump and lift stations, outfalls and retention ponds.

**f. Fibre optics**

Fibre optics is defined as technology that uses glass or plastic threads (fibres) to transmit data. A fibre optic cable consists of a bundle of threads, each capable of transmitting messages modulated onto light waves. This system is comprised of the assets necessary to transmit data through a fibre optic cable.

**g. Electricity system**

***i. Electrical generation***

The large-scale production of electric power for industrial, residential and rural use; generally in stationary plants designed for that purpose. Includes boilers, turbo generators, combustion turbines, wind turbines and gas compressors.

***ii. Electrical transmission***

The portion of the system that carries high power over the longest distances and is normally the highest voltage network of an electric utility system. Includes underground and overhead cable, conductors, transformers and towers.

***iii. Electrical distribution***

The assets that distribute the electricity to consumers from a bulk power station. Includes the substation and the lines and equipment from the substation.

**h. Gas distribution system**

A system that delivers gas to customers through a system of pipelines, works, plant and equipment. Includes low and high pressure pipe and meters.

7. The Major classifications for tangible capital assets, and the minor classifications under Engineered Structures, should be consistently used by all Alberta municipalities for financial reporting.
8. Municipalities should be encouraged to use the recommended asset classifications, but the decision regarding the level of detail will remain with the municipality.
9. The following principles should be considered when determining the level of detail to be used in recording tangible capital assets:
  - a. Sufficient detail should be kept to provide the necessary information for an asset management system.
  - b. Factors determining further classification are:
    - Different useful life.
    - Variable timing of construction; for example, a road may have segments constructed at different time intervals.
    - Better data for costing, determining user fees and analyzing performance of departments, divisions or business units.

### **3.2 Useful Life and Amortization Methods**

1. Municipalities should use a useful life not greater than the recommended maximum life in Appendix A. The length of the useful life for an asset will depend on the asset quality and its intended use.
2. In some situations, the useful life may be expected to be longer than the recommended life. In such instances, the municipality will need to provide adequate documentation supporting the decision to extend the life beyond the recommended maximum.
3. The information sources used to determine the recommended maximum useful life are:
  - a. Governmental Accounting Focus – Estimated Useful Lives for Capital Assets by Paul E. Gruenwald, American Appraisal Associates.
  - b. Alberta municipalities/GFOA technical working group
4. Common amortization methods are:
  - a. *Straight-line*

The straight-line method assumes that the asset's economic usefulness is the same each year and the repair and maintenance expense is essentially the same each period. The amortization amount is determined by dividing the asset's original cost by its estimated life in years.
  - b. *Unit of use or output method*

The unit of use or output method determines depreciation as a function of use or productivity. It is used for assets which deteriorate based on usage and may be designed to produce a finite amount of product or service. This method determines depreciation based on asset output by dividing an asset's cost by its total expected productive output and multiplying the cost per unit by the actual production to date. Examples of when this method can be used is kilometres on vehicles, hours of equipment use and volume of material processed in landfills.
  - c. *Declining balance*

The declining balance method is another method where amortization is considered as a function of usage instead of a function of time. The periodic charge is a constant percentage of the unamortized cost, so that the depreciated cost approaches zero by the retirement date. This method could be used when an asset depreciates significantly faster in the early years of its useful life.
5. The straight-line amortization method is most common and may be used to amortize all assets excluding land. Land is not a depreciable asset. Other amortization methods may be more appropriate to allocate the historical cost of the asset over its useful life and will provide a better estimate of the remaining useful life.

6. Residual value should be determined and deducted from the gross cost of the asset before the depreciation amount is determined.
7. In the year of acquiring an asset, putting an asset into service or disposing of an asset, it is suggested that municipalities record 50 percent of the annual amortization amount. Other generally accepted amortization methods may be consistently applied.
8. The useful life or amortization method of an asset may require revision during its life due to significant events as outlined in PS 3150.30. The effect of this change would be recorded in the year of revision and future years.
9. There will be some infrastructure systems which will have components with different useful lives. Section 3.5 'Networks, Components and Segmentation' provides further information on these situations.



**APPENDIX A:  
RECOMMENDED MAXIMUM USEFUL LIFE**

Asset Classes	Maximum Useful Life
Major Minor Sub-class One Sub-class Two Sub-class Three	
<b>Land</b> <i>Right-of-way</i> <i>Undeveloped right-of-way</i> <i>Parks</i> <i>General</i>	
<b>Cultural &amp; Historical Assets</b> <i>Public art</i> <i>Historical</i> <i>Heritage site</i>	
<b>Land Improvements</b> <i>Parking lot</i> Gravel 15 Asphalt 25 <i>Playground structures</i> 15 <i>Landscaping</i> 25 <i>Fences</i> 20 <i>Sprinkler systems</i> 25 <i>Golf courses</i> 45 <i>Tennis courts</i> 20 <i>Fountains</i> 20 <i>Lakes/ponds</i> 25 <i>Retaining walls</i> 20 <i>Running tracks</i> 15 <i>Outdoor lighting</i> 20 <i>Airport runways</i> 10 <i>Soccer pitch - outdoor</i> 20 <i>Bike/jogging Paths</i> Gravel 15 Asphalt 20 <i>Landfill</i> Pits <b>Volume</b> Pads <b>Volume</b> Transfer stations 25 <i>Construction in progress</i>	
<b>Buildings</b> <i>Permanent Structures</i> Frame 50 Metal 50 Concrete 50 <i>Portable Structures</i> Metal 25 Frame 25 <i>Leasehold improvements</i> <i>Construction in progress</i> <b>Variable</b>	

Major Minor Sub-class One Sub-class Two Sub-class Three	Asset Classes	Maximum Useful Life
	<b>Engineered Structures</b>	
	<b>Roadway system</b>	
	Bridges	<b>Variable</b>
	Overpass/interchange	<b>60</b>
	Curb & gutter	<b>30</b>
	Parkades	<b>50</b>
	Roads & streets	
	<i>Lanes/alleys</i>	
	ACP - hot mix	<b>20*</b>
	Gravel	<b>15*</b>
	Nonconforming	<b>20*</b>
	<i>Local/Collector/Arterial/Major Arterial</i>	
	<i>Surface</i>	
	Concrete	<b>30*</b>
	ACP - hot mix	<b>20*</b>
	ACP - cold mix	<b>10*</b>
	Chip seal	<b>10*</b>
	Oil	<b>5*</b>
	Gravel	<b>25*</b>
	<i>Subsurface</i>	<b>40*</b>
	Road signs	
	<i>Traffic control</i>	<b>30</b>
	<i>Information</i>	<b>30</b>
	Lights	
	<i>Decorative</i>	<b>30</b>
	<i>Street</i>	<b>30</b>
	<i>Traffic</i>	<b>30</b>
	Guard rails	<b>30</b>
	Ramps	<b>30</b>
	Sidewalks & para-ramps	<b>30</b>
	Light rail system	<b>65</b>
	Construction in progress	
	(* subject to weather conditions)	
	<b>Water system</b>	
	Distribution system	
	<i>Mains</i>	<b>75</b>
	<i>Services</i>	<b>75</b>
	Pump, lift and transfer stations	<b>45</b>
	Plants and facilities	
	<i>Structures</i>	<b>45</b>
	<i>Treatment equipment</i>	
	Mechanical	<b>45</b>
	Electrical	<b>45</b>
	General	<b>45</b>
	<i>Pumping equipment</i>	<b>45</b>
	Hydrants/fire protection	<b>75</b>
	Reservoirs	<b>45</b>
	Construction in progress	

<b>Major Minor Sub-class One Sub-class Two Sub-class Three</b>	<b>Asset Classes</b>	<b>Maximum Useful Life</b>
	<b>Wastewater system</b>	
	Collection system	
	<i>Mains</i>	<b>75</b>
	<i>Services</i>	<b>75</b>
	Pump, lift and transfer stations	<b>45</b>
	Plants and facilities	
	<i>Structures</i>	<b>45</b>
	<i>Treatment equipment</i>	
	Mechanical	<b>45</b>
	Electrical	<b>45</b>
	General	<b>45</b>
	<i>Pumping equipment</i>	<b>45</b>
	Lagoons	<b>45</b>
	Construction in progress	
	<b>Storm system</b>	
	Collection system	
	<i>Mains</i>	<b>75</b>
	<i>Services</i>	<b>75</b>
	Pump, lift and transfer stations	<b>45</b>
	Catch basins	<b>75</b>
	Outfalls	<b>75</b>
	Wetlands	<b>75</b>
	Retention ponds	<b>75</b>
	Treatment facility	<b>45</b>
	Construction in progress	
	<b>Fibre optics</b>	<b>30</b>
	<b>Electrical System</b>	
	Electrical generation	
	<i>Boilers</i>	<b>30</b>
	<i>Turbo generators</i>	<b>30</b>
	<i>Combustion turbines</i>	<b>20</b>
	<i>Condensate tanks</i>	<b>10</b>
	<i>Gas compressors</i>	<b>20</b>
	<i>Other</i>	<b>10</b>
	<i>Generation Wind/Turbine</i>	<b>30</b>
	<i>Construction in progress</i>	
	Electrical Transmission	
	<i>Structures &amp; improvements</i>	<b>35</b>
	<i>Station &amp; line equipment</i>	
	Transformers	<b>40</b>
	Switchgear	<b>35</b>
	Protection systems	<b>20</b>
	Insulators	<b>60</b>
	Other structures & equipment	<b>35</b>
	<i>Towers and fixtures</i>	<b>38</b>
	<i>Poles and fixtures</i>	<b>38</b>

<b>Major</b>	<b>Asset Classes</b>		<b>Maximum Useful Life</b>
	<b>Minor</b>	<b>Sub-class One</b>	
		<b>Sub-class Two</b>	
		<b>Sub-class Three</b>	
	<i>Overhead (O/H) conductors &amp; devices</i>	<b>35</b>	
	<i>Underground (U/G) conductors &amp; devices</i>	<b>40</b>	
	U/G conduit	<b>40</b>	
	U/G cable	<b>40</b>	
	<i>Construction in progress</i>		
	Electrical Distribution		
	<i>Site development</i>	<b>35</b>	
	<i>Station &amp; line equipment</i>		
	Transformers	<b>40</b>	
	Switchgear	<b>35</b>	
	Protection systems	<b>20</b>	
	Insulators	<b>60</b>	
	<i>Towers and fixtures</i>	<b>38</b>	
	<i>Poles and fixtures</i>	<b>38</b>	
	<i>O/H conductors &amp; devices</i>	<b>35</b>	
	<i>U/G conductors &amp; devices</i>	<b>40</b>	
	U/G conduit	<b>40</b>	
	<i>Construction in progress</i>		
	General Plant - Electrical		
	<i>Site development</i>	<b>80</b>	
	Electrical substations		
	<i>Site development</i>	<b>35</b>	
	<i>Station &amp; line equipment</i>		
	Transformers	<b>40</b>	
	Switchgear	<b>35</b>	
	Protection systems	<b>20</b>	
	Other structures & equipment	<b>35</b>	
	<i>Towers and fixtures</i>	<b>38</b>	
	<i>Poles and fixtures</i>	<b>38</b>	
	<i>O/H conductors &amp; devices</i>	<b>35</b>	
	<i>U/G conductors &amp; devices</i>	<b>40</b>	
	U/G conduit	<b>40</b>	
	U/G cable	<b>40</b>	
	<i>Construction in progress</i>		
	Gas distribution system		
	<i>Structures</i>	<b>75</b>	
	<i>Transmission</i>	<b>75</b>	
	<i>Services</i>	<b>75</b>	
	Medium pressure	<b>36</b>	
	High pressure	<b>36</b>	
	<i>Measurement</i>	<b>35</b>	
	<i>Construction in progress</i>		

<b>Asset Classes</b>	
<b>Major</b>	
<b>Minor</b>	
<b>Sub-class One</b>	<b>Maximum</b>
<b>Sub-class Two</b>	<b>Useful</b>
<b>Sub-class Three</b>	<b>Life</b>
<b>Machinery and Equipment</b>	
<i>Heavy construction equipment</i>	<b>Variable</b>
<i>Stores</i>	<b>25</b>
<i>Food services</i>	<b>10</b>
<i>Fire equipment</i>	<b>12</b>
<i>Police special equipment</i>	<b>10</b>
<i>Aircraft</i>	<b>Variable</b>
<i>Boats</i>	<b>25</b>
<i>Fitness and wellness</i>	<b>10</b>
<i>Control systems</i>	<b>5</b>
<i>Communication links</i>	<b>20</b>
<i>SCADA system</i>	<b>10</b>
<i>Fuelling stations</i>	<b>15</b>
<i>Laboratory</i>	<b>10</b>
<i>Communications</i>	
<i>Radios</i>	<b>10</b>
<i>Telephone systems</i>	<b>10</b>
<i>Tools, shop and garage equipment</i>	<b>15</b>
<i>Scales</i>	<b>15</b>
<i>Bins</i>	<b>15</b>
<i>Meters</i>	
<i>Electrical</i>	<b>20</b>
<i>Cumulative</i>	<b>20</b>
<i>Interval</i>	<b>20</b>
<i>Gas</i>	<b>20</b>
<i>Water</i>	<b>40</b>
<i>Parking meters and splitters</i>	<b>20</b>
<i>Turf equipment</i>	<b>10</b>
<i>Ice re-surfacer</i>	<b>10</b>
 <i>Office Furniture &amp; Equipment</i>	
<i>Furniture</i>	<b>20</b>
<i>Office equipment</i>	<b>10</b>
<i>Audiovisual</i>	<b>10</b>
<i>Photocopiers</i>	<b>5</b>
<i>Computer Systems</i>	
<i>Hardware</i>	<b>5</b>
<i>Software</i>	<b>10</b>
<i>Construction in progress</i>	
<b>Vehicles</b>	
<i>Light duty</i>	<b>10</b>
<i>Medium duty</i>	<b>10</b>
<i>Heavy duty</i>	<b>10</b>
<i>Transit buses</i>	<b>20</b>
<i>Fire trucks</i>	<b>25</b>
<i>Light rail transit cars</i>	<b>40</b>
<i>Construction in progress</i>	

### **3.3 Capitalization Thresholds**

1. Capitalization threshold is defined as the minimum value of an expenditure that meets the criteria of a tangible capital asset and that will be recorded as a tangible capital asset.
2. Each municipality should develop a policy establishing the capitalization threshold for each major asset class for their respective municipality.
3. PS 3150 does not determine the appropriate capitalization thresholds for a tangible capital asset. PS 3150.05 (a) defines tangible capital assets to be non-financial assets having physical substance that:
  - a. 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;
  - b. have useful economic lives extending beyond an accounting period;
  - c. are to be used on a continuing basis; and
  - d. are not for sale in the ordinary course of operations.
4. Factors used to determine the capitalization threshold for expenditures which meet the definition of a tangible capital asset in PS 3150.05, but will be expensed are:
  - a. Materiality  
Will the multiple expenditures for tangible capital assets valued below the capitalization threshold and, therefore, expensed rather than capitalized, result in a material misstatement of the financial statements?
  - b. Record keeping  
Is the capitalization threshold so low that the cost to record and track each asset would be too expensive or impractical?
  - c. Asset management  
Is the capitalization threshold at an appropriate value so that most tangible capital assets which require long-term planning for maintenance and replacement will be recorded?
  - d. Rate setting  
Is the capitalization threshold at an appropriate value so that cost recovery rates reasonably reflect the cost of operations?
5. The materiality factor should not be the main factor in determining the level of the capitalization threshold, but the capitalization threshold needs to meet the minimum requirements for materiality. Asset management may be the key factor so that good information is available to the municipality for future planning.

6. Each municipality should have a discussion with its auditor about the minimum capitalization threshold necessary to meet materiality requirements.
7. There will not be a capitalization threshold for Land. All land, excluding land held for resale, is to be capitalized because of the permanent nature of land.
8. Value per item rather than the value of a group of similar items will be the value used to determine if the tangible capital asset should be capitalized.
9. All assets within a major asset class should have the same capitalization threshold.
10. Assets that are still in active use but that are fully amortized should be recorded at the original cost with full amortization until such time as the asset is no longer in use.
11. In situations where an asset may have components, the capitalization threshold should be applied to the value of the whole asset and not to each component making up that asset. In other words, the cumulative total of the components will be used to determine if the asset should be capitalized.
12. Principles to be used when developing capitalization thresholds are:
  - a. Asset management should be a key decision driver.
  - b. Accounting policy should not drive business decisions.
  - c. Systems should be designed to be practical and not cumbersome.
  - d. Good professional judgement is essential.
  - e. Capitalization policies should be reviewed with your auditor.
13. Expenditures that meet both the criteria of a tangible capital asset and exceed the following suggested capitalization thresholds are to be recorded as a tangible capital asset:

<b>Asset Description</b>	<b>Cities*</b>	<b>Towns</b>	<b>Villages</b>	<b>Rural Municipalities</b>
Land	–	–	–	–
Land Improvements	10,000	5,000	2,000	5,000
Buildings	100,000	25,000	10,000	50,000
Engineered Structures	100,000	25,000	10,000	50,000
Machinery & Equipment	10,000	5,000	2,000	5,000
Vehicles	10,000	5,000	2,000	5,000

\* Includes the specialized municipalities of Strathcona County and the Regional Municipality of Wood Buffalo.

14. The cumulative cost of tangible capital assets purchased and expensed because the asset value is less than the capitalization threshold, will be reviewed by the auditor for materiality purposes. Therefore, the municipality should estimate the annual amount of unrecorded tangible capital assets and discuss this amount with its auditors to determine if the respective threshold levels are appropriate.

## 15. Transition Application:

The following procedures should be considered when determining the capitalization threshold to record existing assets:

- a. Discount the current capitalization threshold to determine if the historical cost of the asset is large enough to be capitalized or
- b. Capitalize the existing asset if similar assets are currently capitalized.



### 3.4 Determining Resource Needs for Implementation

1. Local governments will be required to record and amortize their capital assets beginning with the 2009 reporting year. Planning and preparation must begin in 2007 to ensure that municipalities are able to comply with the new tangible capital asset requirements and changes to budget processes and financial reporting.
2. The major impact from the perspective of time and money will be the initial implementation and compliance, including preparing an inventory of capital assets, determining a valuation for those assets, establishing capital policies and implementing changes to budget processes and financial reporting. Ongoing maintenance of the capital asset inventory going forward will involve extra staff time and audit costs, but of a lesser magnitude.
3. The costs for implementation will vary between municipalities. Factors may include administrative staffing levels and the financial and engineering expertise of current staff. The condition of a municipality's historical records will also have a significant impact on the related implementation costs. Potential expenses will include staff time, consulting, software upgrades and audit fees.
4. No attempt has been made to quantify the costs that a municipality may expect to incur. Each municipality is responsible for identifying the resources required and for estimating the related costs specific to its situation.
5. Implementation plans must factor in both human and financial resources. The following table shows some key areas to consider when developing an implementation plan and determining the associated costs.

Resource	Activity
Personnel	<ul style="list-style-type: none"> <li>• Project planning</li> <li>• Training/education/awareness</li> <li>• Policy development</li> <li>• IT requirements/upgrades</li> <li>• Recording of assets</li> <li>• Inventory and valuation</li> <li>• Documentation</li> <li>• Meeting audit requirements</li> </ul>
Consultants/Specialists	<ul style="list-style-type: none"> <li>• Assisting staff with additional work</li> <li>• Inventory and valuation</li> <li>• Engineering services</li> <li>• IT requirements/upgrades</li> <li>• Training &amp; education</li> </ul>
Auditors	<ul style="list-style-type: none"> <li>• Commenting on project plans</li> <li>• Commenting on capital policies</li> <li>• Auditing inventory &amp; valuations</li> <li>• Reviewing financial processes/software</li> <li>• Auditing new reporting requirements</li> </ul>

### **3.5 Networks, Components and Segmentation**

Municipalities will need to decide how to record assets such as engineered structures and systems. The options available are the network approach or component approach. The network approach is also referred to as single asset or total asset. The approach used will also determine the treatment of subsequent expenditures to the asset and whether these expenditures will be considered 'maintenance' or a 'betterment' of the respective asset. Another important decision will be whether the system should be recorded in segments.

Detailed information on this topic is available in the documents of Ontario Municipal Benchmarking Initiative (OMBI) ([www.ombi.ca/accounting.asp](http://www.ombi.ca/accounting.asp)) and the Canadian Institute of Chartered Accountants (CICA) ([www.psab-ccsp.ca/index.cfm/ci\\_id/37536/la\\_id/1.htm](http://www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm) and [www.menet.ab.ca/docs/PSG-7\\_Accounting\\_Guideline\\_for\\_TCA.pdf](http://www.menet.ab.ca/docs/PSG-7_Accounting_Guideline_for_TCA.pdf)).



Those details will not be restated here, but the following is a brief summary that includes some of the considerations for each approach to help municipalities in make the necessary decisions on how to record infrastructure assets.

#### **1. Network Approach**

This approach views an asset as one unit even if the respective asset is comprised of a number of significant components. This is the simplest form of recording assets.

