

PSAB 3150: Annual Updates to the Asset Inventory



Municipal Services:

- > Development Charge Studies
- > Water/Wastewater Rate Studies
- > PSAB Compliance and Asset Management
- > Building and Planning Fee Studies
- > Financial Planning and Analysis
- > Developer Negotiations and Financial Agreements

With the initial asset inventory in place, annual PSAB 3150 updates are required.

Implementing the tangible capital asset (TCA) requirements of PSAB has been a considerable undertaking for Canadian municipalities over the past few years. With compliance required on the 2009 audited financial statements and Financial Information Return (FIR), many municipalities have already been through the new full accrual reporting process once.

TCA reporting requirements will continue each year going forward. Daily transactions have the potential of impacting TCA values. These transactions can be in the form of asset replacements, improvements/betterments, new asset purchases or construction, asset disposals/write-offs and contributed assets. These events can result in increases and/or decreases to asset historical cost values and possibly changes to remaining service lives and future amortization calculations.

The following provides a summary of the significant considerations required in the annual TCA update process:

REVIEW OF POLICIES

It would be beneficial to review your tangible capital asset policies before starting the TCA update process, as they normally assist in determining what costs should be capitalized and how much effort is needed. For example:

Asset Componentization:

The use of componentization will factor into determining what qualifies to be re-

corded as an asset betterment. Componentization examples include:

- Classifying a road into road surface and road base assets; or
- Classifying a building into components such as roof, HVAC and structure.

Typically, the use of components results in more asset betterments, while not using components (i.e. the "whole asset" approach) leads to greater operating expenses.

Capitalization Thresholds:

Established capitalization thresholds will assist in decreasing the amount of time and resources needed to complete the identification of TCA transactions. Costs that fall below the applicable capitalization threshold are treated as non-TCA related costs, and therefore treated as operating expenses.

PSAB 3150 Definition of "Betterment":

PSAB 3150 defines asset betterments as "a cost incurred to enhance the service potential of a TCA". Betterments are further defined based on asset types (i.e. Non-Complex Network System TCAs and Complex Network System TCAs).

Non-Complex Network System TCAs usually include buildings, machinery/equipment, vehicles, land and land improvement assets. For these assets, a betterment (or enhanced service potential) occurs when one or more of the following situations exist as a result of the costs incurred:

1. Increase in previously assessed physical output or service capacity of the asset;
2. Operating costs are lowered;
3. Useful life is extended; or
4. Quality of output is improved.

Complex Network System TCAs are usually long-lived assets that form a "grid" or "network" such as roads, water, sewer and storm assets. The four identifiers of betterments described above cannot be used for these assets (given their longer lives and increased complexity) therefore PSAB 3150 describes Complex Network System TCA betterments as costs that increase the predetermined service potential of the TCA (that may or may not increase useful life).

TRANSACTION IDENTIFICATION

After relevant policies have been reviewed, the next step in the TCA update process is identifying transactions that have an impact on TCAs. Some municipalities have tracked these transactions throughout the year by creating TCA specific accounts in their general ledgers. If you are going through this identification process after year-end, it is important to have a consistent approach to identifying TCA related transactions, given PSAB requirements and the policies in your municipality.

DISPOSALS AND PROCEEDS

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Asset disposals and proceeds on disposal are also key components when updating TCA inventory each year, and represent components of the gain/loss on disposal calculation. Asset disposals can be difficult to track and may require assistance (i.e. information sharing) from other municipal departments. For example, proceeds on disposal may have been initially applied against asset acquisitions for the year (i.e. a vehicle trade-in) or set up as revenue.

GENERAL LEDGER ACCOUNT ANALYSIS

After TCA related costs have been identified, the next step involves analyzing your general ledger accounts. TCA related costs can potentially come from both operating and capital accounts, depending on your current account structure. For example, some municipalities treat "minor capital", vehicle/equipment purchases and/or asset improvements as operating costs for internal reporting purposes. These items could qualify to be set up as TCAs for external financial statement reporting purposes. Moreover, some municipalities have non-TCA related costs included in capital accounts (e.g. studies) that are typically reported as an operating expense in financial statements. There-

fore, the costs that qualify to be set up as TCAs (based on PSAB and your internally policies) have to be reallocated and represented as TCA acquisitions for the year; and all non-TCA costs should be reallocated as operating expenses.

Depending on how you track these costs going forward, these reallocations can represent adjusting entries before the year-end books are closed or alternatively the reallocations can occur "off-the-books" for financial statement presentation only. Either way, your external auditor will likely be looking for a reconciliation of annual costs in both operating and capital areas.

PSAB 3150 CALCULATIONS

Once all transactions impacting TCAs have been identified, the PSAB 3150 calculations can begin. Note, only the total TCA net book value at the end of the year is required on the Statement of Financial Position, however more detailed disclosures are required in the notes to the financial statements and in the FIR. Required calculations include the following:

- Updating opening historical cost for TCA acquisitions, disposals or write-downs;

- Calculating current year amortization on all TCAs;

- Updating opening accumulated amortization for any amortization, disposals or write-downs;

- Recording any TCAs contributed (or donated) to your municipality during the year;

- Identifying any TCAs not being amortized during the year; and

- Detailing any capitalized interest, TCAs recorded at nominal values, works of art or historical treasures.

Watson & Associates has significant expertise in the area of PSAB 3150 compliance and has worked with a number of municipalities in this regard. Watson also provides assistance in the area of full accrual financial statement preparation. Our approach ensures all financial statement and FIR reporting requirements are met, and satisfies working paper requirements for your external audit. For more information on our approach or to discuss PSAB 3150 updates, please feel free to contact us at your convenience.



4304 Village Centre Court
Mississauga Ontario
L4Z 1S2
Tel: (905) 272-3600
Fax: (905) 272-3602

Visit our website:
www.watson-econ.ca

Questions / Comments?

If you have any questions or comments regarding this or any Watson Newsletter, please contact us. We welcome the opportunity to discuss your specific municipality's needs.

Have a Suggestion for Additional Newsletters?

If there is a related topic you would like covered in a future Watson Newsletter, please contact one of the Watson staff members indicated below with your ideas.

Watson & Associates Economists Ltd.

Watson & Associates Economists Ltd. is a firm of economists, planners and accountants which has operated in Ontario for over 25 years. With a client base of more than 250 municipalities, utility commissions and school boards, many of which are long-term repeat clients, the firm is recognized as a leader in the municipal finance/local government field. The firm has a committed twenty-five person staff that has worked together for many years. The firm's principals have participated extensively as expert witnesses on municipal finance matters at the Ontario Municipal Board for 25 years.

Watson & Associates Economists Ltd. has been engaged by a number of municipalities across the province to provide budgeting & long-term forecasting, water/wastewater financial planning, development charges, PSAB 3150 compliance and asset management related services. The Watson PSAB compliance and reporting approaches have been created to assist in the development of strategies that are unique to the situations in each municipality. Watson has provided related services to a significant number of municipalities in Ontario, all differing in size and services provided (i.e. Municipalities, Towns, Townships, Cities, Regions, etc.).

Contacts:

Dan Wilson, BBA, CA
Manager, Municipal Finance
wilson@watson-econ.ca
905-272-3600 x 233

Gary Scandlan, BA, PLE
Associate Director
scandlan@watson-econ.ca
905-272-3600 x 226

Andrew Grunda, MBA, CMA
Associate Director
grunda@watson-econ.ca
905-272-3600 x 229