

An aerial photograph of a modern architectural complex. The central feature is a large, circular green lawn. To the right, there is a large, multi-story building with a curved facade and several circular structures on its roof. A winding path or road curves around the lawn. The overall scene is bright and clear.

PSAB 3150 - TANGIBLE CAPITAL ASSETS

Overview

General Committee

December 7, 2009

Purpose

- The purpose of this presentations is to provide both a recap of PSAB 3150 & a current update on the status and implementation of the project.
- Previous update, was presented to General Committee on May 2008, included:
 - Purpose & scope of the project
 - Inventory collection process
 - Asset valuation
 - Go forward issues

PSAB 3150 - Recap

- As of January 1, 2009, capital projects which meet the criteria for Tangible Capital Assets (TCA) must be capitalized and depreciated. All other expenditures must be included in the Operating Budget and be expensed in the period in which they occur.
- TCA inventory, including conveyed assets, must be kept current in the Asset Register.
- TCA will be added to the Asset Register and depreciation will begin in the year the asset is put into service.
- All expenditures which are directly related to putting a TCA into service will be capitalized as part of the asset value.
- Compliance is mandatory for an unqualified audit opinion on the Town's 2009 Financial Statements.

PSAB 3150 - Recap

- The PSAB 3150 is a cross Town project led by Finance. Team members include:
 - » Sandra Skelcher, Kishor Soneji - Finance
 - » Bob Penner, Gil Verbeek – Asset Management
 - » Rob Bell – Recreation
 - » Bill Snowball – Fire & Emergency Services
 - » Bob Nicholson, Dereje Tafesse - Operations
 - » Yanhong Du – Waterworks
 - » Sugun Rao – ITS
 - » Jamie Bosomworth – Development Service
 - » Brian Lee, Mansoor Ali, Soran Sito, Fred Watt - Engineering
- Team members assisted in collecting & valuing the Town's assets.

PSAB 3150 - Recap

All assets owned by the Town of Markham, which meet the definition of a tangible capital assets as outlined below, will be capitalized and amortized over it's useful life.

Tangible Capital Assets (TCA) are defined as non-financial assets having a physical substance that:

- a) are held for use in the production & supply of goods and services;
- b) have useful economic lives extending beyond an accounting period (*i.e., 1 year*);
- c) are used on a continuing basis;
- d) and are not for resale in the ordinary course of operations.

Tangible Capital Assets



Source: City of Hamilton, 2005 Life-Cycle State of the Infrastructure Report on Public Works Assets

Recap - Capitalization

Tangible capital assets will be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:

- a) all land;
- b) all buildings;
- c) civil infrastructure systems (built assets such as roads, bridges, sewers, water, parks etc. with unit cost of \$25,000 or greater, assets less than \$25,000 will be pooled where their pooled value exceeds \$50,000);
- d) all others with unit cost of \$5,000 or greater.
- e) assets between \$1,000 and \$5,000 where their pooled value exceeds \$50,000

Asset Categories & Components

Category	Description
Land	All land parcels, ROW land
Parks & Pathways	Parks, Pathways
Buildings	All Facilities (excludes Historic Buildings)
Equipment	Recreation Fitness & Program, ITS Equipment, Fleet Non Licensed, Fire Equipment
Infrastructure	ROW's, Bridges, Culverts, Signals, Signs, Streetlights, SWM Ponds, Guide Rails, Storm Water Collection System, Drinking Water Distribution System, Sanitary Sewage Collection System, Sanitary Sewage Pumping Stations
Furniture & Fixtures	Office Furniture, Library Furniture & Fixtures
Vehicles	Licensed Fleet
Other	Library Media Collection

Asset Pools

- An asset pool is a grouping of identical, similar, or related tangible capital assets.
- Asset pools have been established where it has been determined that the cost of collecting and maintaining the resulting information for each individual asset out weighs the usefulness of the information collected.
- Strictly for accounting purposes. Assets will continue to be managed by user departments using current methods.