- Less intensive, less detail
- Easier to track
- Historically easier to value
- Easier to value donated assets such as subdivision infrastructure
- More difficult to establish capitalization thresholds
- More difficult to determine the value of the portion of the asset replaced (see betterment or maintenance section).

#### **2. Component Approach**

This approach identifies major, significant components of an asset. Each component with a unique historical cost, useful life or amortization method is recorded separately.

- Provides a better basis for asset management
- Easier to be more accurate in amortization and determining useful life, resulting in more accurate financial reporting
- Easier to deal with the uniqueness of components
- Achieves program costing
- Better matching of cash outlay with replacement
- More detail, resulting in more time required to maintain the asset recording system.

### 3. Segments

Linear systems may be divided into segments or sections. These segments are generally determined by geographical location.

- Provides a better basis for asset management
- Easier to provide more accurate information
- Easier to identify costs of the asset replaced
- More detail information is required, resulting in additional time to maintain the asset recording system.

### 4. Betterment or Maintenance

The information in PS Handbook Sections 3150.19-21 and supporting documents provide sufficient explanations on the decisions regarding betterment or maintenance expenditures. It is important to state in policy what constitutes maintenance and betterments and that the municipality and its auditor have a common understanding of how to consistently apply the policy.

1. Municipalities may decide to record less detail on some existing assets by using a combination of the network and component approach. However, as municipalities continue with the project, they may decide to record more detailed component and segmented information going forward.

It is important to note that a 'loss on disposal' may occur when a network is subsequently disaggregated into components. The reason is that some of the components are likely to have a shorter useful life than the total asset and the total asset will not be fully amortized when the component needs to be replaced and is removed from the total asset and recorded separately.

The following example demonstrates how a loss on disposal can occur:

- Assume that a road is initially recorded as a total asset at a cost of \$100,000 with a useful life of 40 years. The annual amortization is \$2,500 per year. The surface is ACP – cold mix which has a useful life of 10 years. The cost of the surface is 40% of the total cost; i.e., \$40,000. If the road continued to be treated as a network/total asset, the costs of resurfacing the road every 10 years would be recorded as a maintenance expense. A decision was made to record the surface as a separate component of the road when it needed to be resurfaced at the end of its useful life of 10 years. The entries required would be to remove the value of the surface from the original total cost of the asset and its accumulated amortization.
- These amounts would be:

Original cost of the surface	\$40,000
Accumulated amortization of the surface	\$10,000

(\$40,000 over 40 years is \$1,000 amortization expense per year for 10 years.)

- The useful life of the surface has been completed but the recorded amortization has been based on the 40 year life of the road; therefore, a loss on disposal in the amount of \$30,000 will be recorded when the surface starts to be treated as a component.
6. An important principle to remember is that recording more reasonable and manageable amounts of detail increases the potential of an improved asset management system and improved financial reporting.
  7. There are some criteria municipalities should consider when making decisions on how to network assets such as linear structures.

Criteria for roads may include:

- Year of construction
- Type of roads with similar specifications
- Surface materials
- Location

Criteria for water distribution and waste water collection may include:

- Year of construction
- Size of pipe
- Pipe material
- Location

8. Some suggested examples of networks are:

- Road systems
  - Urban – streets, subdivision, neighbourhood
  - Rural – type of roads within intersections or townships, by each mile
- Water and Wastewater systems
  - Location, subdivision
  - Create pools of pipe based on common year of construction and common specifications such as pipe size and material

9. Additional information and examples of recording engineered structures and systems can be found in other documents such as:

OMBI Implementation Guide – Version 2 Chapter 2, pages 13-19

([www.ombi.ca/docs/db2file.asp?fileid=183](http://www.ombi.ca/docs/db2file.asp?fileid=183));

CICA/PSAB *Guide to Accounting For and Reporting Tangible Capital Assets* ([www.psab-ccsp.ca/index.cfm/ci\\_id/37536/la\\_id/1.htm](http://www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm))

Chapter 2, Section 5.0, page 20

Chapter 4, Section 2.0, pages 39-44 ; and

AMCTO, PSAB/Asset Management/Newsletters/No.22 - Aggregation and Disaggregation of Assets.



### **3.6 Asset Valuation Date**

#### **Background:**

The valuation date for most tangible capital assets will be the date of acquisition or construction but there will be some unique situations when there may be some uncertainty in determining the date of valuation for existing or future assets. It is important that there be a consistent approach to valuation and the purpose of this paper is to provide some guidelines on this subject.

#### **Related CICA Handbook Regulations:**

*The date of acquisition is either:*

- (a) *the date on which the net assets or equity interests are received and the consideration is given; or*
- (b) *the date of a written agreement, or a later date therein, that provides that control of the acquired enterprise is effectively transferred to the acquirer on that date, subject only to those conditions required to protect the interests of the parties involved.*

Accounting Section 1581.19 Business Combinations

*The cost of a contributed asset is considered equal to its fair value at the date of contribution.*

PS 3150.14

'Contributed assets' will be addressed in a separate paper but the regulation 'fair value at the date of contribution' is the premise for establishing the valuation date and value of all assets considered in the specific situations noted in the following section.

#### **Specific Situations:**

##### **1. Change in municipal entity**

There have been situations in Alberta, when the Province by an Order in Council, has created a new municipality. A prime example occurred when rural municipalities were created from 'improvement districts' in 1995. This resulted in a change in governance and administration. It is our position that the date of valuation for this change in municipal entity would be the date of the Order in Council.

#### **POSITION STATEMENT:**

The valuation date for newly created municipalities resulting in a change in governance will be the date of the Order in Council creating such a municipality.

## **2. Change in status of a municipality**

An Order in Council is also issued when the status of a municipality is changed; for example, when a town becomes a city. This status change does not change governance or administration and a new entity is not created; therefore, our position is that the valuation date would not be impacted in situations of status change only.

### **POSITION STATEMENT:**

The valuation date will not be impacted when the status of a municipality is changed.

## **3. Dissolution of a municipality**

There are situations when a municipality may dissolve and become part of an adjacent municipality. The common example in Alberta occurs when a village is considered to be no longer sustainable and is dissolved becoming part of the rural municipality in which it is located. The rural municipality is actually acquiring the tangible capital assets of the village; therefore, the valuation date will be the date of the dissolution. The assets acquired will be recorded by the acquiring municipality at their fair value which will probably be different than the net book value recorded in the village financial records.

### **POSITION STATEMENT:**

The valuation date for tangible capital assets of a dissolved municipality acquired by another municipality will be the date of the dissolution.

## **4. Amalgamation of two or more municipalities**

Amalgamation of two or more municipalities happened frequently in the 1960's when small rural municipalities were amalgamated to create counties. This does not happen as often now but it has happened in the last decade. Amalgamations normally result in a new entity with a new governance structure and are created by an Order in Council. Therefore, it is our position that the date of the Order in Council for amalgamation would be the valuation date.

### **POSITION STATEMENT**

The valuation date for newly created municipalities resulting from an amalgamation will be the date of the Order in Council creating the new municipality. The tangible capital assets for all of the municipalities included in the amalgamation will be valued as of the date of amalgamation.

## **5. Annexations**

Annexation of land from one municipality to an adjacent municipality is a common occurrence which will continue in the future. Parcels of land being annexed will usually include existing infrastructure such as roads. This infrastructure is a new acquisition by the annexing municipality; therefore, it should be valued at the date of the annexation.

## POSITION STATEMENT

The valuation date of tangible capital assets on annexed lands should be the date of the annexation.

### 6. Education Responsibility Removed from Counties

Prior to 1995, counties were rural municipalities that were responsible for both municipal and education services. The county system was comprised of an education committee and a municipal committee each reporting to the county council. The provincial government removed the education responsibility from counties in 1995. This provincial decision did not change the governance of the county; the county council remained and most counties have retained the term 'county' in their official name.

Most counties provided common facilities which were shared by both the municipal and education sectors. At the time of separation in 1995, agreements were made identifying the appropriate equity share of these shared facilities by each sector. The value of the shared assets will, in most cases, reasonably represent their fair value because the agreement can be considered an arms length transaction.

#### POSITION STATEMENTS:

- a. The valuation date for counties will not be impacted when the responsibility for education was removed from their authority; the valuation date will be the date when the county was originally established.
- b. The value of any shared assets acquired by the county from the education sector will be the amount determined at the time of separation.

#### **Application:**

This paper may not address all of the specific situations but seeks to establish the premise for making valuation date decisions. The questions to ask are 'When did the new entity come into existence?' or 'When did the entity acquire the asset?' Reasonable tangible capital asset records should exist in all municipalities after 2009 providing a good basis to determine the value of assets acquired in the noted situations subsequent to 2009. The unamortized value may be the new value of the acquired asset but, in most cases, the value will need to be adjusted for the unamortized appreciation in the value or increased costs to reconstruct or purchase the asset. The life of the asset will probably be the remaining unamortized life of the acquired asset.

### Valuation Example:

The cost of a contributed or acquired asset is to be the fair value at the date of contribution (PS 3150.14). This example demonstrates how fair value would be determined when a municipality acquires assets in the above situations.

A municipality acquires road system infrastructure from an adjacent municipality through an annexation. The road system infrastructure is recorded in the financial records of the contributing municipality as follows:

Total Cost	\$100,000
Useful life	40 years
Age	30 years
Annual amortization expense	\$2,500
Accumulated Amortization	\$75,000
Net Book Value	\$25,000

Assuming that the remaining life of the asset is 10 years and that the replacement cost at the time of annexation was used to determine the fair value, the acquisition would be recorded as follows:

Replacement cost	\$500,000
Remaining useful life	10 years

Fair value is the percentage of the useful life remaining times the replacement cost.

Recorded fair value	\$125,000
Annual amortization expense	\$12,500

### Implications:

Applying the statements of this paper will result in some difficulties when comparing similar municipalities. For example, a municipality created in 1960 will use a 1960 valuation date whereas a neighbouring municipality created by an Order in Council in 1995 will have a 1995 valuation date. The net cost of similar infrastructure in each municipality will have different values due to cost inflation factors from 1960 to 1995 resulting in larger annual amortization, accumulated amortization and net value for the younger municipality. Also, tracts of land which have been appreciating in value will potentially result in the financial position of the 1995 municipality having a higher net asset value. These situations will probably occur but, while it may be reasonable to compare to other municipalities, the main focus of recording tangible capital assets is to determine the financial position of a specific entity at a specific point in time. Analysis of that position will be the same whether the assets were valued as of 1960 or 1995.



### **3.7 Capital Policy Development Guideline: Introduction and Approach**

Your municipality needs to develop policies to record and report tangible capital assets. These policies must be a proper fit for the municipality and must meet the requirements of Public Sector Handbook Section 3150 - Tangible Capital Assets.

Capital policies will vary for each municipality because there can be different approaches to accounting for tangible capital assets that still comply with PS 3150. This capital policy development guideline outlines the policies that your municipality should have in place and provides information to consider when preparing these policies. ***This is not a draft capital policy.***

Your municipality can choose between having one policy that addresses all of the necessary topics or multiple policies as part of a capital policy section of the policy manual. The main topics identified in this guideline can be subsections of one capital policy or treated as separate policies. The guideline is organized by topic name, questions to consider and suggested options.

There are sample policies available in current literature including:

*CICA/PSAB Guide to Accounting for and Reporting Tangible Capital Assets*



*Development of Tangible Capital Asset Accounting Policies*

*(Chapter 4, Section 1.0, page 39)*

*Sample Tangible Capital Asset Policy (Appendix C, page 94)*

[www.psab-ccsp.ca/index.cfm/ci\\_id/37536/la\\_id/1.htm](http://www.psab-ccsp.ca/index.cfm/ci_id/37536/la_id/1.htm)

*OMBI Implementation of Accounting for Tangible Capital Assets – Reference*



*Manual (Appendix A-15, page 141)*

[www.ombi.ca/docs/db2file.asp?fileid=187](http://www.ombi.ca/docs/db2file.asp?fileid=187)

## 1. Authority, Purpose and Scope

This policy provides the basis for all capital policies of the municipality, including the premise for recording tangible capital assets. Your policy should address the following broad areas:



### a. *What is the purpose and scope of a capital policy (or policies)?*

Start with a general statement about the importance of having capital policies to:

- achieve the consistent recording of tangible capital assets, and
- to help with the preparation of financial statements that will comply with generally accepted accounting principles. The scope of these policies should be mentioned. To do this, state that the policies should include all departments and organizations that the municipality is responsible to include in its reports. The specific organizations should be identified.

### b. *What is the authoritative basis and who has the authority?*

PS 3150 *Tangible Capital Assets* is the basis for developing these capital policies, but your municipality will be required to make some internal decisions to specifically meet the requirements of PS 3150. Authority should be defined and may include some of the following issues:

- Who is responsible to ensure that this capital policy (s) is followed?
- Who prepares and reviews the implementation plan and develops implementation budgets?
- How are policy amendments handled?
- Who makes the final decision in the event of disagreement regarding policy application or interpretation?

### c. *What is the implementation plan?*

You can expect that it may take more than one year to fully implement the strategies to meet the requirements of PS 3150. In the absence of organization business plans, some key elements of the implementation plan may need to be included in the policy.

### d. *What is the effective date?*

The compliance date is to be no later than 2009, but municipalities may choose an earlier date. Include a statement here about the date by when all tangible capital assets will be recorded and reported.

### e. *Are there specific expenditures which should be recorded?*

Your municipality may find it appropriate to provide a general statement about some assets that are exempt from recording by policy, but which need to be recorded for reasons such as risk management, security, safety and environmental considerations. A separate policy may be required to identify the specific situations and treatment; for example,

some assets may be recorded for tracking purposes, but treated as an expense and not amortized for financial statement reporting purposes.

## 2. Definition and Classification of Assets

The broad and, in some cases, specific definitions of assets will be addressed in this policy. Your municipality should identify the level of detail in classifying these assets, and include the following areas:

### a. *Definitions:*

The following definitions can be stated:

- i. The broad definition of a tangible capital asset as stated in PS 3150.02 and .05(a).
- ii. The definitions of the major classifications (Clause 4) and the minor classifications of engineered structures (Clause 6) of Section 3.1 'Asset Classification' which should be used by all Alberta municipalities.

### b. *Classifications*

In this section, your municipality needs to decide about the level of detail in the tangible capital asset records. It is recommended that your municipality use the major classifications as mentioned under *Definitions*.

Asset Classification should be used to help make classifications decisions. The key questions to ask are: What data is required to analyze the cost and performance of business units, determine user fees and plan for future financial requirements? Further classification may also be determined by factors such as useful life and variable timing of construction of assets. Your municipality may find it appropriate to have an appendix to this section to identify the specific classification as presented in Appendix A of Section 3.2 'Useful Life and Amortization Methods'.

### c. *Capital leases*

Your municipality will need to determine if its capital leases are to be treated as a tangible capital asset. If so, the policy should define or reference when this treatment is required. From your municipality's point of view, a capital lease is a lease that substantially transfers all the benefits and risks of property ownership to the municipality. (Section 3065.03(a) CICA Handbook). This would normally occur when one or more of the following conditions are present at the inception of the lease:

- i. There is reasonable assurance that the municipality will obtain ownership of the leased property by the end of the lease term.
- ii. The lease term is of such duration that the municipality will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its lifespan.

- iii. The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. (Section 3065.06 CICA Handbook)

d. *Specific situations*

Sometimes, your municipality may develop definitions and related procedures for specific situations. These should be included in the policies to achieve the objective of consistent application. Some examples are road allowances, land improvements and gravel pits.

### 3. Recording and Valuing Assets

Developing and maintaining a good recording system is crucial to meeting the requirements of PS 3150 and managing the municipality's assets. This section will identify what your municipality needs to consider when developing a system.

a. *Recording the asset*

Your municipality needs to carefully consider what assets should be recorded and what information should be recorded for each type of asset. Factors to consider when making these decisions are materiality, record keeping, asset management and rate setting. The asset record system needs to be manageable, but provide sufficient information for good business decisions.

- i. What information should be recorded for each asset class to meet the PS 3150 requirements? Is there additional information that should be recorded to improve asset management and financial planning?

Refer to 4.0 Asset Inventory and Valuation of this toolkit for detailed information on the asset register data requirements.

- ii. What assets should be recorded?

- *Capitalization thresholds*

Some expenditures that meet the definition of a tangible capital asset should be treated as an operating expense. This is because their value is low and the cost of recording and tracking the asset is greater than the resulting benefit. The capitalization threshold or recognition threshold is the minimum value of a tangible capital asset to be recorded. Your municipality needs to determine what the appropriate threshold would be for each major asset for your organization. Section 3.3 'Capitalization Thresholds' provides additional information and suggested maximum capitalization thresholds. The guideline recommends that all land be capitalized.

- *Is an expenditure betterment or maintenance?*

There will be subsequent expenditures on existing assets. In these cases, your municipality should have a policy to determine the situations where the expenditure would be added to the value of the existing asset, or if the expenditure should be recorded as an

operating expense. For example, a policy may state that betterments would occur when physical output or service capacity is increased, the operating costs are decreased, the useful life is extended, or the quality of output is improved. Any other expenditure would be considered a repair or maintenance and expensed. The decision on betterment or maintenance will also be affected if engineered structures are recorded as networks instead of by component.

iii. When should assets be recorded?

The question of when an asset should be amortized should be addressed in a separate section of your municipality's policy. It may be appropriate to determine when newly acquired assets or constructed assets will be recorded in the asset record system.

iv. How should an asset be recorded?

Many tangible capital assets will be recorded as single items. However, some will be treated differently and policies should be developed to achieve consistent treatment. Examples of these situations are noted as follows:

- *Network or component*  
Engineered structures such as a road system may be recorded as a single asset; i.e. a network. The major components of the structure will be recorded and valued as one asset. The alternative approach is to record the major components separately. Buildings may also be recorded using the component approach. Section 3.5 'Networks, Components and Segmentation' summarizes these options. Recording treatments can vary for different asset classes or construction timing; for example, existing structures may be recorded as networks and new structures recorded in components.
- *Segmentation*  
Asset records for linear infrastructure may be separated by geographic location. For example, roads or waterworks can be recorded for each block, mile, subdivision, etc.
- *Pooling*  
Some assets are similar in type and cost and exceed the capitalization threshold. Therefore, these assets should be capitalized, but it is easier to record them as one asset. This is referred to as 'pooling' assets. Examples are computers, small culverts, and fire hydrants. Your municipality should decide whether this option is suitable for certain assets. One question to answer is: Should these assets still need to be individually tracked? If so, how it would be done using the pooling method?

- *Groups*  
Some assets are identical with a unit value below the capitalization threshold, but have a material value as a group. Section 3.3 'Capitalization Thresholds' suggests that these expenditures would be expensed. The municipality should address this situation in policy.

v. *What about assets that are developed or constructed?*

Your municipality will be recording assets that are developed or constructed and may be under construction at the end of the fiscal year. The following questions regarding these assets need to be considered:

- When will the asset be capitalized?
- What will be the capitalization process when the asset is not completed and not in service at the end of the fiscal year?
- Will the asset be in a 'construction in progress' classification and move to its appropriate classification upon completion?

vi. *What assets should be recorded that are outside of policy?*

There may be some assets which can be expensed, but their nature or use requires capitalization. These types of assets should be stated in policy. It may be appropriate to establish 'property control' systems so that these assets are inventoried, but are not capitalized.

b. *Valuing the asset*

i. How will the valuation method be determined?

This question will probably apply only to the implementation of the asset recording system. The actual historical cost, if known, should be used. In the event that the actual historical cost is not available, a decision and valuation process should be established to estimate the historical cost.

ii. How will unique assets be valued?

Contributed or donated assets are to be recorded at fair value. The policy should establish procedures about how the fair value will be determined.

iii. What defines the cost of an asset?

- The cost of purchased assets is the gross amount of consideration paid to acquire the asset. Costs such as non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs should be identified in policy. Discounts and rebates would reduce the total cost.
- The costs attributed to purchasing land should be identified.
- How will the fair value be determined for each asset when two or more assets are acquired for a single purchase price?
- What costs will be included for constructed or developed assets? Will carrying costs be capitalized and, if so, what are the carrying

costs? How will these carrying costs be determined and when do they cease being attributable to the asset? How will interest costs be capitalized?

#### **4. Amortization methods and rates**

This policy will identify the amortization methods and rates. Questions that should be answered when developing this policy are noted as follows:

*a. Will one amortization method be used or various methods?*

Section 3.2 'Useful Life and Amortization Methods' identifies various amortization methods which can be used. The paper states that the straight-line method is the most common and can be used to amortize all assets. It should be noted that land is not amortized. Some assets may require an alternate amortization method (i.e. declining balance, unit of output) to provide better information related to asset management. If that is the case, these asset types should be identified.

*b. How will the useful life for each asset be determined?*

Section 3.2 provides information on the maximum useful life for most asset categories, but a shorter life may be more appropriate. Information on some specific assets may provide useful life data. This policy should establish the process to determine the proper useful life and also develop a schedule of the useful life for most asset types.

*c. How will the residual value of assets be established?*

PS 3150.27 states that the residual value should be factored into the amortization calculation if it is considered to be significant. Including a residual value may assist in financial planning for asset replacement. This policy should establish if residual values will be used and, if so, how they will be determined by asset class.

