



TCA Inventories: A Refresher

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PS 3150

- It is about *accounting*
- It is **not** about:
 - Financing
 - Budgeting
 - Asset management



Implementing PS 3150

- Compilation of asset inventories and valuation of assets on hand as of December 31, 2008 – This morning's presentation
- Prepare for on-going maintenance of accounting records – This afternoon's presentation



What To Keep In Mind

- It will be implemented
- January 1, 2009 is just over a year away
- This is not rocket science
- Auditors are still trying to figure out how to deal with the change



2009 Financial Statements

- Asset valuations and accumulated amortization as of:
 - December 31, 2008 = the initial valuation
 - December 1, 2009
- Acquisitions and dispositions during 2009



Sample PS 3150 Reports

- Gross book value
- Net book value
- Accumulated amortization
- Work in progress
- See Appendices 1-4 (end of this presentation)



Reporting Deadline Spring 2010

- You can complete your asset inventories and initial inventories and initial valuation within 6 months, 12 months or over 2 ½ years
- 80% of your assets by value will take 20% of your effort => concentrate on what will give you the greatest return for your time



What You Will Need

- A series of Excel spreadsheets that contain:
 - Basic information on each asset, such as what, where, who and serial number
 - Date of acquisition
 - Historical cost or estimated cost at time of acquisition (gross book value)
 - Accumulated amortization from date of acquisition to December 31, 2008



Sample Asset Information

- Asset record
- Asset inventory methodology
- Asset inventory (spreadsheet)
- See Appendices 5-7 (at the end of this presentation)



Accounting and Audit Files

- For the initial valuation for accounting purposes, you will need only the total gross book value for your assets, and the total accumulated amortization
- For audit of your initial valuation, you will need an audit file
 - Important to be able to link the accounting record to the physical asset, either directly or through an asset pool
 - Include detailed back-up and supporting documents



How Will You Accomplish This?

- In-house staff:
- Bob from Accountemps?
- Specialists? (such as for valuation)
- Contract Out?
- Most, if not all, asset information gathering can probably be done in house



Asset Inventories – Key Concerns

- Consider everything
- Control of assets
- Historical cost
- Amortization of assets
- Getting your auditor's sign-off on your numbers



Consider Everything

PS 3150.05: *Non-financial assets having physical substance:*

- (i) held for use in the production or supply of goods and services, for rental, for administrative purposes, or to develop or maintain 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*



What is Excluded (PS 3150.08)

- Works of Art
- Historical Treasurers
- Archives (*by implication*)



Concentrate on Big Value Items

- Concentrate on higher value items
 - Buildings
 - Roads
 - Water Systems
 - Sewer Systems
 - Vehicles
- These account for almost all the value of your assets.



Significance & Materiality

- You determine what is significant, and what should be included and reported upon to comply with PS 3150, or for political, social or economic reasons
- Your auditor will determine what amount is material
- Total exclusions of TCA's from your asset inventories should be less than your materiality level



Capitalization Threshold

- The lowest total asset acquisition cost, above which an asset will be capitalized
- Below this amount or threshold, the asset will be expensed in the year of acquisition
 - Pick a lower figure to start with, such as \$5,000 or \$10,000



Capitalization Threshold (2)

- Test the sensitivity of the capitalization threshold that you choose
 - is very much excluded if you double your threshold?
- You may want different thresholds for different types of assets



Types of Assets

- How will you sort and classify your assets for reporting purposes?
- Primary characteristic – land, buildings, equipment, network
- Functional Characteristic – who uses it and where?



Smaller Value Items

- You may have a lot of smaller value items that may add up to a significant amount, such as:
 - Desktop computer equipment
 - Beds in a long-term care facility
 - Police firearms
 - Street lights



Consider Using an Asset Pool

- This approach groups a large number of small assets, and accounts for them as though they are a single asset
- Ideally, someone else is maintaining the detailed data for these assets, for asset management purposes
- The accounting is for the pool as a whole, not for the individual component or sub-group of the pool, such as 6 year old street lights.



Capitalization Threshold for Asset Pools

- Make it substantially higher than for an individual asset



Dealing With A Building Or Plant

- There are major components with different life spans and different maintenance requirements
- Treat as a single tangible capital asset, at least for the initial asset valuation
 - Can you imagine your administration building without a roof?
 - Or a sewage treatment plant without primary settling tanks?



Control of Assets

- Do you
 - Manage/operate the asset?
 - Maintain the asset?
 - Have total use of the asset?
 - Have legal responsibility and liability with respect to the asset?
 - Receive all or nearly all the benefits from the asset?



If You Control It

- Include it in your asset inventory
 - You may or may not own the asset
- Include leased tangible capital assets
 - If they pass the control tests (see PSG-2.03 to 10 and .12)



Cost-Shared Construction Projects

- This is a financing rather than an accounting issue
- Even so:
 - Who will control the final asset?
 - Who will own the final asset?
 - Who will manage the final asset?
 - Who will receive the benefits from the final asset?



Historical Cost

*“...the information recorded (will) include the actual or estimated original cost of the tangible capital assets, ...
(PS3150.46)*

End of Story



Donated Or Transferred Assets?

- *“The cost of a contributed asset is considered equal to its fair value at the date of contribution.” (PS3150.14)*
- To be included in your asset inventory and valued appropriately



Amortization of Assets

- Tangible capital assets wear out or deteriorate over time
- Amortization over the expected service life of the asset is the accounting treatment or allowance for this deterioration or diminished value of the asset
- A tangible capital asset is to be amortized over its useful life (PS 3150.22)



Who Determines The Useful Life Of a Tangible Capital Asset?

- YOU DO!
 - Based on:
 - Operational experience in your municipality
 - Standard life expectancy tables for assets
- See Appendix 8 for sample life expectancies for autos (at the end of this presentation)



Amortization

- Amortization: use a rational and systematic method (PS 3150.12)
- Straight line easiest to explain and apply
- Implies steady consumption of the asset
- Note: land is not amortized



Residual Value

- “Where the value may be significant, it would be factored into the calculation of amortization” (PS 3150.27)
- In general, assume all assets have zero residual value



Auditor Involvement

- Speak to your auditor early and often on:
 - Assumptions
 - Approaches
 - Major decisions
 - Accounting policies
- TCA numbers will be subject to audit



Thank You

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