Valuations

- Opening Valuations (January 1, 2007)
 - Where available actual purchase prices have been used.
 - Where actual purchase prices for an asset were unavailable, replacement, market or fair value have been discounted, using the appropriate deflation factor to the original in-service date.
 - Both internal & external experts were used to establish values.
- 2008 TCA additions & disposals
 - Assets added or disposed of in 2008 are in the process of being valued and the Town's inventory will be adjusted accordingly.
- Beginning January 2009
 - TCA's are being recorded at actual cost plus any additional expenses necessary to put the asset in its intended location & condition for use.
 - Donated or conveyed assets will be recognized at fair value at the date of assumption.

Audit Status

- Opening Inventories & Asset Values
 - The purpose of the audit is to validate our methodology and assumptions.
 - Final phase of the audit of opening inventories & valuations along with 2008 additions/deletions will take place in prior to year end.
- Opening Work in Progress (WIP)
 - Expenditures for all open TCA projects at January 1, 2009 will be verified as part of the 2009 year end process.
- Restatement of the 2008 Financial Statements
 - It is necessary to restate the Town's 2008 Financial Statements to provide comparative numbers for the 2009 Statements.
 - This process is currently underway and must be completed as part of the 2009 year end process.

Key Definitions

- Useful life
 - The period over which an asset is expected to be available for use by the Town.
 - Appropriate useful lives were established using internal experience & external sources.
- Example:

Sub Category	Useful Life
Buildings	40 yrs
Roads (surface/sub-surface)	25/45 yrs
Bridges (structure/sub-structure)	25/75 yrs
SWM Ponds (wet/dry)	25/50 yrs
Storm Water Mains	65-100 yrs
Vehicles	3-12 yrs
Drinking Water Distribution System	20-100yrs
Sanitary Sewage Collection System	65-120yrs

Key Definitions

- Depreciation (also called amortization)
 - Calculated using the straight-line method and charged **annually** to the appropriate operating account.
- Example:
 - Bur Oak Fire Station

Original Cost	In-Service Date (assumed to be June for all assets)	Useful Life
\$2,564,200	2006	40 years

Annual Depreciation (Original Cost/Useful Life)	Accumulated Deprecation (In-Service Date to Dec 2008)	Net Book Value (Original Cost less Accm Depn)
\$64,105	\$160,262	\$2,403,938

Key Definitions

- Maintenance vs. Betterment
 - Maintenance and repairs maintain the predetermined useful life (expense)
 - Betterment increases service potential of a TCA by either extending the useful life or increasing the capacity (capitalize)
- Example:
 - Bur Oak Fire Station
 - Maintenance - Replace windows, repair furnace
 - Betterment - Addition to the existing structure to accommodate additional crew.

ESTIMATED
Net Book Value & Annual Depreciation
at December 31, 2007 (in 000,000s)

Category	Book Value (historic cost)	Net Book Value (net of accumulated dep'n)	Annual Dep'n
Land (incl ROW)	1,358	1,358	N/A
Parks & Pathways	38	25	2.4
Buildings	158	103	3.9
Equipment	15	8	2.0
Infrastructure	1,675	1,266	34.8
Furniture & Fixtures	8	5	0.7
Vehicles	16	7	2.4
Other	7	4	1.0
TOTAL	3,275	2,776	47.2

NOTE: Inventories & valuations have not been audited.

Depreciation vs Life Cycle Study

- Depreciation is actual costs of putting the asset into service divided by the useful life of the asset.
- The Town's Lifecycle Reserve Study forecasts both the future replacement cost and schedule of an asset. This study helps to ensure that the Town's reserves hold sufficient funding for the replacement of existing assets.
- Lifecycle Reserve Study will continue to be updated on a regular basis.
- Starting with the 2011 budget, municipalities who choose not to budget for their depreciation expense must present a report to council, for approval, detailing the impact on both the accumulated surplus and the funding of future TCA's, prior to the adoption of the budget.

Going Forward – Accounting Changes

- Asset which meet criteria of TCA must be capitalized & depreciated
 - Processes are currently in place to track this information
- Assumed and conveyed assets must be valued and added to inventory
- Financial Statements will reflect accounting changes.
- In the short term the Town's budget approval process will remain unchanged. The approved budget will be restated in a PSAB compliant form to provide the appropriate comparative numbers for the Town's Financial Statements.