*d. When will assets start and stop being amortized?*

Section 3.2 suggests that 50% of the annual amortization amount be recorded in the year of acquiring an asset, putting an asset into service or disposing of an asset. Other methods are acceptable, but they should be applied consistently. Examples of other options are:

- to start amortization in the year following purchase and record the annual amount in the year of disposal, or
- to amortize based on the month of acquisition and month of disposal.

#### **5. Reviews and Write-Downs**

Decisions on the useful life and appropriate amortization method may change during the life of the asset. PS 3150.29 states that the amortization method and useful life should be reviewed on a regular basis with revisions made when necessary. Capital policies should address this process by answering the following questions:

a. *Who is responsible for the periodic review?*

A specified staff position may be responsible to ensure that these reviews are being done, but other staff, such as departments, may be responsible to carry out the review.

b. *How often should the assets review be conducted? Will this vary for different asset classes?*

c. *What is the process when the useful life or amortization method needs to be amended?*

d. *How will asset write-downs be handled? Will there be a waiting period to determine if the factors causing the write-down remain and, if so, how will this waiting period be determined and monitored?*

PS 3150.31 – 37 provides information on how to determine when a write-down is required.

## **6. Maintaining Records**

A good initial asset recording system is important, but the records must also be properly maintained into the future. This section should address the following:

a. *Who is responsible to ensure that the asset records are current, accurate and complete?*

b. *What is the process for reporting asset improvements, additions, retirements and disposals?*

c. *How often are asset inventories to be conducted and by whom?*

*It is important that the asset records agree with the actual stock; therefore, comparisons need to be conducted periodically.*

d. *What supporting documentation is required and how will it be filed?*

*Adequate documentation will be required for future reference and to meet audit requirements. This documentation will include information on how the useful life and value was determined.*

## **7. Asset Disposal**

Disposals of assets may occur by sale, trade-in, destruction, loss or abandonment. Your municipality will need to amend your financial records to recognize these events. Capital policies must address this important part of the asset system. Some questions to consider when developing this policy are:

a. *What are the criteria to determine when an asset would be defined as surplus? When should surplus assets be disposed?*

b. *Who is responsible for disposing of assets?*

c. *What information is required when assets are disposed?*



*d. What is the accounting process for the proceeds of disposals?*

## **8. Financial System, Asset Recording System and Asset Management System**

Your records for tangible capital assets must be integrated as much as possible with other systems to improve efficiency and accuracy. Your municipality should establish policies to:

- a. Identify what tangible capital asset systems will be used and how they are expected to interface.*
- b. Determine who is responsible to approve tangible capital asset-related system changes.*
- c. Establish the process so that tangible capital assets that are purchased will be interfaced to the other asset-related systems.*
- d. Determine the structure of the General Ledger chart of accounts.*
- e. Determine the unique identifier for each recorded asset.*
- f. Determine what information should be reported, how often and to whom.*

## **9. Financial Reporting and Budgets**

Policies should be developed regarding the format for reporting amortization in the financial reports and for the treatment of amortization expense in the annual budget.

## **3.8 Recording Road and Bridge Assets**

### **Position Statement**

Roads that are controlled and managed by an Alberta municipality are considered to be that municipality's asset. The municipality should record these assets to comply with the tangible capital asset reporting requirements in accordance with PS 3150.

This requirement also applies to undeveloped road allowances and to infrastructure considered to be part of the road.

### **Rationale**

The key question in determining who records an asset is 'Who controls and manages the asset?' Ownership is not considered in the definition of a tangible capital asset.

The CICA/PSAB identifies the following questions to consider when determining who has control:

*Is the local government the beneficiary of future economic benefits from the assets?*

- *Do the terms and conditions of legislation or a contract transfer substantially all benefits and risks incident to ownership to the local government?*
- *Is the local government responsible for the asset's performance, availability and maintenance?*
- *Does the local government bear all risk of obsolescence, environmental liability, uninsured damage or condemnation of the asset?*
- *Has the local government been using the asset on a continuing basis in the production or supply of goods and services?*
- *Have third parties made significant use of the asset but the local government is able to restrict such use?*
- *Is the local government responsible for the construction costs of the asset and the financial or other implications of cost and time overruns caused by events outside of its control during the construction period, or subsequent warranty repairs?*

The answer to most, if not all, of these questions regarding roads and related infrastructure is that the municipality controls and manages them. Therefore, the municipality is responsible to record them for the purposes of financial statement reporting.

Provincial approval is required for closing a municipal road but that does not impact the overall control and management responsibility of the local government. In fact, the control aspect is retained by the municipality through Section 22 of the *MGA* because the local government is required to initiate the bylaw.

Provincial approval is required primarily to address the impact of the proposed closure on other provincial roads, as well as the public interest. Municipalities also have the power to pass bylaws relating to roads under the *Traffic Safety Act*.

## **Public Sector Accounting Handbook**

Government assets, including tangible capital assets are defined by the Canadian Institute of Chartered Accountants (CICA) in the following sections of the Public Sector Accounting Handbook:

PS Handbook Section 1000 Financial Statement Concepts:

*Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits may be obtained. PS 1000.35*

PS Handbook Section 3150 Tangible Capital Assets:

*Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges. PS 3150.02*

*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. are to be used on a continuing basis; and*
- iv. are not for sale in the ordinary course of operations.*

*PS 3150.05(a)*

## **Municipal Government Act**

There are several provisions of the *Municipal Government Act (MGA)* that are relevant to the discussion of whether to record roads and bridges as tangible capital assets.

### **Title to Roads**

*The title to all roads in a municipality, other than a city, is vested in the Crown in right of Alberta. MGA 16(1)*

*The title to all roads in a city is vested in the city unless another Act or agreement provides otherwise. MGA 16(2)*

### **Control of Roads**

*Subject to this or any other Act, a municipality has the direction, control and management of all roads within the municipality. MGA 18(1)*

*Subject to this or any other Act, a municipal district also has the direction, control and management of roads and road diversions surveyed for the purpose of opening a road allowance as a diversion from the road allowance on the south or west boundary of the district although the roads or road diversions are outside the boundaries of the municipal district. MGA 18(2)*

### **Road Closure**

*No road in a municipality that is subject to the direction, control and management of the municipality may be closed except by bylaw. MGA 22(1)*

*A bylaw closing a road made by the council of a municipality that is not a city has no effect unless it is approved by the Minister of Infrastructure before the bylaw receives second reading. MGA 22(3)*

### **3.9 Government Partnerships**

#### **Background:**

A common question during the initial implementation stages of the tangible capital asset requirement was how a TCA should be recorded when there are multiple stakeholders involved. There are many unique partnerships involving municipalities and it will be difficult to provide specific answers because the answer is dependent on the agreement establishing and defining the partnership; however, it is important to identify some parameters to achieve reasonable consistency when addressing this matter. Governments enter into many 'contractual agreements', including P3's, that would not be considered government partnerships or government business partnerships. Therefore, this paper will not establish specific position statements, but will provide some key questions and information to consider.

#### **Related CICA Handbook Regulations:**

Financial Statement Concepts, Section PS 1000:

*Assets are economic resources **controlled** by a government as a result of past transactions or events and from which future economic benefits may be obtained. (PS 1000.35) [bold added for emphasis]*

Tangible Capital Assets, Section PS 3150:

*Tangible capital assets are a significant economic resource **managed** by governments and a key component in the delivery of many government programs. (PS 3150.02) [bold added for emphasis]*

Government Partnerships, Section PS 3060 (See Appendix A)

Government Reporting Entity, Section PS 1300 (See Appendix B)

Excerpts from *CICA Guide to Accounting for and Reporting Tangible Capital Assets* (See Appendix C)

#### **Specific Situations:**

Examples of possible asset partnerships which may exist in Alberta municipalities are noted as follows:

1. Facilities and equipment which are used by more than one municipality. The most common situation is when facilities such as arenas, swimming pools and fire halls are owned and operated by one municipality to provide services for multiple municipalities under a cost sharing agreement. Another example is fire equipment jointly purchased by a group of municipalities.

2. Partnerships with the private sector.

These partnerships are often referred to as P3's – Public Private Partnership.

3. Facilities that are managed and controlled by a community society but owned by the municipality.

A common example in Alberta is the Agriculture Societies which have built facilities and operate those facilities but the facility is located on municipal lands. The Agriculture Society often applies for the capital and operating grants and is responsible for the success of the facility. In the event that the society 'folds or disbands' these facilities will often revert back to the municipality.

4. Assets which have more than one municipality on the title.

An Alberta example is the transfer of airports from the Province to municipalities. These transfers may include multiple municipalities on the title of the airport.

5. Assets owned solely for use by another organization.

An example is when the municipality owns a facility for the specific purpose of providing the community organization access to provincial funding and tax deductible receipting for donations. The organization operates and maintains the facility but the municipality owns it.

### **Does A Partnership Exist?**

The appropriate accounting depends on whether a government partnership or a government business partnership exists. This accounting pertains not only to how tangible capital assets are recorded but also recording the activities. 'Control' is a main consideration in determining if a partnership exists but there are other factors such as common goals, financial investment, and shared risks and benefits that also need to be considered. 'Shared control' defined in Section PS 3060 and the 'evidences of control' stated in Section PS 1300 need to be considered when determining who records the asset and how it will be recorded. The key question in determining who records the asset is 'Who controls and manages the asset?' ownership is not a key factor in the definition of a tangible capital asset. 'Does a partnership exist and, if so, what kind of partnership?' needs to be answered to determine the approach to recording the assets in the situations previously described.

### **Questions To Consider:**

The following questions should be asked to determine whether or not a government partnership or a government business partnership exists:

1. Does shared control exist? Do the partners cooperate to achieve significant clearly defined common goals for the partnership, make a financial investment, share control of decisions related to the financial and operating policies on an ongoing basis, and share on an equitable basis significant risks and benefits associated with operations?

2. Is there a contractual arrangement establishing shared control? The contractual arrangement identifies those decisions in areas essential to the goals of the government partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners. The contractual arrangement ensures that no single partner is in a position to control the activities of the government partnership unilaterally. A government partnership may still exist in the absence of a formal contractual arrangement provided the activities are carried out in such a way that the arrangement meets the definition of a government partnership.
3. Is one or more of the partners in a position to exercise more control in the activities? When compared to the other partners, is there an equitable relationship in the government partnership between:
  - the financial investment of the government,
  - the extent of control the government is able to exercise over the activities, and
  - the risks and benefits that accrue to the government?
4. Does the contractual arrangement designate a partner as the manager of the activities but the manager is required to act within the financial and operating policies that the partners have prescribed? A management role does not constitute shared control.
5. Do all of the partners have an active interest in the partnership or do some of the partners have a passive interest or investment? A partner may contribute funds to the partnership but not actively participate in the financial and operating activities of the partnership; therefore, shared control does not exist and there is no partnership.
6. Are there some unique clauses or assumptions in the contractual agreement that do not meet the criteria for shared control but may be interpreted to be shared control? For example, what is the impact on the decision if an organization has complete governance and operating control of a facility but, in the event, the organization is discontinued, the facility reverts back to the government? This would not constitute shared control during the normal operations if the government does not have any governing authority.

**Application:**

‘Shared control’ is the determining factor when establishing who should record the tangible capital assets and what percentage of each asset should be recorded. ‘Ownership’ is not the key factor; therefore, there may be some assets where the total cost is currently recorded by a government that may need to be adjusted to include only a percentage of that cost. If there is a government partnership, Section PS 3060 determines how to account for not only the tangible capital assets of the partnership but the partnership activities as well. Partnerships can also take on different forms (see PS 3060.23 – .25). Determining if a government partnership exists can be a complex issue; therefore, it is appropriate that the following process be followed:

- Review the contractual agreement with the respective partners to determine if the partnership includes the criteria for shared control.
- If it is determined that shared control exists:
  - Develop a document providing rationale that a government partnership exists as defined in PS 3060. Note: Government business partnerships will probably already be addressed correctly in the financial statements.
  - Review the rationale and decision with the independent auditor of each of the partners and obtain agreement to the decision.
  - Review the potentially shared assets to determine the current percentage of the assets recorded by each partner and the appropriate percentage to record in the future.
  - Adjust each partner's financial records accordingly.
  - Determine if there may be decisions or alternative agreements which can be made in accordance with the accounting regulations that would better reflect the financial position of the partners.
  - Develop consistent statements of disclosure to be used as part of each of the partner's annual audited financial statements.
  - Review the proportionate consolidation and the statement of disclosure with the respective auditors.

### **Accounting, Presentation And Disclosure:**

There are specific financial reporting requirements for governments to follow when 'shared control' exists. They are noted as follows:

1. When a government invests an asset into the partnership, the government would treat the proportionate share of that asset by the other partners as a disposal. The resulting recorded value of that asset would be reduced accordingly. (PS 3060.53)
2. The proportionate share a government has in an asset contributed by other partners will be treated as a purchase with the proportionate share added to the assets of the government. (PS 3060.54)
3. Notes and schedules are to be included with the government's financial statements describing the partnership, the government's proportionate share, method of accounting and condensed financial information relative to the government partnership(s). (PS 3060.55)

### **Other Information:**

#### **Government Business Partnerships**

Municipalities will also be involved in partnerships defined as 'government business partnerships'. These are generally controlled corporations referenced in Sections 1(2) and 73 of the *MGA*, Province of Alberta. Section PS 3060 Government Partnerships addresses government business partnerships and defines them as follows:



*A government business partnership is a government partnership that has all of the following characteristics:*

- a. it is a separate legal entity with the power to contract in its name and that can sue and be sued;*
- b. it has been delegated the financial and operational authority to carry on a business;*
- c. it sells goods and services to individuals and organizations other than the partners as its principal activity; and*
- d. it can, in the normal course of operations, maintain its operations and meet its liabilities from revenues received from sources other than partners. (PS 3060.07)*

Commissions legislated under Part 15.1 of the *MGA* are considered excluded from PS 3060 requirements.

Reporting financial information on government business partnerships uses the modified equity method resulting in one line of financial information on the government's financial statements. (PS 3060.32) This differs from reporting government partnerships which use the proportionate consolidation method. (PS 3060.29)

## **Appendix A: Government Partnership, Section PS 3060**

### **Definitions**

*A government partnership is a contractual agreement between the government and a party or parties outside of the government reporting entity that has all of the following characteristics:*

- a. the partners cooperate toward achieving significant clearly defined common goals;*
- b. the partners make a financial investment in the government partnership;*
- c. the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and*
- d. the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.*

*The contractual agreement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government of practice. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control. (PS 3060.06)*

*A distinctive characteristic common to all government partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the government partnership. (PS 3060.11)*

*Activities conducted with no formal contractual agreement, but which meet the definition of a government partnership... are in substance government partnerships... (PS 3060.12)*

*...shared control....ensures that no single partner is in a position to control the activities of the government partnership unilaterally. ...decisions in areas essential to the goals...require the consent of all the partners and those decisions which may require the consent of a specified majority of partners. (PS 3060.13)*

*In some cases, the contractual agreement may designate a partner, or an outside party or parties, as the manager or operator of the government partnership. The manager does not control the government partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed. (PS 3060.15)*

### **Significant Clearly Defined Common Goals**

*Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a government partnership. (PS 3060.17)*

*On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a government partnership. (PS 3060.18)*

### **Financial Investment**

*A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. (PS 3060.19)*

*When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase/sale transaction. (PS 3060.20)*

### **Shared Risks and Benefits**

*Each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the government partnership. (landfill site) (PS 3060.21)*

*Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation. (PS 3060.22)*

### **Operations Under Shared Control**

*The operations of some government partnerships may involve the use of the assets and other resources of the partners, rather than the establishment of an organization or a financial structure that is separate from the partners themselves. In these circumstances, each partner may use its own assets for the purposes of the activities of the government partnership. The assets remain under the ownership and control of each partner. Each partner also incurs its own expenses and liabilities and raises its own financing, which represent its own obligations. The arrangement may provide a means by which the revenue from the sale of goods or services by the government partnership and any expenses incurred in common are shared among the partners. (PS 3060.23)*

*An example of operations under shared control is when two or more partners combine their resources and expertise for use in the operation of a landfill site. One partner may provide the land, others the equipment and others cash. (PS 3060.24)*

*In other cases, the activities of the government partnership may be carried out by the employees of one of the partners alongside the partner's similar activities. For example, provision of social services through a government partnership may involve one of the government partners being responsible for the staffing and administration of the program while all partners contribute ongoing funding. (PS 3060.25)*

### **Assets Under Shared Control**

*Assets under shared control are used to obtain benefits for the partners. For example, several local governments may form a government partnership to acquire fire protection equipment to provide service to their constituents. (PS 3060.26)*

### **Organizations Under Shared Control**

*An organization under shared control is a type of government partnership which involves the establishment of a separate organization (e.g. a corporation) in which each partner has an interest. The organization operates similarly to other organizations, except that a contractual arrangement between the partners establishes shared control over the economic activities of the organization. (PS 3060.27)*

*In an organization under shared control, each partner usually contributes cash or other resources to the government partnership. The organization owns the assets of the government partnership and incurs liabilities and expenses. It may enter into contracts in its own name and raise financing for the purposes of the activities of the government partnership. For example, several local governments may operate a transit organization to provide transit services to their constituents. (PS 3060.28)*

### **Government Partnerships Other Than Government Business Partnerships**

*Government financial statements should recognize the government's interest in government partnerships.....using the proportionate consolidation method. (PS 3060.29)*

### **Reporting Tangible Capital Assets – Investments of Tangible Capital Assets by the Reporting Government**

*When a government invests an asset in a government partnership..., the government would report the other non-related partners' proportionate share of an asset invested by the government as a disposal. (PS 3060.53)*

### **Reporting Tangible Capital Assets – Investments of Tangible Capital Assets by Other Partners**

*When a non-related partner invests a tangible capital asset in a government partnership..., the government would report its proportionate share of that tangible capital asset as a purchase. In particular, governments would treat that amount as an increase in the tangible capital assets reported in the statement of financial position. (PS 3060.54)*

### **Presentation and Disclosure**

*Government financial statements should disclose, in notes or schedules:*

- a. a description of the nature and purpose of government partnerships;*
- b. a listing of government partnerships, including the government's share, separately identifying those that are accounted for using the proportionate consolidation method and those that are accounted for by the modified equity method; and*
- c. condensed supplementary financial information relative to government partnerships..... (PS 3060.55)*

## **Appendix B: Government Reporting Entity, Section PS 1300**

*Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities. (PS 1300.08)*

### **Indicators of Control**

*There are certain indicators that provide more persuasive evidence of control:*

- a. government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization;*
- b. government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses;*
- c. government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization; and*
- d. government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations. (PS 1300.18)*

*Other indicators that may provide evidence of control exist when the government has the power to:*

- a. provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members;*
- b. appoint or remove the CEO or other key personnel;*
- c. establish or amend the mission or mandate of the organization;*
- d. approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis;*
- e. establish borrowing or investment limits or restrict the organization's investments;*
- f. restrict the revenue-generating capacity of the organization, notably the sources of revenue; and*
- g. establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources. (PS 1300.19)*

## **Appendix C: CICA Guide to Accounting for and Reporting Tangible Capital Assets**

The CICA *Guide to Accounting for and Reporting Tangible Capital Assets* identifies the following questions to consider when determining who has control:

- Is the local government the beneficiary of future economic benefits from the assets?
- Do the terms and conditions of legislation or a contract transfer substantially all benefits and risks incident to ownership to the local government?
- Is the local government responsible for the asset's performance, availability and maintenance?
- Does the local government bear all risk of obsolescence, environmental liability, uninsured damage or condemnation of the asset?
- Has the local government been using the asset on a continuing basis in the production or supply of goods and services?
- Have third parties made significant use of the asset but the local government is able to restrict such use?
- Is the local government responsible for the construction costs of the asset and the financial or other implications of cost and time overruns caused by events outside of its control during the construction period, or subsequent warranty repairs?

### 3.10 Grouping and Pooling

Some assets will have a per unit value lower than the capitalization threshold but may be recorded and capitalized because they are:

- material as a group,
- portable or attractive items, or a
- one time bulk purchase.

In some situations, assets may be expensed and not capitalized but recorded in a separate tracking system for asset management or control purposes.

#### 1. Material as a Group

*Group assets are assets that have a unit value below the capitalization threshold but have a material value as a group. They are homogenous in terms of their physical characteristics, use and expected useful life. (CICA Guide)* Municipalities will need to determine what assets are similar in nature and individually below the capitalization threshold but their total value represents a materially significant amount. Examples of such assets are:

- parking meters
- utility meters
- garbage bins
- street lights

**The decision as to what assets should be grouped for materiality reasons should be discussed with the auditor.**

#### 2. Sensitive or Attractive Items

Asset control is a factor that may determine if an asset should be recorded. Some reasons to record an asset for control purposes are:

##### a. Portable

Some assets need to be monitored for security reasons because they are portable and subject to theft. Examples are computers and electronic equipment.

##### b. Safety

Assets such as police weapons and hazardous tanks should be recorded and tracked for public safety purposes.

##### c. Legal compliance

There may be external requirements to record and track specific assets; for example, recording may be a requirement of a grant or future grant audits.

These assets can be expensed because their unit value is below the capitalization threshold and are not material as a group. It is preferable to expense sensitive assets so that these assets are not annually amortized. They would normally be recorded in a separate asset register that does not



have amortization requirements and can be accessed by the respective departments responsible for these assets.

### **3. One Time Bulk Purchase**

Caution should be used when establishing policy regarding capitalizing assets in volume purchases because the purchasing method should not determine if the assets should be capitalized; i.e. the total exceeds the capitalization threshold. But there may be situations when a municipality will decide to capitalize a one-time bulk purchase of similar items. An example may be when a new building is furnished; all of the furnishings may be grouped as one asset and capitalized. Sub groups of these furnishings based on location within the building may also be considered.

The following issues should be considered if 'one-time bulk purchases' are capitalized:

- a. Is this a 'one-time bulk purchase'? These should be clearly defined and should be restricted to 'one-time'. Continual volume purchases such as computers, chairs, books do not fit in this situation.
- b. Will individual assets in the group such as office work stations in a furnishings group that exceed the capitalization threshold be recorded as:
  - A separate asset outside of the group,
  - A sub-asset of the group or
  - Part of the group?
- c. Will there be a separate capitalization threshold for 'one-time bulk purchases'? The capitalization threshold will probably be larger than the unit threshold for the respective major asset class. The main reason these purchases are capitalized is that they are material as a group but management of this asset group also needs to be considered. Factors to consider when establishing this threshold are:
  - Should be high enough
    - To signify that this is a renewal of the asset group, not just new additions or minor replacements.
    - So that bulk purchases of some assets which would be difficult to track are not included.
  - Should be low enough to meet materiality parameters.

Situations will need to be analyzed to determine what needs to be recorded and what doesn't need to be recorded. Remember that the end result should be meaningful and manageable; not just an accounting exercise. Therefore, as previously mentioned, use caution.

## Position Regarding Volume Purchases

Purchasing a group of similar assets where the total value of the purchase exceeds the established capitalization threshold does not determine whether those assets should be capitalized. Unit value is the determining factor unless capital policy states that these assets should be capitalized for the reasons previously noted. (See Section 3.3 'Capitalization Thresholds', Clause 8) The reason is that municipalities should not create difficulties in tracking and managing assets in the future. Capitalization based on the total value of a volume purchase may result in some assets not being capitalized because they were purchased either as a single unit or in a smaller group with a value lower than the capitalization threshold whereas other similar assets which are purchased in a larger group are capitalized. This will create inconsistencies and significant tracking problems in the future. Furthermore, consider the principle that accounting policy should not drive business decisions. Decisions to purchase in volume to save time and money should not be impacted by the potential accounting treatment.

## Recording, Valuing and Amortizing Grouped or Pooled Assets:

An asset group or pool will be recorded as a single asset for TCA financial purposes. A separate record providing additional information for asset management and determining gross book value and amortization should be kept; this record would normally be maintained by the operating department. A reasonable value will need to be established for the asset group. The asset group should be categorized by timing of purchase; possibly broad subgroups with a purchase range in each subgroup. An average unit cost can then be determined. *Group assets are amortized using a composite amortization rate based on the average useful life of the assets in a group.* (CICA Guide) The average value and average age will be adjusted each time assets are added, removed or replaced in the group. This can be done by removing units at the average unit value and adding in units at their current unit cost; a new average unit value will then be calculated. Examples of valuing and amortizing asset pools can be found in the Newsletter No. 18 – Asset Pools or Groups, AMCTO website.



[www.amcto.com/home.asp](http://www.amcto.com/home.asp)

### **3.11 Land Under Roads, Road Allowances, Easements & Rights of Way**

This paper has been developed to supplement 'Recording Road and Bridge Assets' which is located in Section 3.8, Tangible Capital Assets Project Implementation Toolkit (TCA Toolkit).

#### **Land Recorded as a Tangible Capital Asset**

All land, excluding land held for resale, is to be capitalized because of the permanent nature of land. There will not be a capitalization threshold for land.

Clause 7, 3.3 Capitalization Thresholds  
TCA Toolkit

#### **Summary of Suggested Guidelines**

1. Land under roads should be treated the same way as land under any type of infrastructure or TCA; it should be recorded separately from the road because it is a non-depreciable asset.
2. When the actual cost for land acquired to construct existing roads cannot be determined, the land may be recorded at a nominal value (\$1).
3. Land acquired for roads or received as part of a contributed asset should be valued at the actual cost or the fair value at the time of contribution. Fair value is determined by using land values of undeveloped land.
4. Undeveloped road allowances should be recorded by the municipality.
5. Undeveloped road allowances should be valued at the valuation date of the municipality.
6. Theoretic government road allowances should not be recorded by the municipality.
7. Easements and rights of way should not be recorded by the municipality as a tangible capital asset.

#### **Definitions**

##### **1. Land**

Land includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (highways, dams, bridges, tunnels, etc.) and other program use, but not land held for resale.

Clause 4.a, 3.1 Asset Classification  
TCA Toolkit

##### **2. Road**

"Road" means land

- i. shown as a road on a plan of survey that has been filed or registered in a land titles office, or
- ii. used as a public road,

and includes a bridge forming part of a public road and any structure incidental to a public road.

Section 1(1)(z), *MGA*

“Road” means a public road or road allowance other than a highway;

Section 1(1)(y), *Pipeline Act*

### 3. Road allowance

“Road allowance” means a road allowance as prescribed under the Surveys Act, whether containing an existing thoroughfare or not;

Section 1(1)(z), *Pipeline Act*

A road allowance is land surveyed for the specific purpose of public transportation by a road. The most frequent width of a road allowance is 66 feet but the Surveys Act provides for 99 foot road allowances. Additional land will often be purchased to add to the existing road allowance when a road is constructed.

### 4. Land under road

Land under roadways, and road reserves, including land under footpaths, nature strips and median strips.

Accounting Standard 1051  
Australian Accounting Standards Board

‘Land under road’ includes the land defined as a road allowance and any additional land acquired for the purpose of constructing a road.

### 5. Undeveloped road allowance

An undeveloped road allowance is a road allowance on which a road has not been constructed.

### 6. Theoretic government road allowance

A theoretic government road allowance is a road allowance in un-surveyed territory and is considered to be public land administered by Alberta Sustainable Resource Development under the *Public Lands Act*.

### 7. Easement or right-of-way

There are technical differences between the terms ‘easement’ and ‘right-of-way’ but they have the same effect upon the landowner and thus can be considered essentially the same.

An easement or right-of-way is an agreement that confers on an individual, company or municipality the right to use a landowner’s property in some way. While these agreements grant rights, they also have the effect of partially restricting an owner’s use of the affected portions of land.

Alberta Land Surveyors’ Association

An 'easement' is a right acquired by one person from another, permitting use of the other's land for a purpose such as a right-of-way across it.

An Introduction to Alberta Land Titles

An 'easement' is often no more than a description whereas a 'right of way' is usually surveyed.

## **Direction, Control and Management**

Roads that are controlled and managed by an Alberta municipality are considered to be that municipality's asset. The municipality should record these assets to comply with the tangible capital asset reporting requirements in accordance with PS 3150. This requirement also applies to undeveloped road allowances and to infrastructure considered to be part of the road.

Section 3.8, Recording Road and Bridge Assets  
TCA Toolkit

## **Recording and Valuation**

### **1. Land Under Roads**

#### **a. Recording**

- i. Land under roads should be treated the same as land under any type of infrastructure or TCA; it should be recorded separately from the road or infrastructure because it is a non-depreciable asset. Also, the value will not determine whether or not it should be recorded.
- ii. Land under roads will be recorded in the major asset class 'Land' and will be included when the total value of a road (s) is determined.

#### **b. Valuation**

The valuation of land under roads has been debated at length internationally. When a road is constructed, does the land under it continue to have value? Some say that it has lost its value because the opportunity to sell it or use it for other purposes has been lost. But that argument may also hold true for other infrastructure and land under that infrastructure. PS 3150 states that all assets are to be recorded at actual cost or their fair value at the date of contribution. PS 3150 does not provide for a reduction in this amount after the asset has been developed. The write-down provision does not apply because this asset is still providing economic benefit; in fact, the economic benefit has actually increased because a road has been constructed on this land. And that is the key question; does 'land under roads' provide an economic benefit and contribute to the government's ability to provide goods and services? The answer is 'yes'. The Australian Accounting Standards Board concluded that land under roads acquired in the future would be valued at fair value.

Land under existing roads may be difficult to value due to the length of time that has transpired since the original construction of the road systems. Due to the small percentage land will be of the total cost of the road in most cases, it may not be reasonable to spend the time estimating a value for land under existing roads. Therefore, the following methods to value land under roads are suggested:

i. Roads existing at the time of implementing PS 3150

– Nominal value

When the actual cost for land acquired to construct roads cannot be determined, the land may be recorded at a nominal value (\$1). This value would be assigned to each segment of the road system established in your records.

Note: The decision to value land under roads at a nominal value should be reviewed by your auditor.

– Estimate value

Some municipalities may decide to estimate the value of land under roads instead of using a nominal value. In these cases, land under roads acquired at no cost or nominal cost will be valued at fair value at the valuation date of the municipality or the date of acquisition if it is more recent. The following guidelines can be used to estimate the land values:

➤ Roads originally constructed earlier than the valuation date:

If the road existed prior to the municipality's valuation date, the value will be based on the fair value of land required for the road (existing road allowance plus any additional land acquired to construct the road) at the valuation date.

➤ Roads originally constructed after the valuation date:

Land for roads constructed after the valuation date may require a combination of values:

- The road allowance will be valued at the valuation date.
- The value of any additional land acquired for the road will be either the actual cost of the acquisition or valued at the date of the original road construction.

➤ Sources of valuation information

Land titles and municipal assessment records may be the best source of information to determine undeveloped land values. Assessment records may identify properties that have been transacted privately at the time of the valuation date or land acquisition date. Land titles provide the land value and the respective assessment roll will provide the area of the parcel of land. The value per acre can be determined and applied to the number of

acres of land under the road. Land acquired, in the absence of actual purchase information, may be valued in a similar manner but developed land values may be required if the acquisition was made in a previously developed area.

➤ Nominal value

Nominal value (\$1 per asset) will be used in the absence of actual information or information to calculate reasonable estimates.

ii. Land acquired for roads or roads contributed after implementing PS 3150

Land acquired for roads or received as part of a contributed asset will be valued at the actual cost or the fair value at the time of contribution. Fair value will be determined by using land values of undeveloped land (See 'Contributed Assets' paper).

## 2. Road Allowances

a. Undeveloped road allowance

i. Recording

Undeveloped road allowances are under the control and management of municipalities and, therefore, shall be recorded by the municipality. Rather than creating a separate asset for each section of undeveloped road allowance, it may be appropriate by policy to record all undeveloped road allowances in a pool and reduce the pool as the road allowances are developed. The undeveloped road allowance would then be treated as 'land under roads'.

ii. Valuation

Undeveloped road allowances will be valued at the valuation date of the municipality. It is reasonable that the same value per acre be used for all undeveloped road allowances. Per acre measurement should be used because some undeveloped road allowances may be wider than the normal width of 66 feet. Values can be determined as described in the section 'Land under roads, Sources of valuation information'.

b. Theoretic government road allowance

Municipalities do not have control over or management responsibilities of theoretic government road allowances; therefore, they are not to be recorded by the municipality.

## 3. Easements and Rights of Way

Easements or rights of way provide the right for a municipality to use land for specified purposes. The municipality does not control or manage the land yet

the land owner may be restricted regarding how the land is used. Therefore, easements and rights of way will not be recorded by the municipality as a tangible capital asset.

### **Specific Situations and Examples**

1. Should an undeveloped road allowance through a swamp be recorded?  
Yes, because the undeveloped road allowance is still land even if the potential of it being developed is low. Undeveloped road allowances that will probably not be developed due to terrain obstacles should be recorded.
2. Recording decisions are required in several situations for undeveloped road allowances in green zone/grazing reserves. The answer depends on whether the undeveloped road allowance has been surveyed. If it is surveyed, it should be recorded; it should not be recorded if it is not surveyed. Examples of these situation are:
  - a. Between two unnamed Crown quarters and not surveyed.
  - b. Between two Crown quarters that have grazing leases.
  - c. Between a grazing lease quarter and an unnamed Crown quarter.
  - d. Between a titled quarter and an unnamed Crown quarter.



### **3.12 Contributed Assets**

#### **What are ‘contributed assets’ and how are they acquired?**

‘Contributed assets’ are assets that have been transferred or donated to the municipality by another entity. These assets provide a future economic benefit controlled by the receiving municipality.

Examples of ‘contributed assets’ include:

- Land and infrastructure transferred from senior governments for a nominal amount (\$1). There are also land swaps between the Province and municipalities which are normally made at fair market value.
- The Province ‘gazetting’ or ‘degazetting’ a road; i.e. assuming or removing responsibility for the road. Note: The term ‘gazetting’ is used when the designation of a road is changed to or from a provincial responsibility.
- Assets which are initially funded by a senior government with responsibility for the asset transferred to the municipality upon completion or at a future date.
- Infrastructure of new subdivisions transferred by the developer to the municipality.
- Assets acquired through amalgamation of two or more municipalities.
- Assets acquired from the dissolution of a municipality.

#### **What does PS 3150 say about ‘contributed assets’?**

‘Contributed assets’ are to be recorded by the municipality at the fair value of the entire asset, treated in the future as any other tangible capital asset and specifically noted in the financial statements in the year of contribution.

*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.*

PS 3150 .05 (b)

*Governments may receive contributions of tangible capital assets. The cost of a contributed asset is considered equal to its fair value at the date of contribution. Fair value of a contributed tangible capital asset may be estimated using market or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset would be recognized at nominal value.*

PS 3150 .14

*Financial statements should disclose the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements.*

PS 3150 .42 (c)

## How should the value of contributed assets be determined?

### 1. Asset valuation date

The fair value of the contributed asset should be determined at the date that control of the asset is transferred from the contributor to the municipality. 3.6, Asset Valuation Date, TCA Implementation Toolkit, can be referenced for further information on determining valuation dates.

- a. Property transfers from senior governments, gazetting roads, amalgamations and dissolutions

The date of control will normally be stated in the respective agreement.

- b. Shared projects

The date the project is completed and placed into service will be the valuation date.

- c. Subdivision land (excluding municipal reserve) and infrastructure

Appendix A outlines the process of developing a subdivision and transferring control to the municipality. There are two key dates when the subdivision is completed; the first date is when a Construction Completion Certificate (CCC) is issued after the construction is satisfactorily completed and the second date is when the Final Acceptance Certificate (FAC) is issued at the end of the warranty period for the infrastructure. The developer is responsible for infrastructure failure until the FAC is issued which is when responsibility for the infrastructure is transferred to the municipality; therefore, the valuation date should be the date of the FAC. This is assuming that the infrastructure is used during the warranty period. Condominium plan developments should be treated the same way even though the municipality has control and management after the CCC is issued. The developer still remains responsible for infrastructure failure during the warranty period. This position regarding condominium plans may be debated but another reason to use the FAC date is to retain consistency in recording subdivision contributed assets.

Note: This paper suggests that the date the FAC is issued is the date the municipality assumes responsibility for the subdivision infrastructure and is the key date for PS 3150 purposes; this position will be used throughout this paper. Some municipalities may decide that the CCC date is more appropriate based on their situation and approach to the warranty period. Municipalities are encouraged to develop policy as to whether the CCC or FAC date will be used with auditor acceptance of such policy.

- d. Municipal reserve

It is important to note that the land under the infrastructure will be valued at the date of the FAC whereas the municipal reserve lands are valued at the time of the subdivision approval (see 2 (f)). In most cases, these

values should be similar and the value of municipal reserve lands can be used for the land under the infrastructure.

## 2. Asset fair value

The cost of the contributed asset is to be the fair value of that asset at the time it is contributed. Actual cost information may not be available in most cases and estimates may be required not only for TCA implementation but also for future asset contributions.

### a. Property transfers from senior governments

#### i. Implementation

The fair value of the contributed asset may be stated in the transfer agreement and should be used if stated. In most cases, the fair value will not be stated and it will need to be estimated. The cost of the asset needs to be estimated at the date of contribution. For all assets, except for land, the useful life and the remaining useful life will then need to be determined. The unamortized amount will be recorded as the fair value. If the estimated cost is based on a current replacement cost, this unamortized amount will then need to be discounted to the valuation date; the date of contribution.

Example:

Date of contribution	2000
Replacement cost in 2007 dollars	\$1,000,000
Discount rate	.60
Replacement cost in 2000 dollars	\$600,000
Useful life	40 years
Remaining useful life	32 years
Annual amortization ( $\$600,000/40$ )	\$15,000
Accumulated amortization ( $8 \times \$15,000$ )	\$120,000
Fair value = unamortized cost	\$480,000
(this amount is recorded by the recipient municipality)	
New useful life	32 years
Annual amortization expense	\$15,000

#### ii. Post implementation

After 2009, the municipality should try to obtain assistance from the senior government to determine a fair value of the contributed assets at the time of contribution. The senior government may have information on file that will assist in estimating the fair value.

### b. Provincial roads

There will be at least two assets to value when the Province transfers responsibility for a provincial highway to a municipality; land and road (engineered structure) and possibly other assets such as sidewalks, water, sewer, and bridges. The land under the road should be valued

using the value of adjacent lands at the date of contribution (see 'Land Under Roads, Road Allowances, Easements & Rights of Way' paper). The road and other infrastructure should be valued using replacement cost at the date of contribution less accumulated amortization as at the contribution date.

c. Amalgamations and dissolutions

i. Implementation

Existing assets may have been acquired by a municipality through amalgamation or dissolution. The date of contribution will be the date of the amalgamation or dissolution. The replacement cost of the asset needs to be estimated at the date of contribution. For all assets, except for land, the useful life and the remaining useful life will then need to be determined. The unamortized amount will be recorded as the fair value. If the estimated cost is based on a current replacement cost, this unamortized amount will then need to be discounted to the contribution date. See the example in (a).

ii. Post implementation

The contributing municipality should have the net book value of the assets contributed in its financial records which will include the useful life and remaining useful life. This net book value needs to be adjusted to reflect the net book value using current replacement costs. The current replacement cost will need to be determined and then the useful life and remaining life will be used, assuming they are reasonable, to determine the fair value which is the cost adjusted net book value. A valuation example is provided in 3.6, Asset Valuation Date, TCA Implementation Toolkit.

d. Shared projects

The fair value of a project funded by a senior government and subsequently transferred to the municipality will be the total cost of the project as if the municipality had constructed the asset.

i. Implementation

The total actual cost of the project may be available at either government level or each government level may have only their share of the project cost which will require analysis to prevent duplication prior to combining these costs. In most cases, depending on the age of the asset, the total cost of the asset will probably need to be estimated. None of the useful life will have been used if the transfer of the asset was prior to the asset being placed into service. If the asset was transferred after it was already in service, the period of time in service will need to be determined and, if during that time the construction costs for a similar asset significantly changed, the

cost may require adjusting and some of the useful life recognized as used.

ii. Post implementation

The senior government should be asked to provide supporting documentation for their share of the costs to support the eventual total cost recorded in the municipality's financial records.

e. Subdivision infrastructure

Note: The FAC date is the valuation date and should be used when determining the remaining useful life from the date the CCC was issued. For determining the base value of the infrastructure, the value at the CCC date is suggested to be used due to the potential difficulty in determining the value at the FAC date.

i. Implementation

In most cases, the fair value will need to be estimated. A projected cost for the subdivision development is normally required for the letter of credit. This may be sufficient but the actual cost may vary from the projected cost. If satisfactory cost information for the subdivision is not available, a replacement cost for similar infrastructure discounted to the date of the CCC can be used. Since there normally is a warranty period of one or more years between the time the CCC is issued and the FAC is issued, the useful life will be reduced by the time the FAC is issued which is the valuation date. Therefore, the cost of the asset will be decreased by the amortization during the warranty period and the resulting amount will be used as the fair value. The useful life of the asset will then be the remaining useful life at the date of the FAC.

ii. Post implementation

The above information also applies to post-implementation but the construction cost information should be able to be determined with greater precision (see Clause 3, Subdivision Development Agreements).

f. Municipal Reserve

Municipalities have the option to obtain land or cash-in-lieu from the developer for municipal reserves. Section 667(1) of the *MGA* states how the amount of cash is determined if land is not taken.

*If money is required to be provided in place of municipal reserve, school reserve or municipal and school reserve, the applicant must provide*

- a) *a market value appraisal of the existing parcel of land as of a specified date occurring within the 35-day period following the date on which the application for subdivision approval is made*
- i. *as if the use proposed for the land that is the subject of the proposed subdivision conforms with any use prescribed in a statutory plan or land use bylaw for that land, and*
  - ii. *on the basis of what might be expected to be realized if the land were in an unsubdivided state and sold in the open market by a willing seller to a willing buyer on the date on which the appraisal is made*
- or
- b) *if the applicant and the subdivision authority agree, a land value based on a method other than that described in clause (a).*

Municipal reserve should be valued on the appraised value of the unsubdivided land at the time of subdivision approval. If the cash amount received for the benefit of the municipality in lieu of land is based on the unsubdivided appraised value of the land at the time of subdivision approval, it is reasonable that land received for municipal reserve should be valued on the same basis.

### **3. Subdivision Development Agreements**

Subdivision development agreements normally provide specific information on what infrastructure is to be constructed by the developer and the process of how and when these assets are turned over to the municipality. Future development agreements should address the requirement of providing the cost of constructing the infrastructure required per the development agreement. There are a number of ways the cost of constructing this infrastructure can be determined and they are noted as follows:

a. Actual costs provided by the developer

The developer is asked to provide the actual costs with supporting documentation. The following points should be considered prior to using this approach:

- Developers may be reluctant to make public their actual costs.
- Actual costs may vary depending on the method of construction. For example, the costs may vary between a project that is sub-contracted by the developer and a project constructed with the developer's equipment – profit and overhead costs may not be included in the 'self-construction' approach while the profit and overhead of the subcontractors would be part of the 'sub-contract' method.
- Two or more subdivisions with similar specifications but constructed by different developers may result in different costs. This then

raises the question of fair value 'Should the fair value for two similar assets contributed in the same year be different?'

b. Estimated costs provided by the developer

The developer is asked to provide the estimated costs for the subdivision infrastructure. Engineer certified costs for the infrastructure are required for the letter of credit. These projected costs may not be sufficiently accurate but the developer could be requested to provide another set of engineer certified estimated costs at the time of the CCC on a similar basis as the projected costs to obtain the letter of credit. These costs would still be estimated but they would be based on the actual situation and market at the time of contribution. It should be noted that these costs may still vary for multiple subdivisions contributed in the same year.

c. Estimated costs determined by the municipality

The municipality's engineers determine the estimated cost of the subdivision infrastructure. This approach should only be used if the municipality has the information to develop reasonable estimates. This may provide more consistency in the costs if there are multiple subdivisions contributed in the same year. The development agreement may include a fee for this calculation to be done by the municipality.

## Accounting Transactions

### 1. Recording the contribution

Starting in 2009, the fair value of the contributed asset will be recorded as revenue in the year of the contribution with a corresponding increase in the tangible capital assets. For implementation, the adjustment for unrecorded existing contributed assets will be recorded directly to Equity in TCA. Contributed assets received prior to implementing the PS 3150 requirements will also have accumulated amortization.

DR	Tangible Capital Assets
CR	Accumulated Amortization
CR	Equity in TCA (Prior year's adjustment)

Post implementation entries will be recorded at the fair value in the year of contribution being the current year and will, therefore, have no accumulated amortization.

DR	Tangible Capital Assets
CR	Revenue – Contributed Assets

### 2. Annual amortization expense

The annual amortization expense will be calculated and recorded as for any tangible capital asset. An exception is if the contributed asset already has used some of its useful life. The calculation for the annual amortization expense will be the remaining useful life considered to be the useful life divided into the fair value.

## **Reporting Requirements and Implications**

### **1. Statement of Financial Position and Statement of Operations**

For the 2009 financial statements and thereafter, the fair value of contributed assets will be reported as revenue in the Statement of Operations in the year of the contribution. There will not be an offsetting expense; therefore, the annual surplus will increase by this amount or, conversely, the annual deficit will decrease by this amount. The Statement of Financial Position will reflect this contribution with corresponding increases in the Tangible Capital Assets and Accumulated Surplus.

### **2. Notes to the Financial Statements**

#### **a. Tangible Capital Assets**

PS 3150.42 requires that 'the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements' be disclosed in the notes to the financial statements.

#### **b. Accumulated Surplus**

The paper 'Accumulated Surplus/Deficit Defined' in Section 6 of the TCA Implementation Toolkit recommends that a note to the financial statements should be prepared which would provide additional information on the amounts which are unrestricted, restricted and equity in TCA. The value of contributed assets will increase the equity in TCA and should be specifically identified in this note.

## **Other Related Matters**

1. How should the costs for land developed by the municipality be recorded and will the valuation date be different? Land developed by the municipality is not recorded as a TCA but is considered to be 'land for resale' inventory. Some of the development costs will pertain to constructing infrastructure which normally is turned over to the municipality. Costs to construct this infrastructure should be identified as would be expected of a developer. Since the municipality is both the developer and the future owner, the municipality is responsible for any rehabilitation costs during the warranty period (there may not be a warranty period for the municipality). Therefore, the date of contribution would be the date the CCC is issued. These costs would be considered to be the fair value and recorded as a TCA.

### **2. Should contributed assets be tracked?**

The TCA register should identify those assets which have been contributed. The main reason is that contributed asset information is required for disclosure in the notes to the financial statements; another reason is the rate setting issue addressed in #3.



3. Rate setting calculations may require that amortization on contributed assets be excluded. If this amortization expense is not included in calculating the rate of return but yet their replacement is a municipal responsibility, how should this be handled?

If the base for rate setting is not to include contributed assets, contributed assets should be tracked and flagged in the TCA register. Then, when financial information is obtained for rate setting, the contributed assets can be removed from the rate setting data. But for long term capital planning and asset replacement decisions, the contributed assets would need to be included.

## Appendix A

### Subdivision Approval Process

The details of the subdivision approval process may vary among municipalities but there are legislated procedures in Part 17 of the *MGA* that each municipality and developer must follow. The municipality is required to have a land use bylaw that provides for land use amendments, subdivision applications, subdivision approvals, development agreements and development permits. Subdivision applications and approvals may or may not be in a land use bylaw, but they are typically referred to in the bylaw.

The process, in general terms, from the approval of a subdivision to transferring the subdivision to the municipality is as follows: Note: The term 'developer' assumes the land is owned by the developer.

1. The subdivision approval process culminates with an approval letter stating the date that the subdivision authority approved the application.
2. A development agreement is prepared; it is normally a condition of the subdivision approval and should provide the most information on contributed assets. These agreements can range from being fairly standard to quite detailed; they normally state:
  - the responsibilities of the developer,
  - the specifications for developing the subdivision,
  - the required infrastructure and the specifications for such infrastructure, and
  - the process of how and when these assets are turned over to the municipality.
3. When the development agreement has been accepted by all parties, the municipality provides the developer with an endorsement letter granting permission for the new subdivision to be registered with Land Titles. The endorsement letter identifies all of the instruments, i.e. caveats, that need to be placed on the title.
4. Each type of infrastructure is inspected when it is completed. A Construction Completion Certificate (CCC) is issued when the construction is satisfactorily completed. Usually there is a CCC for each type of infrastructure because all of the infrastructure is usually not completed at the same time. For example, a water and sewer line may be installed prior to the completion of the road.
5. Depending on the municipality, subdivision plans are often signed off prior to issuing a CCC if there is good security in place. When subdivision plans are signed, road plans and municipal reserve lands are registered; i.e. new land titles are created.
6. There is normally a warranty period determined by the municipality, of at least one year but usually two years, during which the developer is responsible for infrastructure failure. It should be noted that, for example, in the case of road

plans, the municipality may be responsible for operations maintenance such as snow removal when the CCC is issued but the developer will be responsible for any maintenance, repairs or changes to the infrastructure asset due to failure.

Note: Infrastructure failure is treated differently in condominium plans. The infrastructure is still under warranty but the municipality owns and controls it when the CCC is issued.

7. A Final Acceptance Certificate is issued at the end of the warranty period, the security bond is released and the responsibility for the infrastructure is transferred to the municipality.

### 3.13 Miscellaneous Topics

#### 1. How should gravel pits be recorded?

When land is purchased for its gravel resource, the purchase price is normally based on the value of the raw land and the future value of the gravel resource. The gravel resource should be recorded as inventory; therefore, the raw land value will be recorded as a tangible capital asset and the gravel resource as inventory.

Example:

Agricultural parcel of land	\$100,000
Value of gravel deposits	<u>\$400,000</u> (\$1M/m <sup>3</sup> at discounted value)
Total purchase price	<u>\$500,000</u>

This transaction will be recorded as follows:

TCA - Land	\$100,000
Inventory	\$400,000

As the gravel resource is used, the land will remain at the value of \$100,000 but the inventory will be depleted. The gravel resource (often referred to as 'pitrun') is valued at \$.40 per cubic meter. If 10,000 cubic meters of pitrun were crushed into ¾" at a cost of \$5 per cubic meter, then the resource has been value added and an inventory of crushed gravel has been created. This ¾" crushed gravel would be recorded in inventory at \$54,000 (\$.40 plus \$5.00 per cubic meter). The gravel inventory will now be:

Gravel deposits	\$396,000
Gravel crush ¾"	\$ 54,000

These costs will be expensed when the gravel is used from the stockpiled inventory.

#### 2. What if there is infrastructure that has excess capacity or has been partially retired?

Tangible capital assets should be written down if the conditions specified in PS 3150.31–37 exist; for example, if the future economic benefits are projected to be less than the net book value or there is a change in the extent of how it is used such as partial retirement or excess capacity that will not be used in the future. Write-downs should only be accounted for if the conditions continue and there is no doubt that they will not reverse. An asset with current excess capacity that will be used in the future does not require a write-down. The useful life may be extended if the useful life is dependent on use and not on time elapsed or obsolescence. Further information on write-downs can be found in the following resources.

- Section 10.0, Impairment of Assets, CICA Guide to Accounting for and Reporting Tangible Capital Assets
- Pages 49 – 51, Disposals and Write-downs, OMBI Municipal Guide for Tangible Capital Assets Version 2.

### **3. How should assets transferred from a senior government for \$1 be recorded?**

Tangible capital assets transferred from a senior government for less than fair value will be treated as a 'contributed asset' and should be recorded at fair value at the date that the responsibility for the asset is transferred to the municipality.

Refer to Section 3.12 'Contributed Assets' for further information.

### **4. Are tangible capital assets that are leased to be recorded?**

Municipalities already record leased tangible capital assets; the treatment of capital leases by municipalities is not a new accounting requirement. The only change may be the method of recording the use of a leased asset during the lease period.

A leased asset should be amortized over the period of its expected use consistent with the municipality's policy for similar assets but the lease terms need to be taken into consideration. Section 11 of the CICA Guide to Accounting for and Reporting Tangible Capital Assets provides additional information on recording leased tangible capital assets.

### **5. What about fully depreciated assets that are still in use?**

Municipalities will have assets still in use that have exceeded their expected useful life. This situation is referenced in the following clauses of PS 3150:

*' the life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a government'. PS 3150.05(g)*

*'Some government tangible capital assets that are still in use by the government may not have any unamortized cost remaining because of their age and the amortization period set for that type of tangible capital asset. A record of such tangible capital assets would, however, need to be set up for asset control purposes.'* PS 3150.42

The useful life of the asset should be reviewed to validate its reasonableness. If the useful life is determined to be correct the fully amortized asset should be recorded along with the accumulated amortization equal to the cost of the asset less any residual value. In other words, the net book value would be the greater of the residual value or zero.

## 6. Should 'sweat equity' be recorded?

Community organizations will often volunteer their time to construct a facility to serve their own purposes but the facility is controlled by the municipality. For example, the municipality may receive a grant that will cover part of the costs such as materials and contracted services and the community provides the free labour to construct the facility.

Should this free labour, i.e. sweat equity, be recorded and, if so, how should it be valued?

Free labour and any other donated services should be recorded. The facility can be defined as a contributed asset because a portion of its cost has been contributed; therefore, it should be recorded at its fair value.

How do you determine its fair value?

Assuming that the facility is placed into service shortly after it has been constructed, the fair value would include the costs for materials and contracted services and the value of donated services and materials. The value of donated materials and services can be estimated using the cost of similar materials, contracted rates and a reasonable hourly rate for the donated labour.

This valuation is appropriate for facilities recently constructed but what about valuing existing facilities that have been constructed with volunteer time?

If there are no records of what was donated, then the facility should be valued as if it was a fully contracted project using the replacement cost or appraisal methods.

## 7. How should tax recovery properties acquired by the municipality be recorded?

Section 424 of the *MGA* provides for municipalities to acquire title to tax recovery properties if they are not sold at the public auction but these certificates of title must be marked 'Tax Forfeiture'. The *MGA* provides further restrictions on how the municipality administers this property. The municipality cannot receive clear title to the property until fifteen (15) years after the date of the public auction. Clear title is then issued to the municipality and all responsibilities to the previous land owner cease.

In the above situation, tax sale properties should not be recorded as tangible capital assets of the municipality until 15 years after the public auction and only recorded then if the municipality decides to use the property for municipal purposes and does not plan to sell it. The valuation date will be the later of the valuation date of the municipality or 15 years after the public auction date.

Municipalities also have the option to purchase a tax sale property for their benefit at fair market value (Section 425, *MGA*), place the funds into a special account and request 'Tax Forfeiture' to be removed from the title. In this

case, the property would be recorded at the time of purchase at the fair value paid for the property.

**8. Will estimating the useful life of an asset place the municipality or other parties in a position of potential liability?**

Estimating the useful life of an asset for PS 3150 purposes does not put the municipality in a position of liability if the asset fails prior to completing the estimated useful life or if it is not replaced immediately following the estimated useful life. The public sector accounting standards and a public sector accounting handbook section 3150 – Tangible Capital Assets are established with respect to “accounting and financial reporting in the public sector.”

Establishing the useful life of an asset is for accounting purposes and would not be determinative of liability issues with the respect to that asset. Liability would have to be established in accordance with the principles of law governing liability and would be subject to limitations set out in the *MGA*.

**9. How should ‘construction in progress’ be recorded?**

Tangible capital assets such as buildings and engineered structures which are partially constructed at the end of a fiscal year require special recording treatment. PS 3150 states that a tangible capital asset is ready for productive use when construction is substantially complete (PS 3150.17) and factors to consider are identified in PS 3150.18. The useful life and amortization will not begin until construction is substantially completed but the construction costs to date are to be recorded and reported (PS 3150.42(b)).

The recommended accounting treatment is to record the construction costs to date in the asset register under ‘construction in progress’; this would be a category in which amortization is not calculated. A ‘construction in progress’ category is included in all of the major asset classes except land (see Appendix A in Guideline #2 – Useful Life and Amortization Methods). When construction is complete, these costs will be transferred to the appropriate TCA account and amortization will commence from that date forward.

**10. Are there some issues to consider to implement the full cost reporting model developed by Alberta Environment?**

Alberta Environment has developed a full cost accounting model for waterworks systems. Full cost reporting is not mandatory but Alberta Environment is encouraging municipalities to implement this model. One of the benefits of complying with PS 3150 is that municipalities will develop a better understanding of the cost of capital assets over time which will assist in setting user rates. Implementing PS 3150 requirements provides a good basis for full cost accounting but specific requirements should be considered when designing the tangible capital asset system. Therefore, municipalities should review the Alberta Environment model requirements when developing the TCA register for water systems.

## 11. How should cemeteries be recorded?

Cemeteries under the control and management of the municipality should be recorded. Cemetery plots that have been sold do not remove the requirement to capitalize this asset because the municipality retains the responsibility to administer and maintain it (Section 7, *Cemeteries Act*). Cemeteries should be recorded as land with the land valued as undeveloped land. There may be land improvements and buildings which may need to be recorded if their cost is above the capitalization threshold.

## 12. What about biological assets?

It is generally not necessary to include biological assets in your inventory of tangible capital assets. In some situations after 2009, the initial landscaping costs for a large site such as a park or grounds of a facility may be recorded as a TCA. Remember that the large trees you see now were not that size initially which would be used as the recording value; it is not worth the time to track these existing assets. International accounting standards specifically exclude biological assets (Internal Public Sector Accounting Standard 17). PS 3150 does not deal specifically with biological assets other than to state that PS 3150 does not apply to natural resources. A biological asset is a living animal or plant. The individual value of these assets will usually be less than the capitalization threshold and collectively their value will not be significant in relation to the total value of tangible capital assets. Assets are to be recorded at their historical cost and, for example, trees are of small value when planted compared to when they are mature. A good resource for further information on this subject is the PSAB/Asset Management Newsletter



No. 26, 'Flora and Fauna – What About Trees and Polar Bears?' published by the Association of Municipal Managers, Clerks and Treasurers;

<http://www.amcto.com/psab/assetmgmt.asp?itemid=11092>.

## 13. Are warning systems for railway crossings to be recorded?

There are normally three parties involved in constructing warning systems for railway crossings including Transport Canada, the railway company and the road authority. Grade crossing warning systems can be installed under various funding arrangements for the initial capital investment and subsequent maintenance costs. Railways are charged with the responsibility to oversee the design, installation, commissioning and ongoing scheduled and unscheduled warning system maintenance. Transport Canada regulates the installation and maintenance of these installations. The road authority, which is the municipality for municipally controlled roads, may participate in cost sharing but does not control or manage these warning systems. Therefore, subject to special provisions in the warning system agreement that may place management and control with the road authority, warning systems for railway crossings do not need to be recorded as a TCA by municipalities.



#### **14. Are regional services commissions required to comply with PS 3150?**

Regional services commissions are considered by Alberta Municipal Affairs to be not-for-profit organizations as defined in the CICA Handbook Section 4400.02. Not-for-profit organizations are currently required to report and amortize tangible capital assets.

Commissions that are not following this practice should target 2009 for full compliance with the accounting and reporting requirements.

## 4.0 Asset Inventory & Valuation

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The change to full reporting of capital assets should be viewed as an opportunity that will lead to enhanced asset management and accountability at the local level. There are three initial steps to implementation, including inventory, valuation and amortization.

Considerations in the inventory process include asset classification, estimating useful life, and establishing thresholds. The workbook provided in Section 4.2 outlines the data that should be included in your asset register and is organized into essential, important and optional categories. The excel worksheets on the



Municipal Excellence Network website ([www.menet.ab.ca/634.asp](http://www.menet.ab.ca/634.asp)) may be used as an interim asset register in smaller municipalities.

### 4.1 Asset Valuation Methods and Manuals

Guidelines on “Valuations of Tangible Capital Assets for PSAB 3150” has been developed to estimate the value for roads, water, sewer and drainage infrastructure. This manual can be found at [www.menet.ab.ca/634.asp](http://www.menet.ab.ca/634.asp).



### 4.2 Worksheets

#### Asset Data Guideline

Gathering asset inventory information in a consistent and accurate way is a key factor to the success of the tangible capital asset project. Decisions are required early in your implementation planning about the specific data to include in the asset register. It is important to think about the asset register data both at the point in time when an asset is acquired and later when the asset is in service.

The municipality will need to determine if the asset register will be used for other purposes than compliance with PS 3150. For example, links could be established with risk management, security/safety and scheduled maintenance systems. Asset management systems are not addressed in this guideline but municipalities considering implementing a full asset management system should consider future data requirements as well.

This guideline suggests information to record for each of the major asset categories and some of the minor asset classifications in Engineered Structures. Definitions and/or examples of the data fields are also noted. It is important that each municipality involve their financial software vendor when determining what asset data to record.

Schedule A identifies data fields to consider for the asset register and Schedule B provides definitions for each data field. The data fields are separated into the following categories:

- Essential – data essential to meet the PS 3150 requirements
- Important – data that should be collected
- Optional – data that may be beneficial for future use.

Some of the data fields indicated may only apply in certain situations. Additional information for building and engineered structures is noted as follows:

**Roadway**

Type of road  
Sub surface information  
Width and Length  
Shoulder/Ditch Width  
Pavement Markings  
Type of Surface  
Sub Surface Information  
Sidewalks & Curbs\*

**Building**

Dimensions  
Area  
Type of building  
Construction materials  
Use  
Handicapped accessible

\*Note: Dimensions and location of sidewalks and curbs may be noted if they are part of the road system. If not, an asset number link may be appropriate.

**Water/Waste Water/Storm**

**Water Distribution**

Length of main  
Size of main  
Location of main in right-of-way  
Pipe material  
Pipe Class

**Gas Distribution**

Depth buried  
Location in right-of-way  
Pipe material  
Pipe size  
Pressure classification  
Maximum pressure

**SCHEDULE A: SUMMARY OF DATA FIELDS**

	<i>Data Fields</i>	<i>Land</i>	<i>Land Improvements</i>	<i>Buildings</i>	<i>Engineered Structures</i>	<i>Machinery &amp; Equipment</i>	<i>Vehicles</i>	<i>Cultural &amp; Historical</i>
<b>Essential Data Fields</b>								
<b>Asset Name &amp; #</b>								
	<b>Asset Name</b>	x	x	x	x	x	x	x
	<b>Asset Number</b>	x	x	x	x	x	x	x
<b>Asset Class</b>								
	<b>Major Class</b>	x	x	x	x	x	x	x
	<b>Minor Class</b>	x	x	x	x	x	x	x
	<b>Sub Class</b>	x	x	x	x	x	x	x
<b>Function</b>								
	<b>Department</b>	x	x	x	x	x	x	
	<b>Division</b>	x	x	x	x	x	x	
<b>Physical Description</b>								
	<b>Description #1</b>	x	x	x	x	x	x	x
	<b>Description #2</b>	x	x	x	x	x	x	x
<b>Acquisition</b>								
	<b>Acquisition Month</b>	x	x	x	x	x	x	x
	<b>Acquisition Year</b>	x	x	x	x	x	x	x
<b>Cost</b>								
	<b>Cost</b>	x	x	x	x	x	x	For info only
	<b>Cost Basis</b>	x	x	x	x	x	x	For info only
<b>Amortization</b>								
	<b>Expected Useful Life</b>		x	x	x	x	x	
	<b>Residual Value</b>		x	x	x	x	x	
	<b>Method</b>		x	x	x	x	x	
	<b>Rate</b>		x	x	x	x	x	

<b>Important Data Fields</b>							
<b>Legal Description</b>	x	x	x	x			x
<b>Municipal Address</b>	x	x	x	x			x
<b>Supplier</b>		x	x	x	x	x	
<b>Manufacturer</b>		x	x	x	x	x	
<b>Model</b>					x	x	
<b>Serial Number</b>					x	x	x
<b>Location</b>		x		x	x	x	x
<b>Condition Assessment</b>							
<b>Date Reviewed</b>		x	x	x	x	x	
<b>Condition Code</b>		x	x	x	x	x	
<b>Replacement Due Date</b>		x	x	x	x	x	
<b>Disposal</b>							
<b>Disposal Date</b>	x	x	x	x	x	x	x
<b>Disposal Proceeds</b>	x	x	x	x	x	x	x
<b>Disposal Method</b>	x	x	x	x	x	x	x
<b>Optional Data Fields</b>							
<b>Inventory #</b>	x	x	x	x	x	x	x
<b>Land Titles Link #</b>	x						
<b>Tax Roll #</b>	x	x	x	x			x
<b>Assessed Value</b>	x	x	x	x			x
<b>Size</b>	x	x	x	x			x
<b>Colour</b>					x	x	x
<b>Other Information or links</b>							
<b>Risk management</b>		x	x	x	x	x	x
<b>Security and safety</b>					x		
<b>Maintenance</b>		x	x	x	x	x	x

## SCHEDULE B: FIELD DESCRIPTORS

	<i>Heading</i>	<i>Field Name</i>	<i>Description</i>	<i>Example</i>
<b>ESSENTIAL INFORMATION</b>	<b>Asset Name &amp; #</b>	<b>Asset Name</b>	Common name of asset.	Town Office; Gravel Truck; Swimming Pool
		<b>Asset #</b>	Unique identifier number for the asset.	Could be generated by the software being used; could be an inventory sticker.
	<b>Asset Class</b>	<b>Major Class</b>	Numerical code for the major class of asset.	Land=##, Land Improvements=##, Buildings=## etc.
		<b>Minor Class</b>	Numerical code for the minor class of asset if required.	Minor asset classes included in the Engineered Structures category.
		<b>Sub Class</b>	Numerical code for the sub class of asset if required.	
	<b>Function</b>	<b>Department</b>	Name of responsible department. This will link to the appropriate GL accounts for asset values and amortization.	Administration; Recreation; Public Works; or use numeric description for department
		<b>Division</b>	Name of responsible sub department.	Arena # 1; Lions Park; Memorial Park
	<b>Physical Description</b>	<b>Description #1</b>	Meaningful description of the asset.	
		<b>Description #2</b>	Additional description of the asset if required.	
	<b>Acquisition</b>	<b>Acquisition Month</b>	Month asset was acquired and placed into service.	
		<b>Acquisition Year</b>	Year asset was acquired and placed into service.	
	<b>Cost</b>	<b>Cost</b>	Historical cost of asset.	A \$ value.
		<b>Cost Basis</b>	Method of costing used.	Actual; Estimate; Donated;
	<b>Amortization</b>	<b>Expcted Useful Life</b>	The estimated life the asset will be used by the municipality.	
		<b>Residual Value</b>	The estimated remaining value the asset will retain when the useful life has expired. (Salvage value)	A truck is purchased for \$30,000 with an expected sale value at the end of it's useful life of \$5,000. The \$5,000 is the residual or salvage value.
		<b>Method</b>	The method used to amortize the asset.	Straight line; unit of use; decling balance (straight line is recommended for most asset types)
	<b>Rate</b>	The rate of amortization to be applied based on the useful life of the asset.	If using straight line and the expected life is 5 years, the amortization rate is 20%/year	

	<b>Heading</b>	<b>Field Name</b>	<b>Description</b>	<b>Example</b>
<b>IMPORTANT INFORMATION</b>		<b>Legal Desc.</b>	The legal description of the land or the land the asset is affixed to.	Lot 1, Block 1, Plan 902 3262
		<b>Municipal Address</b>	The municipal address associated with the legal description.	123 Main Street
		<b>Supplier</b>	The supplier of the asset or the contractor providing the asset.	Main Street Ford Sales; ABC Contracting Ltd.
		<b>Manufacturer</b>	The manufacturer of the asset.	Ford
		<b>Model</b>	The model of the asset.	F250
		<b>Serial #</b>	The serial number or the VIN affixed to the asset.	PBC23489PUYRT547689
		<b>Location</b>	The usual location of the asset.	PW Shop; Room 2A of Admin Building;
	<b>Condition Assessment</b>	<b>Date Reviewed</b>	The date the asset was last reviewed for impairment.	
		<b>Condition Code</b>	The condition code of the asset. Note that a municipality will need to establish it's own standards to rate the condition of an asset.	Good/Fair/Poor/Bad; Yes/No; Numerical Rating
		<b>Replacement Due Date</b>	The anticipated replacement date of the asset. This date should relate to the acquisition date and the expected useful life date.	A truck is purchased on January 1, 2007. The estimated useful life is determined to be 5 years. Therefore, the replacement due date should be January 1, 2012.
	<b>Disposal</b>	<b>Disposal Date</b>	The date the asset is sold, discarded or otherwise taken out of service.	
		<b>Disposal Proceeds</b>	The amount realized from the disposal of the asset.	A \$ value.
		<b>Disposal Method</b>	The method used to dispose of the asset.	Sold; Discarded; etc.
<b>OPTIONAL INFORMATION</b>		<b>Inventory #</b>	Can be different from the asset # if required.	
		<b>Land Titles Link #</b>	The # provided on the land title documentation.	
		<b>Tax Roll #</b>	The tax roll # in the tax system.	
		<b>Assessed Value</b>	The value the assessor has determined for the asset.	
		<b>Size</b>	The size of the asset described in units of measure such as volume, length, width, area.	1000 lineal meters of 8" PVC piping.
		<b>Colour</b>	The colour or primary colour of the asset.	Blue with white trim
		<b>Risk Management</b>		Link to information required for insurance purposes.
		<b>Security &amp; Safety</b>		Link to information on firearms, etc.
		<b>Maintenance</b>		Link to fleet management system.

## 5.0 Budgets

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The Budget template and instructions are posted at [www.menet.ab.ca](http://www.menet.ab.ca), Tangible Capital Assets Home, TCA Toolkit, Budgets and Reporting.



## 6.0 Financial Reporting

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### 6.1 Accounting Guideline PSG-7: CICA Guideline and AMA Draft Note

#### **CICA Guideline:**

This Guideline is to be read in conjunction with the Introduction to Accounting Guidelines contained in the CICA Public Sector Accounting Handbook.

1. The purpose of this Guideline is to provide transitional guidance to a local government on presenting information related to tangible capital assets in notes or schedules to its summary financial statements. This Guideline applies until a determination can be made as to the applicability of TANGIBLE CAPITAL ASSETS, Section PS 3150, to local governments.
2. OBJECTIVES OF FINANCIAL STATEMENTS — LOCAL GOVERNMENTS, paragraph PS 1700.110, requires a local government to provide information about physical assets, which include tangible capital assets, in its financial statements, but it does not provide any further guidance.
3. Tangible capital assets are significant economic resources managed by a local government and a key component of cost in the delivery of many local government programs and services. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals and bridges.
4. The disclosure of information regarding tangible capital assets in a local government's financial statements would provide information about tangible capital assets by major category. Major categories of tangible capital assets would be determined by type of asset, such as land, buildings, equipment, roads, water and other utility systems, and bridges.
5. When a local government has information on some but not all categories of its tangible capital assets, it would disclose the information required and, in addition, those categories of tangible capital assets excluded from that disclosure until the relevant information about the complete stock of tangible capital assets can be provided.
6. A local government would 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.
7. A local government would also disclose the following information about tangible capital assets:
- (a) the method used for determining the cost of each major category of tangible capital assets;
  - (b) the amortization method used, including the amortization period or rate for each major category of tangible capital assets;
  - (c) the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;
  - (d) the nature and amount of contributed tangible capital assets received in the period;
  - (e) the nature and use of tangible capital assets disclosed at nominal value;
  - (f) the nature of the works of art and historical treasures held by the government; and
  - (g) the amount of interest included in cost in the period.
8. When a local government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets.
9. It may be possible to derive information for recording tangible capital assets from records of departments and agencies that manage those assets. A local government would apply a consistent method of estimating the cost of the tangible capital assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset.
10. When recording the initial cost of a tangible capital asset, consideration would be given to whether the net book value of the tangible capital asset is in excess of the future economic benefits expected from its use and, therefore, whether a write-down is required to establish more appropriate cost and accumulated amortization amounts for the asset.
11. Some local government tangible capital assets that are still in use by the local government may not have any unamortized cost remaining because of their age and the amortization period set for that type of tangible capital asset. A record of such tangible capital assets would, however, need to be set up for asset control purposes. If a local government has the

information to estimate the historical cost and accumulated amortization of such fully amortized assets, it would disclose that information. If a local government does not have this detailed information on its fully amortized assets, it would disclose them at an initial value equal to their residual value, where material and previously known. Otherwise it would disclose them at a nominal value.

12. TANGIBLE CAPITAL ASSETS, Section PS 3150, provides further guidance about disclosing information related to tangible capital assets.

### **Transitional Provisions**

13. This Guideline applies to fiscal years beginning on or after January 1, 2007. Earlier adoption is encouraged.

### **AMA Draft Note:**



**The wording in italics contained in the following note should be tailored to the individual municipality depending on its particular circumstances. In most cases it should be omitted entirely if not applicable and Note 6 of the Sampleford presentation used as in prior years.**

**The financial records should not be adjusted to balance to the information in the tables necessary to comply with PS3150 requirements until all TCA's have been identified and valued.**

**This draft note was prepared and is endorsed by the Alberta GFOA.**

#### **1. Significant Accounting Policies**

The consolidated financial statements of [*Insert name*] ("The Municipality") are prepared by management in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants ("CICA").

#### **x) Physical Assets**

##### **i) Tangible Capital Assets**

Effective January 1, 2007, The Municipality adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants ("CICA") with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 - Tangible Capital Assets of the Public Sector Accounting Handbook comes into effect on January 1, 2009.

*[Prior to January 1, 2007, The Municipality previously recorded tangible capital assets including assets held under capital leases at cost in the period they were acquired on the statement of financial position and as an expenditure within the capital fund. Certain capital assets in the [...list names of business units or entities...] were amortized on a [identify basis – i.e. straight-line basis] over their estimated useful lives... [or indicate that assets were not previously amortized].*

During 2007, The Municipality continued to work towards compliance with the new recommendations for accounting for tangible capital assets. As of December 31, 2007, The Municipality... *[provide a status update][.....had obtained a complete listing and values for [...identify asset classes i.e. all land, buildings, engineered structures, machinery and equipment and vehicles...]. A complete listing of assets and values for the [...identify asset classes for which listing are not yet completed...] is currently underway and expected to be completed by insert date] to comply with Public Sector Handbook section 3150.*

As of January 1, 2007, capital assets including assets held under capital leases are recorded at cost in the period they are acquired and recorded as an expenditure within the capital fund. Donated assets related to waterworks and wastewater distribution and collection systems are capitalized and are recorded at their estimated fair value upon acquisition. Works of art for display in municipal property are not included as capital assets. Certain capital assets for which historical cost information is not available has been recorded at current fair market value discounted by a relevant inflation factor.

The Municipality has adopted a policy that states that it does *(does not)* capitalize interest as part of the costs of its capital assets.

Certain assets such as *[...list assets...]* are disclosed at a nominal value as the determination of a fair market value for these types of assets is not appropriate.

**x) Physical Assets**

**ii) Tangible Capital Assets, continued**

As of January 1, 2007, amortization for [...*identify asset classes*...] is presented in the notes to the financial statements. Amortization is not recorded as an expense. Amortization for the [...*identify asset classes*...] classes is expected to be presented in the [...*identify year*...] financial statements and is calculated on a [...*identify basis – i.e. straight-line basis*...] over an asset's estimated useful lives as follows:

	<b>YEARS</b>
Land Improvements	
Buildings	XX-XX
Engineered structures	
Roadway system	XX-XX
Light rail transit system	XX-XX
Water system	X-XX
Wastewater system	XX-XX
Storm system	XX-XX
Fibre optics	XX-XX
Electricity system	XX-XX
Gas Distribution system	XX-XX
Machinery and equipment	
Vehicles	X-X

## XX. Tangible Capital Assets

### Year 2 - PSG 7 Adoption

	Cost - Beg. of		Disposals	Write-downs	Cost - End of Year	Amortization		NBV
	Year	Additions				in Year	Acc. Amort	
Land	465,000	500,000	(25,000)	(10,000)	930,000	-	-	930,000
Land Improvements	525,000	500,000			1,025,000	(50,000)	(75,000)	950,000
Buildings	1,000,000	1,000,000	-	-	2,000,000	(75,000)	(125,000)	1,875,000
Engineered Structures	1,250,000	1,250,000	-	(15,000)	2,485,000	(50,000)	(75,000)	2,410,000
Machinery & Equipment	1,250,000	1,250,000	(60,000)	-	2,440,000	(45,000)	(80,000)	2,360,000
Vehicles	250,000	-	-	-	250,000	(15,000)	(25,000)	225,000
	4,740,000	4,500,000	(85,000)	(25,000)	9,130,000	(235,000)	(380,000)	8,750,000
Work in Progress								
Land	50,000	50,000	-	-	100,000	-	-	100,000
Construction	75,000	75,000	-	-	150,000	-	-	150,000
	4,865,000	4,625,000	(85,000)	(25,000)	9,380,000	(235,000)	(380,000)	9,000,000

*A Municipality would use the table above if they had recorded one or more categories of tangible capital assets, pursuant to the PSG 7 standard, in their prior year financial statements. If not, they would show the Year 1 table with a nil opening cost at the beginning of the year for each asset class.*

### Year 1 - PSG 7 Adoption

	Cost - Beg. of		Disposals	Write-downs	Cost - End of Year	Amortization		NBV
	Year	Additions				in Year	Acc. Amort	
Land	-	500,000	(25,000)	(10,000)	465,000	-	-	465,000
Land Improvements		525,000			525,000	(25,000)	(25,000)	500,000
Buildings	-	1,000,000	-	-	1,000,000	(50,000)	(50,000)	950,000
Engineered structures	-	1,250,000	-	-	1,250,000	(25,000)	(25,000)	1,225,000
Machinery & Equipmen	-	1,250,000	-	-	1,250,000	(35,000)	(35,000)	1,215,000
Vehicles	-	250,000	-	-	250,000	(10,000)	(10,000)	240,000
	-	4,775,000	(25,000)	(10,000)	4,740,000	(145,000)	(145,000)	4,595,000
Work in Progress								
Land	-	50,000	-	-	50,000	-	-	50,000
Construction	-	75,000	-	-	75,000	-	-	75,000
	-	4,900,000	(25,000)	(10,000)	4,865,000	(145,000)	(145,000)	4,720,000

Amounts shown in Note XX are not recorded in the financial statements. This disclosure is made pursuant to the recommendations of the Public Sector Guideline 7 as recommended by the Public Sector Accounting Board.

## **6.2 Transition Process – Adjusting the Financial Records**

A lot of work is required before implementing the TCA project results but eventually the time will come to adjust the financial records to reflect the results of the TCA data collection and valuation process. This paper outlines the transition process and is based on the following assumptions:

1. The new TCA register will not be implemented piece-meal. All of the TCA accounts in the General Ledger will be adjusted at the same time.

*‘Local governments are not allowed to implement the new accounting standards on a piece-meal basis. Until a local government has complete information about all categories of tangible capital assets, it is not permitted to recognize them in the financial statements.’*

CICA Guide to Accounting for and Reporting Tangible Capital Assets

2. The new TCA register will be ‘stand alone’ while it is being developed.
3. The existing TCA financial records may be a valuable information resource but efforts to balance the existing financial records to the new TCA register will be either minimal or not done at all.

For example, actual cost information on assets purchased or constructed that is taken from the financial records may be used. The total of a specific general ledger asset account is likely not verifiable because this is a cumulative total with insufficient information to support each of the transactions that make up the account total.

4. Inventory and valuation processes have been deemed acceptable by the auditor to provide sufficient confidence in the reasonableness and accuracy of the new TCA register.

It is essential to have good procedures in place to support a ‘stand alone’ TCA register that is not reconciled to the general ledger TCA accounts. For example, the independent auditor needs to be confident in the integrity of the data recorded in the TCA ‘stand alone’ register; good procedures and processes that are consistently followed should foster that confidence.

5. Some major TCA classes may be completed before others and these completed classes will be included in the PSG-7 financial statement note disclosure. The totals for these asset classes will not be linked to the TCA amount in the Statement of Financial Position.
6. Annual amortization will be calculated for all asset classes completed prior to implementation. Amortization should be disclosed in the PSG-7 note.
7. There will be different totals for each TCA class when the actual financial records and the new TCA register are compared. The main reasons for this difference will be:
  - a. Existing unrecorded TCA have been added.
  - b. Some recorded TCA will be deducted because they no longer exist.

- c. Some recorded TCA will be deducted because they are below the capitalization threshold.
8. The difference between the total TCA cost in the TCA financial records and the new TCA register will be reported as a prior period adjustment. The accumulated amortization prior to the implementation year which will now be recorded will also be reported as a prior period adjustment.

### **Transition Process to Adjust the Financial Records**

'Implementation year' is defined as the fiscal year when all of the TCA have been recorded and the TCA, accumulated amortization and annual amortization expense are reported in the annual financial statements.

The following steps should be followed to adjust the financial records:

1. Determine the accumulated amortization for the year prior to the implementation year. For example, if the implementation year is 2009, the accumulated amortization will be calculated as at January 1, 2008. The 2008 annual amortization expense will also be calculated to determine the accumulated amortization as at December 31, 2008.
2. Adjust the General Ledger TCA balances to reflect the balances in the new TCA register.
3. Link the TCA register to the financial system/General Ledger in the implementation year.

For larger municipalities, it is important that the entries to the TCA register are generated from other modules in the financial system and that information created from TCA register calculations such as amortization is transferred to the General Ledger. These system interfaces will reduce duplication of work and improve accuracy.

Some smaller municipalities will continue to use the 'stand alone' register approach. These municipalities will need to make sure that procedures are in place to protect the integrity of current and future TCA data.

4. Record the implementation year TCA transactions under the new PS 3150 TCA requirements and report these transactions according to the new accounting reporting standards.

For example, these transactions will include the purchases and disposals made and contributed assets received in 2009 if that is the implementation year.



## Entries to Adjust the General Ledger TCA Accounts

Journal entries will be required to adjust the TCA related accounts in the General Ledger to the amounts in the TCA register. The following General Ledger accounts will be adjusted or created:

Tangible capital assets  
Accumulated amortization  
Equity in tangible capital assets

These adjustments should be made in two steps rather than netting the amounts so that a sufficient trail is established for these significant adjustments. The first step will reduce the existing accounts to a zero balance and the second step will record the new TCA amounts and accumulated amortization. The remaining amount to balance the transaction in the second step will be made to the Equity in TCA account. After step one, all of the existing TCA related accounts including Equity in TCA should be at zero; therefore, the capital debt accounts are also included in these entries so that after step one, the Equity in TCA account is a zero balance. If capital debt is not included, the Equity in TCA account would be a negative amount and may be difficult to analyze.

Using the above approach, the journal entries will be as follows:

1. Reduce the existing TCA and capital debt account balances to zero.

DR	Capital debt
DR	Equity in TCA
CR	Tangible capital assets

2. Record the updated TCA values and outstanding capital debt. Note that the capital debt amount should equal the capital debt prior to reducing capital debt to zero; i.e., the capital debt amount in step 2 will equal the amount in the step 1 entry.

DR	Tangible capital assets
CR	Accumulated amortization
CR	Capital debt
CR	Equity in TCA (this will be a balancing amount)

Note: 'Equity in TCA' will not be reported as a separate amount in the financial statements effective 2009; this amount will be included in 'Accumulated Surplus'. The paper 'Accumulated Surplus/Deficit Defined' addresses this topic and provides information on how the 'Equity in TCA' can be determined and annually adjusted in the municipal records.

## Reporting In the Implementation Year

In the year of implementation to be not later than 2009, the annual financial statements will require the following 'one-time' specifics and notes:

1. The change in Equity in TCA will be reported as a prior period restatement/adjustment to Accumulated Surplus and referenced in the notes to the financial statements.
2. The prior year's comparative amounts should be restated to include the adjustments resulting from compliance with PS 3150. The TCA, Accumulated Amortization, Equity in TCA and Amortization Expense for the previous year would be restated. This restatement is not required in situations where it is too difficult to identify the amortization expense for the previous year. In these cases, the 'accumulated surplus' balance at the beginning of the current reporting year will be adjusted.

Note: It may be easier to meet the restatement expectation by reporting the prior year's amortization expense as one amount rather than breaking it down by each municipal service identified in the financial statements.

## **6.3 Impact of Reporting TCA**

### **Tangible Capital Assets and Financial Reporting**

Reporting all of the tangible capital assets (TCA) of a local government and expensing the annual amortization of those assets brings a non-cash dimension to financial reporting and budgeting; this is 'full accrual accounting'. This paper will provide information on the impact of this change to financial reporting and planning.

#### **I. Impact of Recording Tangible Capital Assets on Financial Reporting**

##### **A. Definitions:**

1. Amortization

Amortization is the systematic allocation of the historical cost of a TCA over its estimated useful life.

2. Accumulated amortization

Accumulated amortization is the total amortization pertaining to TCA from the time the asset was placed in service until the date of the financial statement.

3. Expenditure

Expenditure is considered to be an outlay of cash; an example would be the purchase of a TCA.

4. Expense

Expenses are the wide variety of costs incurred to run the municipality such as wages, materials, contracted services and interest on debt. Expenses do not include the purchase of tangible capital assets, payments of debt principal or transfers to other local government units in a local government reporting entity.

5. Full accrual accounting

Full accrual accounting recognizes the financial effects of transactions in the period(s) in which they occur irrespective of when the cash has been received or paid. It requires that tangible capital assets be reported on the statement of financial position at historical cost and expensed (amortized) in the annual results of operations over their estimated useful lives.

6. Historical cost of a TCA

The historical cost of a TCA *includes the purchase price of the asset and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties* (PS 3150.10). The historical cost will normally be the actual cost in most cases after the 2009 implementation but estimating this cost may be

required for existing TCA at the time of implementing the PS 3150 requirements.

7. Modified accrual accounting

Modified accrual accounting is when tangible capital assets can be expensed in the year they are acquired.

8. Net book value of a TCA

Net book value of a TCA is the historical cost less both accumulated amortization and the amount of any write-downs of TCA. It is this amount for all of the TCAs in the municipality that will be recorded in the statement of financial position.

## **B. Consolidated Statement of Financial Position**

Municipal financial statements are comprised of three basic statements,

- the consolidated statement of financial position,
- the consolidated statement of operations, and
- the consolidated statement of cash flow.

The impacts on each of these statements will be presented in the above order.

1. What is the statement of financial position?

The consolidated statement of financial position, commonly referred to as the balance sheet, reports what a government owns or controls (assets), what it owes (liabilities) and what is left over after assets have been used to satisfy liabilities (equity). This statement reports the financial position of the municipality at a specific point in time; for example, the end of the fiscal year.

2. How is this statement going to change?

The net book value of TCA will be reported. Prior to 2009, municipalities were not required to record TCA although it was good accounting practice and, therefore, there were not any specific regulations for recording TCA. Most municipalities recorded some TCA but often there was no uniformity or consistency in recording TCA even within the municipality. Vehicles, equipment, buildings and debt financed infrastructure were generally recorded but, in most cases, much of the municipal infrastructure was not recorded. Furthermore:

- the value of what was recorded was not reduced during the useful life of the asset; i.e., depreciated/amortized and
- the TCA was often not removed from the records when it was disposed.

The notes to the financial statements will provide additional information supporting the total net book value such as the total historical cost,

accumulated amortization and net book value for each major asset class.

3. What will be the impact on our municipality?

Each municipality will be different due to the past inconsistent treatment of recording TCA; some of the factors that will determine the impact of recording TCA are:

- a. How much TCA was not recorded.
- b. The age of the municipality's TCA.
  - The net book value of TCA that was previously not recorded.
  - The accumulated amortization of the recorded TCA.
- c. How much of the recorded TCA needs to be written down.
- d. How much TCA have been funded by senior governments or donated to the municipality that have not been recorded.

### **C. Consolidated Statement of Operations**

1. What is the statement of operations?

The second statement provides information on what happened during the specified period, usually the fiscal year. The statement of operations reports a government's revenues and expenses.

2. How is this statement going to change?

- a. The purchase of TCA will no longer be reported as a disbursement or expenditure.

Municipalities have now entered the arena of 'full accrual accounting'. The full accrual accounting basis records the TCA as an asset, not an expense, and expenses the cost of this asset over the estimated useful life of the asset. Therefore, purchases of TCA will not be reported in the statement of operations.

- b. There will be non-cash items reported as expenses:
  - i. Annual amortization for existing and new TCA will be reported as an expense.

Amortization is the allocation of the cost of the asset over its useful life and this allocation will be reported as an expense each year in the statement of financial activities. No cash is required because the necessary cash was required when the asset was originally purchased.

- ii. Loss on disposal of TCA

There may be situations when a TCA is sold and the sale price was less than the net book value. This difference will be

reported as a 'loss on disposal' expense. This can also happen when an asset is no longer required and is taken out of service with no sale value. If the asset still has net book value, in other words, it has not been fully amortized in the financial record; the full amount of the net book value will be reported as an expense in the year the TCA was removed from service.

The following example illustrates the accounting entries when a TCA is sold for less than its net book value:

Historical cost of the TCA	\$300,000
Residual value	\$60,000
Useful life	12 years
Annual amortization	\$20,000
Sold in year 13	\$45,000

The accounting entries to record a loss on disposal would be:

DR	\$45,000	'Financial assets (cash or accounts receivable)' in the amount of any proceeds received from the sale or disposal of the TCA.
DR	\$240,000	'Accumulated amortization' in the amount of the accumulated amortization recorded for the TCA.
DR	\$15,000	'Loss on disposal of TCA' in the amount of the net book value of the TCA less revenue, if any, from the sale or disposal of the asset
CR	\$300,000	'TCA' in the amount of the historical cost of the TCA

iii. Revision to amortization method or estimated useful life

Going forward in future years, after the PS 3150 requirements have been implemented, the amortization method and estimated useful life of the remaining unamortized portion of a TCA is to be regularly reviewed and revised when the appropriateness of a change can be clearly demonstrated. The revised amortization method and/or estimated useful life will be reflected in the calculation of the annual amortization expense for the remaining years; there will be no prior period adjustment.

iv. Write-downs of the net book value of TCA

There also may be extraordinary situations when, upon review, conditions indicate that a TCA no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the TCA is less than its net book value; for example, new technology results in greater savings than continuing to use the asset but it

may be kept for back-up purposes. In these circumstances the cost of the TCA should be reduced to reflect the decline in the asset's value due to no longer providing an economic benefit. This reduction in value will be reported as an expense in the year of reduction.

Assuming that the TCA will be written down to an amount less than the current net book value, the accounting entries to record this situation are as follows:

- DR 'Accumulated amortization' to reduce the amount to zero
- DR 'Loss on write-down' which would be the amount the TCA was written down less the accumulated amortization.
- CR 'TCA' in the amount the TCA is reduced from the historical cost.

Please refer to Section 10.0, pages 28-30, of the CICA Guide to Accounting for and Reporting TCA and PS 3150.31 - 37 for additional information on impairment of assets.

- c. Only the profit portion of proceeds of sale of TCA will be reported as revenue.

The net book value of a TCA will be first applied against proceeds from the sale of that TCA. Any remaining balance of the sale proceeds will be considered profit on the sale and be reported as revenue in the statement of financial activities.

The accounting entries, similar to when there is a loss on disposal, will be as follows:

- DR 'Financial assets (cash or accounts receivable)' in the amount of any proceeds received from the sale of the TCA.
- DR 'Accumulated amortization' in the amount of the accumulated amortization recorded for the TCA.
- CR 'TCA' in the amount of the historical cost of the TCA
- CR 'Profit on sale of TCA' is the sale proceeds less the net book value of the TCA.

### 3. What will be the impact on our municipality?

In contrast to previous reporting using the modified accrual method, the full accrual method includes non-cash transactions. The amount of annual amortization expense (the major non-cash transaction) may result in an annual deficit if it is greater than the amount of funds generated in the reporting period. A municipality may choose to ignore the deficit resulting from this amortization expense or decide to start funding amortization.

## D. Consolidated Statement of Cash Flow

### 1. What is the consolidated statement of cash flow?

The third statement usually has not been given as much attention; it is the statement of cash flow. It identifies where the cash came from and how it was used for the reporting period. This statement will probably receive more scrutiny because the consolidated statement of financial activities will now include non-cash transactions and it is important for any organization to understand the impact of the financial events that occurred during the reporting period on the cash position.

A municipality may report cash flows using either the direct method or the indirect method. The direct method identifies all of the operating, capital, investing and financing transactions that were done in cash with no accruals included. The indirect method converts the annual surplus or deficit developed on an accrual basis to a cash basis. The Town of Sampleford financial statement templates developed by Alberta Municipal Affairs uses the indirect method to prepare the statement of cash flow.

### 2. How is this statement going to change?

- a. The cash expended for purchases of TCA will be deducted from the annual operating position.

Cash was required and used to purchase TCA during the reporting period. These purchases are not reported in the statement of financial activities and, therefore, are deducted from the annual surplus or added to the annual deficit to report that this cash was used.

- b. The non-cash annual amortization expense and other non-cash TCA related transactions will be added to the annual operating position.

The annual operating position will reflect TCA non-cash expenses; if the municipality has a surplus, it would have been larger by the non-cash amount and, conversely, a deficit would have been smaller. These non-cash items will be added to increase the surplus or reduce the deficit to report the cash position of the municipality.

Note: This change will only be noticed if the statement of cash flow is prepared using the indirect method.

### 3. What will be the impact on our municipality?

There will not be any impact because the only change to the statement of cash flow will be to remove the effect of the non-cash transactions



included in the statement of operations. The cash position will not be affected.

## E. Notes to the Financial Statements

Notes to the financial statements provide some of the most important data in the financial report and can alert readers to the effects of transactions and events they might otherwise overlook. The following information regarding TCA is reported in the notes:

- a. For each major category of TCA and in total:
  - i. The cost, accumulated amortization and net book value at the beginning and end of the reporting period.
  - ii. The additions, disposals, write-downs and amortization for the reporting period.
  - iii. The amortization methods and rates.
- b. The net book value of TCA not amortized; for example, TCA not in service or under construction.
- c. The nature and amount of contributed TCA received during the reporting period.
- d. The nature and use of TCA recognized at a nominal value.
- e. The amount of interest capitalized in the reporting period.
- f. The nature of works of art and historical treasures which are to be inventoried but not valued and reported exclusively in the financial statement notes.

The information required in (a)(i) and (ii) above will be provided in a table similar to the one below:

### Year 1 - PSG 7 Adoption

	Cost - Beg. of Year	Additions	Disposals	Write- downs	Cost - End of Year	Amortization in Year	Acc. Amort	NBV
Land	-	500,000	(25,000)	(10,000)	465,000	-	-	465,000
Land Improvements		525,000			525,000	(25,000)	(25,000)	500,000
Buildings	-	1,000,000	-	-	1,000,000	(50,000)	(50,000)	950,000
Engineered structures	-	1,250,000	-	-	1,250,000	(25,000)	(25,000)	1,225,000
Machinery & Equipmen	-	1,250,000	-	-	1,250,000	(35,000)	(35,000)	1,215,000
Vehicles	-	250,000	-	-	250,000	(10,000)	(10,000)	240,000
	-	4,775,000	(25,000)	(10,000)	4,740,000	(145,000)	(145,000)	4,595,000
Work in Progress								
Land	-	50,000	-	-	50,000	-	-	50,000
Construction	-	75,000	-	-	75,000	-	-	75,000
	-	4,900,000	(25,000)	(10,000)	4,865,000	(145,000)	(145,000)	4,720,000

## **F. What will be the Impact on the Cost of TCA in the Year of Implementation?**

There will potentially be a significant amendment to the financial statements in the first year of reporting TCA which should be in 2009 or earlier. The amendment will be to the TCA cost and the Accumulated Surplus (Equity in TCA) currently recorded in the financial statements and will result from:

- Adding existing unrecorded TCA
- Deducting the recorded amount for TCA which no longer exist
- Deducting the recorded amount for TCA which have a historical cost less than the established capitalization threshold
- Deducting from the recorded TCA the accumulated amortization to date.

'Accumulated amortization' will be a new amount which will be identified by asset class in the notes to the financial statements. The net book value of TCA (after deducting the accumulated amortization) is reported on the Statement of Financial Position. The accumulated amortization determined prior to the first year of reporting will be treated as a prior years' adjustment similar to the adjustment to the recorded TCA amount. The annual amortization on the revised TCA will be expensed in the first year of implementation for that specific year.

## **II. Will the TCA Requirement Impact Municipal Tax Rates and Cash Reserves?**

The Canadian Institute of Chartered Accountants (CICA) does not mandate that a municipality must fund its amortization, annual or accumulated. One of the reasons the CICA has established the requirement to record and amortize TCA is to increase the awareness of the state of infrastructure and the available funds to address future needs but local government elected officials still will retain the authority to determine the level of funding required to address long term capital needs. However the TCA requirement still raises concerns because Alberta provincial legislation requires municipalities to ensure that actual revenues are equal to or greater than expenditures on a three-year cumulative basis. The non-cash amortization expense may create situations where the total expenditures are greater than revenues. The Province recognizes this concern and is taking steps to amend legislation so that municipalities who do not fund their amortization remain in compliance with provincial legislation. The Province is preparing regulatory changes to legislation to back out the amortization expense to comply with current legislation. Long term amendments required are currently being prepared.

Therefore, the TCA requirement will not impact municipal tax rates and cash reserves in a mandatory sense. But while this change does not require a

change in behaviour, it may cause municipalities to change their approach to capital planning because there will be more information available.

### **III. When Should the TCA Requirement be Reported in the Financial Statements?**

PS 3150 applies to local governments for fiscal years beginning on or after January 1, 2009 and, therefore, the TCA requirement should be reflected in the 2009 financial statements but *local governments are **not** allowed to implement the new accounting standards on a piece-meal basis. Until a local government has complete information about all categories of tangible capital assets, it is not permitted to recognize them in the financial statements. If a local government is able to report complete information on all categories as required by PS 3150, it may adopt the new standards and reporting model earlier than the January 1, 2009 implementation date. This is to avoid the confusion that would be caused by a local government reporting both on an expenditure and expense basis.*<sup>1</sup>

During the transition period:

- Continue to record capital transactions in the financial records.
- Apply the revised capital policy to these capital transactions.
- Do not adjust the financial records to make them PS 3150 compliant until all of the asset classes have been reviewed and finalized.

### **IV. Do the Prior Year Comparative Amounts Need to be Restated?**

Yes, prior year comparative amounts need to be restated unless there are extenuating circumstances acceptable to the auditor.

Information system technology should provide the capability to determine the annual and accumulated amortization for the prior year. Municipalities may decide to record amortization expense as a separate expense line in the statement of financial activities rather than embed this number in departmental costs. This may be an option to consider, at least for the initial couple of years, which may make it easier to restate the prior year amortization expense if it does not require distribution to each municipal service.

*Although PS 2120.13 permits prospective application of the new accounting standards, PS 3150.44 overrides this when it states: "This section applies to all tangible capital assets." Local governments must present information about the complete stock of their tangible capital assets and amortization in the summary financial statements regardless of when acquired."*<sup>18</sup>

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<sup>18</sup> CICA Guide to Accounting for and Reporting Tangible Capital Assets, page 35

*It is expected that most local governments will adopt the new accounting standards in PS 3150 retroactively, with a corresponding restatement of all prior periods presented for comparative purposes. Retroactive application with restatement provides consistency in accounting policies from one period to another. It assists in interpreting trends in a local government's performance and other analytical data that are based on comparisons.*

*When the effect of the next accounting policy is not reasonably determinable for individual prior periods, local governments are allowed to make an adjustment to the opening balance of the accumulated surplus/deficit of the current period, or such earlier period as is appropriate, to reflect the cumulative effect of the adoption of the accounting standards under PS 3150.<sup>219</sup>*

## **V. Can the TCA Records be amended after 2009?**

Recording and amortizing TCA is such a significant project and the change to financial reporting makes it reasonable to expect that future amendments may be required in 2010. There may be at least two types of amendments:

1. The first type of amendment will be those addressed in PS 3150; amendments to TCA which have already been determined to be PS 3150 compliant. These amendments would be subsequent adjustments to useful life or amortization method or a write-down to a change in the economic benefit to the municipality. These adjustments need to be made according to PS 3150.
2. The second type of amendment may be regarding TCA which are still considered to be pre-2009. Examples would be assets which were missed in the 2009 inventory count. This adjustment would be treated as a prior period adjustment, similar to the transition entries made to become PS 3150 compliant.

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<sup>19</sup> CICA Guide to Accounting for and Reporting Tangible Capital Assets, page 36

## **6.4 Impact of the Financial Reporting Accounting Standard Changes**

Local governments will need to address a significant accounting standard change regarding financial reporting. The following public sector accounting standards identify these changes:

PS 1000	Financial Statement Concepts
PS 1100	Financial Statement Objectives
PS 1200	Financial Statement Presentation

Senior level governments were required to implement these requirements for their fiscal year beginning April 1, 2005 and local governments are required to implement them no later than the 2009 fiscal year.

Chapter 8, Local Government Reporting Model, of the CICA publication *Guide to Accounting For and Reporting Tangible Capital Assets* provides important information on this requirement and has been used as an information source for this information paper. It should be read in conjunction with this information paper which addresses key questions regarding this change. Appendix A provides samples of the new financial statements for governments.

### **1. Will there be changes to the financial reports for local governments?**

Major changes to financial reports will include an additional statement, the Consolidated Statement of Change in Net Debt/Net Financial Assets, and a revised format in the Consolidated Statement of Financial Position and Consolidated Statement of Operations.

a. The following statements will be required:

i. Consolidated Statement of Financial Position

The statement of financial position highlights four key figures that describe the financial position of the government at the reporting date.

- The cash resources of the government.
- The net debt/net financial assets position of the government (difference between its liabilities and financial assets).
- The non-financial assets of the government (tangible capital assets, inventories of supplies and prepaid expenses, etc).
- The accumulated surplus or deficit of the government (sum of the net debt of the local government and its non-financial assets). This indicator represents the net assets of the government.

Each of the three remaining statements illustrates the changes in one of the four key figures in the government's financial position.

ii. Consolidated Statement of Operations (formerly Statement of Financial Activities and Change in Fund Balances)

The statement of operations reports the surplus or deficit from operations in the accounting period. The statement displays the cost

including the consumption of non-financial assets (amortization) of government services provided in the period, the revenues recognized in the period and the difference between them. It measures, in monetary terms, the extent to which a government has maintained its net assets in the period.

iii. Consolidated Statement of Change in Net Debt/Net Financial Assets (new statement)

The statement of change in net debt/net financial position reports the extent to which the expenditures, including investment in capital assets and changes in other non-financial assets, of the accounting period are offset by the revenues recognized in the period. This measure is displayed by reporting the items that explain the difference between the surplus or deficit from operations and the change in net debt for the period. This statement is a reconciliation of the annual surplus or deficit and the change in net debt.

iv. Consolidated Statement of Cash Flow (formerly Statement of Changes in Financial Position)

The statement of cash flow reports the change in cash and cash equivalents in the accounting period, and how a government financed its activities in the period and met its cash requirements.

b. Revised Format and Line Items

i. Consolidated Statement of Financial Position

Table I compares the current format with the new format.

<b>Current Format</b>		<b>New Format</b>	
Financial assets	A	Financial assets	A
Non-financial assets	<u>B</u>	Deduct Liabilities	<u>D</u>
Total Assets	<u>C</u>	Net debt/net financial assets	New
Liabilities	D	Non-financial assets	<u>B</u>
Accumulated Surplus	<u>E</u>	Accumulated Surplus	<u>E</u>
Total Liabilities & Equity	<u>C</u>		

- Assets are no longer reported as a total amount; they are now separated into two separate sections, 'financial assets' and 'non-financial assets'.
- The 'non-financial assets' (previously referred to as the 'physical assets') have been relocated following the 'liabilities'.
- The liabilities are subtracted from the financial assets to create a new amount 'net debt/net financial assets'.
- Accumulated surplus is one amount; it used to be referred to as 'municipal equity' and broken down into various fund balances and equity in capital assets.

ii. Consolidated Statement of Operations

- Expenditures for capital assets and debt issued and repaid are no longer reported in this statement. These amounts can be found in the statement of changes in net debt and statement of cash flow.
- The term 'accumulated surplus' has replaced 'changes in fund balances'. This is not a change in name only because 'accumulated surplus' now reflects the full accrual accounting method by including non-cash transactions.

**2. What is the net asset or net debt line on the statement of financial position?**

*Net debt/financial asset position is calculated as the difference between financial assets and liabilities. Net debt position is often called the government's 'future revenue requirements' because this indicator provides a measure of the future revenues required to pay for past transactions and events. Conversely, net financial asset position is an indicator of the financial resources a government has available to finance future operations.*

2.2.1, page 73, CICA Guide to Accounting for and Reporting Tangible Capital Assets

**3. What makes up the 'accumulated surplus' amount on the statement of financial position?**

*The accumulated surplus/deficit position represents a government's net economic resources. An accumulated surplus is that amount by which all assets (financial and non-financial) exceed all liabilities. An accumulated surplus indicates that a government has net resources (financial and physical) that can be used to provide future services. An accumulated deficit means that liabilities are greater than assets and that the government has been financing annual operating deficits by borrowing. The extent of a government's accumulated surplus/deficit is an indication of its ability to provide future services.*

2.2.2, page 73, CICA Guide to Accounting for and Reporting Tangible Capital Assets

**4. Will there be additional information provided in the financial statements explaining the ‘accumulated surplus’?**

The position of Alberta Municipal Affairs and Government Finance Officers Association, Alberta, as noted in the information paper ‘Accumulated Surplus/Deficit Defined’, is that the one amount for the ‘accumulated surplus/deficit’ on the Statement of Financial Position does not provide sufficient information for the reader of local government financial statements. A note to the financial statements is recommended that would provide additional information regarding the unrestricted, restricted and equity in tangible capital assets amounts in this accumulated total.

Note: Section 6.5 ‘Accumulated Surplus/Deficit Defined’ should be referred to for additional information.

**5. What financial transactions are no longer reported in the Statement of Operations?**

Expenditures for capital purchases and cash received from debt issued or made for debt principal payments will not be reported in the statement of operations. These amounts will be reported in the statements of net debt and cash flow. Also, gross proceeds from sale of TCA will no longer be reported in the statement of operations.

It is important that these transactions which will not be reported in the statement of operations are still included in preparing and reporting the annual budget.

**6. How will funds set aside for future purposes such as TCA purchases be reported?**

Funds set aside for future purposes (funds placed in reserves) impact the financial statements in the following ways:

- Revenues received for the purpose of setting them aside for later years are to be reported as revenue in the statement of operations.
- These revenues will not be offset by a related transfer and will, therefore, be included in the annual surplus/deficit for the reporting period.
- The statement of financial position will not report these funds specifically but they will be part of the ‘accumulated surplus/deficit’ amount.
- The note to the financial statements providing further detail of the ‘accumulated surplus/deficit’ should report the breakdown of the ‘accumulated surplus/deficit’ amount into unrestricted, restricted and equity in TCA.
- A schedule of the ‘restricted’ amount should be included with the financial statement. This schedule should at least provide broad information on the intended purpose; for example, fire equipment but not the specific equipment.



## **7. How will the purchase of TCA be reported?**

The purchase of a TCA is not reported in the statement of operations but will be found in the following financial statements:

- The amount of the TCA purchased less any amortization in the purchase year will be included in the amount for TCA in the statement of financial position.
- The statements of net debt and cash flow will report the amount of TCA purchases.
- The note to the financial statements which provides information on how the net book value of the TCA on the statement of financial position changed from the previous year will report the total amount for additions to the TCA in the reporting period which will include purchases but not necessarily only purchases if some assets are contributed.

## **8. How will revenue sources for TCA purchases be reported and what will be the impact on the statement of operations in the year of purchase?**

### **a. Annual tax levy**

The entire annual tax levy is reported as revenue including taxes levied for the purpose of purchasing capital assets. The capital asset purchases are not reported in the statement of operations; therefore, the annual surplus will increase or the annual deficit will decrease by the amount of the capital related portion of the tax levy.

### **b. Accumulated surplus from previous years**

Funds set aside and used for purchasing TCA will not impact the statement of operations. There will be no transfer recorded and the TCA purchase is not reported; therefore, the bottom line will not be affected. The accumulated surplus total will remain the same but the amounts making up the accumulated surplus will change. The 'restricted' amount will decrease and the 'equity in TCA' will increase; these changes would be reported in the 'accumulated surplus' note to the financial statement.

### **c. Capital grant**

Capital grants will be reported as revenue in the amount that economic benefits have been received. (Note: This statement is based on current PSAB accounting standards and does not include the Government Transfer revision currently being considered.) The capital expenditure is not reported in the statement of operations; therefore,

- The annual surplus will increase or the annual deficit will decrease by the amount of the capital grant.
- The 'equity in TCA' will be increased by the amount of the TCA purchase which will include the amount of the capital grant.
- In situations where the capital grant is received in a year subsequent to the TCA purchase, the grant revenue will normally be accrued in the year of purchase and the impact will be similar to that of receiving the grant.

#### **d. Debt**

Purchasing TCA with debt will not impact the statement of operations and, therefore, will not impact the accumulated surplus/deficit total amount in any manner. Transactions for debt issued and capital assets purchased are reported in the statements of net debt and cash flow. The net book value of TCA and debt liability will change in the statement of financial position and the net debt position will increase or net financial asset position will decrease by the amount of the debt issued.

#### **9. How will the issuance and repayment of debt principal be reported?**

Debt transactions are not reported in the statement of operations and, therefore, do not impact the total accumulated surplus/deficit. Debt transactions are reported in the statement of cash flow. The interest on debt will still be recorded in the statement of operations as an interest expense.

#### **10. How will the financial results be communicated? Will the presentation of the financial information need to be revised?**

Each of the financial statements has an important message. The readers are accustomed to finding information in the statement of operations which will now be reported elsewhere. For example, expenditures for tangible capital assets are no longer included or debt proceeds or principal payments. The statement of cash flow should receive a higher emphasis than it has previously because the statement of operations no longer reports all of the cash related transactions and now includes non-cash transactions such as the annual amortization expense.

Whereas the statement of cash flow will provide information regarding the cash required to purchase tangible capital assets and make debt principal payments and this statement will also provide information on how much debt was issued. It is important that information on the current and future cash position is presented.

#### **11. What are the criteria to determine if the municipality is in good financial health if there is a 'net debt' position?**

Municipalities normally require long term capital debt and having a 'net debt' position does not mean that the municipality is in financial difficulty. The following questions should be considered to determine the implications of the 'net debt' position to the financial health of the municipality:

##### **a. Is there a debt management plan?**

A debt management plan assesses the long-term capacity of the municipality to absorb and repay debt. The municipality's capital improvement plan, which identifies future projects to be funded with their funding sources and projected expenditures, is important to developing the debt management plan.

b. What is the term of the debt?

Are the terms of the long term debt reasonable? Are they too short in relation to the life of the TCA funded by the debt resulting in short term difficulties to generate revenues to pay down the debt? Or are the terms so long that significant additional debt will be required before the current debt is paid down?

c. What is the current portion of the long term debt?

Will the annual municipal tax levy or current user fees be adequate to manage the payments of the current portion of the long term debt?

d. Are the financial assets current and liquid?

Some of the financial assets may be long term, (such as land for resale, long term financial instruments and investments in subsidiaries), and will need to be considered when evaluating the net debt position.

e. What amount of the financial assets is restricted, externally and internally?

There may be financial assets such as cash or investments that cannot be used to reduce debt because they have been identified for a different specific use.

f. How much of the long term debt is funded by the annual municipal tax levy and how much by user fees?

Can the municipal tax base adequately sustain the current and future debt levels? Are the user fees reasonably able to include adequate debt recovery?

## 12. What is the change in net debt and what impacts this change?

*The change in net debt in the year is a measure of whether the revenues raised were sufficient to cover government spending. The spending in the year would include any capital expenditures to acquire new capital assets. An increase in net debt means that more future revenues will be needed to pay for past transactions and events. And, if a government is spending on capital assets, the statement of changes in net debt will highlight the actual level of capital spending in the year and compare it to planned capital spending.*

2.2.4, page 73, CICA Guide to Accounting for and Reporting Tangible Capital Assets

### Appendix A (New “Sampleford” – to be developed)

Statement of Financial Position

Statement of Operations

Statement of Change in Net Debt/Net Financial Assets

Statement of Cash Flow (indirect method)

Statement of Cash Flow (direct method)

## **6.5 Accumulated Surplus/Deficit Defined**

PS 1200, Financial Statement Presentation, applied only to the Federal and Provincial governments but by 2009 it will also apply to local governments. Under PS1200, the financial reporting model standards, the “Municipal Equity” section on the statement of financial position will be replaced with a new section called “Accumulated Surplus/Deficit”. This is a significant change from existing standards especially when examined together with the new TCA standards. Understanding what the ‘accumulated surplus/deficit’ is and how it will work is important.

The accumulated surplus/deficit position represents the government’s net economic resources and provides an indication of the government’s ability to provide future services. An accumulated surplus:

- Is that amount by which all financial and non-financial assets exceed all liabilities and
- Indicates that a government has net resources to provide future services.

An accumulated deficit means that liabilities are greater than assets and/or annual operating deficits are being financed through borrowing.

The ‘accumulated surplus/deficit’ includes equity in non-financial assets but this amount will not be specifically identified on the Statement of Financial Position. Therefore, it may be appropriate for governments to disclose in a note to the financial statements a segregation of the ‘accumulated surplus/deficit’ into the following categories: unrestricted surplus/deficit, restricted surplus and equity in tangible capital assets. This will identify those resources which are liquid and available for future general and specific use.

### **Unrestricted Surplus/Deficit**

This is the portion of the accumulated surplus or deficit which results from excess revenue or expenses. An unrestricted surplus indicates that there are funds which do not have a formally specified future purpose and are available to meet future general obligations. A deficit position means that future revenues will be required to cover this deficiency.

### **Restricted Surplus**

This amount results from excess revenues which have been internally or externally restricted or formally designated. These restrictions identify funds for a specified future purpose and may, for example, result from agreements with third parties, Council resolutions or bylaws that designate these funds. Sources of such funds will include unused operating or capital grants and funds set aside for specified future projects. It is expected that the restricted surplus will be fully funded; ‘restricted assets’ will be part, but not necessarily all, of the financial assets providing this funding. ‘Restricted assets’ are assets subject to restrictions and are not available to meet the government’s general obligations and finance its other activities (PS 3100.02).

## **Equity in Tangible Capital Assets**

This is the net book value of recorded tangible capital assets less any outstanding capital debt.

### **Position:**

The 'accumulated surplus/deficit' amount on the Statement of Financial Position does not provide sufficient information for the reader of local government financial statements. A note to the financial statements should be prepared which would provide additional information on the amounts which are unrestricted, restricted and equity in TCA.

### **Formulas to segregate the 'accumulated surplus/deficit':**

The following table provides the formulas used to segregate the 'accumulated surplus/deficit'. The information in this table can be used as the supporting note to the financial statements.

	Unrestricted Surplus/Deficit \$	Restricted Surplus \$	Equity in Tangible Capital Assets \$	Accumulated Surplus/Deficit \$
<b>Balance - Beginning of Year</b>	XXX	XXX	XXX	XXX
<b>Annual surplus(deficit)</b>	XXX			XXX
<b>Designated Operating Funds</b>				
Not used and required for specific use in future years	(XXX)	XXX		-
<b>Capital Funds</b>				
Used for TCA purchases	(XXX)		XXX	-
Not used and required for specific use in future years	(XXX)	XXX		-
<b>Restricted Funds Used</b>				
Operating purposes	XXX	(XXX)		-
Capital purposes		(XXX)	XXX	-
<b>Annual Amortization</b>	XXX		(XXX)	-
<b>Capital Debt</b>				
Debt issued			(XXX)	(XXX)
TCA purchased			XXX	XXX
Debt principal paid	(XXX)		XXX	-
<b>Balance - End of Year</b>	XXX	XXX	XXX	XXX

Notes regarding table:

1. The 'Balance – Beginning of Year' for each of the categories will be determined using information from the 'Municipal Equity' section of the 2008 financial statements.
2. The approach to this schedule is to segregate those transactions included in the calculation of the annual surplus/deficit which relate to the 'restricted surplus' or 'equity in TCA'.

3. 'Designated Operating Funds' are funds received in the current year from sources such as municipal taxes, grants, user fees, etc. which have been designated for a specific non-capital purpose. Some of these funds may not be fully expended for the intended purpose and will be set aside for the intended use in future years.
4. 'Capital Funds' are funds received in the current year from sources such as municipal taxes, grants, user fees, etc. which have been designated for a specific capital purpose. The full amount of these funds will be deducted from the annual operating position and either added to the Equity in Tangible Capital Assets if they were expended or added to the 'Restricted Surplus' for capital purposes in future years.
5. The Statement of Operations will not report transfers from 'Restricted Funds'; therefore, 'restricted funds' used during the reporting period will be identified and added to the 'Unrestricted Surplus/Deficit' for operating purposes and added to the 'Equity in TCA' if the funds were used for capital purposes.
6. The annual amortization expense reduces the 'Equity in TCA'; therefore, this amount is added back to the 'Unrestricted surplus/deficit and deducted from the 'Equity in TCA'.
7. The purchase of tangible capital assets and capital debt related transactions (excluding interest expense) are not recorded in the Statement of Operations but these transactions impact the Equity in TCA and are recorded in this calculation. It is important to note that the amount for debt and the TCA purchase must equal.
8. Municipalities that have subsidiaries recorded on the Statement of Financial Position will have a fourth segregated category 'Equity in Subsidiaries'. This will be the amount recorded as an 'investment in subsidiaries' in the 'Financial Assets' section.
9. The end of year balance for 'Equity in Tangible Capital Assets' should be equal to the following calculation:

Total tangible capital assets	XXX
Less Accumulated amortization	<u>XXX</u>
Net book value of tangible capital assets	XXX
Less Outstanding debt for tangible capital assets	<u>XXX</u>
Equity in tangible capital assets	<u>XXX</u>
10. The end of year balance for 'Accumulated Surplus/Deficit' will equal the 'Accumulated Surplus/Deficit' on the Statement of Financial Position.

### Example of segregating a TCA purchase with multiple funding sources

A TCA purchase may have multiple funding sources such as current revenue, debt and unrestricted or restricted surplus. These situations will require the purchase of the TCA to be segregated into the different funding categories. The following example demonstrates how this situation would be recorded.

Information used in this example:

1. The opening 'segregated' balances for the 'accumulated surplus' are:

Unrestricted surplus	\$50,000
Restricted surplus	\$35,000
Equity in tangible capital assets	\$1,300,000
Accumulated surplus	\$1,385,000

2. The local government had an annual surplus of \$12,000.
3. The annual amortization expense for this reporting year was \$34,500.
4. A TCA was purchased in the amount of \$100,000 with the source of funding as follows:

Current revenue	\$10,000
Restricted surplus	\$15,000
Debt	\$75,000

5. The TCA purchased has a useful life of 20 years with no residual value.
6. The annual amortization expense for this reporting year was \$34,500:

Existing assets	\$32,000
New TCA	\$2,500 (50% of annual amortization)

Example table - next page.



	Unrestricted Surplus/Deficit \$	Restricted Surplus \$	Equity in Tangible Capital Assets \$	Accumulated Surplus/Deficit \$
<b>Balance - Beginning of Year</b>	50,000	35,000	1,300,000	1,385,000
<b>Annual surplus(deficit)</b>	12,000			12,000
<b>Designated Operating Funds</b>				
Not used and required for specific use in future years				
<b>Capital Funds</b>				
Used for TCA purchases	(10,000)		10,000	0
Not used and required for specific use in future years				
<b>Restricted Funds Used</b>				
Operating purposes				
Capital purposes		(15,000)	15,000	0
<b>Annual Amortization</b>	34,500		(34,500)	
<b>Capital Debt</b>				
Debt issued			(75,000)	(75,000)
TCA purchased			75,000	75,000
Debt principal paid	_____	_____	_____	_____
<b>Balance - End of Year</b>	<u><u>86,500</u></u>	<u><u>20,000</u></u>	<u><u>1,290,500</u></u>	<u><u>1,397,000</u></u>

## 7.0 Newsletters

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Alberta Municipal Affairs publishes quarterly newsletters providing the latest information and updates on the Tangible Capital Assets Project. For future newsletter editions, please visit the Municipal Excellence Network website at [www.menet.ab.ca/620.asp](http://www.menet.ab.ca/620.asp).



## 8.0 FAQ's

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### **What is a Tangible Capital Asset?**

A tangible capital asset (TCA) is a significant resource managed by governments and a key component in the delivery of many government programs; TCAs include infrastructure, land, land improvements, buildings, vehicles and equipment.

### **What is the TCA requirement?**

Local governments in Canada will be required to record, report and amortize TCAs over their expected useful life. The annual amortization is to be recorded as an expense. This requirement is to be completed and reported on for 2009 with a progress report in the financial statement notes beginning in 2007.

### **Who decided to make this requirement?**

The Canadian Institute of Chartered Accountants (CICA) sets accounting, reporting and audit standards in Canada. These standards are recognized by the accounting community in Canada. The CICA's Public Sector Accounting Board has the authority to establish public sector standards for governments.

### **What will be the benefits of the change?**

Governments will gain a better appreciation of the stock and the costs of using assets over their useful life, leading to improved decision making and accountability for the management of capital resources. Better information will be available to determine future funding requirements and to establish user fees and tax rates.

### **What about determining the 'infrastructure gap?'**

Meeting the TCA requirement is a good first step towards determining the gap between infrastructure needs and available funding. TCAs are to be recorded at historical cost. A properly developed asset management system, including replacement costs, needs to be implemented to fully determine the infrastructure gap.

### **What if the new standard is not followed?**

TCAs represent a significant part of a government's assets; therefore, non-compliance will probably result in a 'qualified' audit report or a denial of opinion. Qualified reports attract concern and suspicion to an organization's operations and future financial planning may be hampered.

### **How has the Government of Alberta approached this project?**

Alberta Municipal Affairs has taken a leadership role to research the various implications for Alberta municipalities. A key partnership has been established between the Alberta Government Finance Officers Association and the ministry to develop technical materials and information, and sponsor training sessions. Communication with municipal organizations has been a high priority.

### **Who are the key stakeholders for the project?**

The tangible capital asset requirement will impact every municipality in Alberta. A Liaison Committee meets on a regular basis to discuss the project from the perspective of their respective memberships. The committee includes representatives from the Alberta Urban Municipalities Association, the Alberta Association of Municipal Districts & Counties, the Alberta Association of Rural Municipal Administrators, the Local Government Administration Association, the Government Finance Officers Association and Alberta Municipal Affairs.

### **What materials have been prepared?**

The Alberta project has decided to make use of materials and experience from other provinces, the United States and the Public Sector Accounting Board in order to reduce duplication. This has allowed us to develop recommendations and how-to guidelines on Alberta specific topics and reference existing work. Members of the Government Finance Officers Association assisted the ministry to develop the recommended guidelines and other materials in this toolkit.

### **Is training available?**

The TCA project can be implemented in the following stages; inventory, valuation and amortization. Workshops were held from March to June 2007 to review the TCA requirements, present information on recommended guidelines, and discuss implementation plans and budgets. AUMA recently hosted two web casts with similar content. Workshops for municipal administration and staff are tentatively planned for late 2007 to begin to deal with financial reporting changes and budgets.

### **What are some unanswered questions?**

What will be the impact on financial position and budgets? Will tax rates need to increase? The TCA requirement allocates the cost of an asset over its estimated life but it does not provide a mechanism to fund replacement or rehabilitation. However, non-cash items will now be on the income statement (amortization expense), which will impact annual budgets and the application of balanced budget legislation.

The Canadian Institute of Chartered Accountants is also changing the financial statement format for local governments effective in 2009. Papers addressing impacts and providing recommendations have yet to be finalized.

### **Where can I get more information about the project?**



A dedicated web page with all of the TCA materials and a discussion board is located the Municipal Excellence network (MEnet) website at [www.menet.ab.ca/TCA](http://www.menet.ab.ca/TCA). The implementation toolkit and all future updates will be housed on the MEnet. Updates will be made to the toolkit regularly as new materials are completed.

**Who should I contact for more information?**

Contact Financial Advisory Services at 780-427-2225 if you have any questions.  
Dial 310-000 to call toll-free within Alberta.

## 9.0 Other Resources

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Here you will find links to information from Alberta and all across Canada.

### Chartered Accountants of Canada



[www.psab-ccsp.ca/index.cfm/ci\\_id/3952/la\\_id/1.htm](http://www.psab-ccsp.ca/index.cfm/ci_id/3952/la_id/1.htm)

Reporting Model and Tangible Capital Assets (Local Government) - A summary of the reasons for the project, the activities that have been completed thus far, the background for the project, what the next steps are and additional information.

### Government of Ontario: Ontario Municipal Benchmarking Initiative (OMBI)



[www.ombi.ca/docs/db2file.asp?fileid=184](http://www.ombi.ca/docs/db2file.asp?fileid=184)

*Municipal Guide to Accounting for Tangible Capital Assets (Version 2)* - The Ontario Municipal Benchmarking Initiative (OMBI) is a partnership of 15 municipalities in the Province of Ontario that has adopted the mission of promoting service excellence in municipal government.

This guide aims to give municipal financial officials and operational managers practical information and tools to set up and operate a TCA accounting system. It is based on both the prescribed standard and the experience of the six pilot sites. This guide does not, however, replace the need for the extensive planning and discussions that will be required among a municipality's professional finance staff, its external auditor and its operational management in implementing such a system.