



On-going TCA Accounting

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Implementing PS 3150

- Asset Inventories and values as of Dec. 31, 2008
- On-going maintenance of accounting records



Different Deadlines

- Asset Values: Not really required until early 2010.
- On-going maintenance: needs to be ready for Jan. 1, 2009. This means:
 - Prepare and get ready in 2008, and
 - Budget for any necessary expenditures as you prepare your 2008 budget



Maintenance Requirements

- What will you need going forward?
- How will you operate day to day?
- What accounting issues will you have to address?
- What will be your financial reporting requirements?



Going Forward Requirements

- Accounting policies
- Data, data storage and maintenance
- Asset accounting tools
- Decisions on staff resources - who will do it?



Accounting Policies

- You establish rules how TCA accounting is to be carried out in your municipality
 - See samples in OMBI Reference Manual and CICA Guide
 - Include capitalization thresholds
 - Identify asset pools used, etc.
- Start drafting now
- Circulate initial policies by summer 2008
- Good news: no budget implications here



Sample issues

- authority, purpose and scope;
- asset definition;
- asset categories;
- single asset versus component approach (segmentation);
- asset valuation (cost, contributed or donated assets, grants or donations, etc.);
- capitalization policies (buildings, library books, computer software, land and land improvements);
- recognition thresholds;
- capitalization of carrying costs;
- betterments versus maintenance;
- amortization methodology and rates;
- reviews of estimated useful life and write-down for impairment;
- capital leases;
- asset ledgers (content, maintenance, periodic inventories);
- control (asset inventory, maintaining records and documentation);
- construction-in-progress (when to start amortizing);
- surplus assets;
- asset disposal (sale, abandonment, demolition, trade-in);
- risk management, health and safety issues and environmental issues.



Data Requirements

THIS YEAR'S TOTAL EQUALS :

LAST YEARS TOTAL

PLUS (a) ACQUISITIONS DURING THE YEAR

LESS (b) DISPOSALS AND WRITE-DOWNS DURING THE YEAR

LESS (c) AMORTIZATION EXPENSE FOR THE YEAR

YOU ONLY NEED TO CAPTURE (a) AND (b), AND CALCULATE (c)



Electronic Storage

- Likely using and updating Excel spreadsheets for the first years
- Security and access
- Off-site storage and data back-up
- Regular up-dating of data
- Additional budget impact in 2009 for resources?



Hard-copy Storage

- Useful for audit purposes and detailed enquiries
- File has copies of relevant back-up documents for each asset
- Store on site? Archives?
- Additional budget impact in 2009 for resources?



Asset Accounting Tools

- You will want to consider
 - Transaction volume
 - Availability of asset data banks elsewhere
 - Extent you need/want automation
 - Spreadsheets likely sufficient for several years.
- Don't commit to software before you know your needs.



Who Will Do It?

- Need clearly assigned responsibilities for:
 - Developing initial inventory and values
 - Maintaining and updating data
- Will this be:
 - Accounting staff?
 - Operating units?
 - Other?
- Additional budget impact in 2009 for resources?



Staff Training

- Ensure staff know what is required
- TCA accounting and PS 3150 reporting are not intuitively obvious
- Use available resources to help you
- 2009 budget implications?



Operating Day To Day

- Acquisitions and dispositions
- Write downs and write offs
- Betterments and maintenance
- Directly attributable costs
- Capitalization of assets



Acquisitions And Disposals

- Add acquisitions to inventory – at actual costs plus directly attributable costs (not same as estimating historic values)
- Subtract dispositions from gross costs and amortization



Write Downs & Write Offs

- Circumstances may indicate that an asset should be written down in value, or written off (PS3150.31 to .37)
- The amount of the write-off or write-down is to be accounted for as an expense in the Statement of Operations (PS3150.32). A write-down should not be reversed (PS3150.33)



Betterments & Maintenance

- You have to spend some money on a tangible capital asset during its useful life
- Will that be a betterment or just maintenance?



What Is A Betterment?

- A betterment is a cost incurred to enhance the service potential of an asset (PS3150.19)
 - Extend life expectancy?
 - Increased output or capacity??
 - Quality of output or service improved?
 - Lowering of operating costs?



What Is Maintenance?

- Maintenance and repairs maintain the predetermined service potential of a TCA for a given useful life (PS3150.21(a))
- The asset continues to perform as it was expected to as of the date of original acquisition



Why Is This An Issue?

- Betterments can be capitalized (PS3150.19 and .21(b))
- Maintenance has to be expensed (PS3150.21(a))
- Is this a reason to disaggregate larger assets or split them into components?



No

- Not if there is no compelling business reason to do so.



Financing Issue Rather Than Accounting Issue

- To smooth out the financing required:
 - Betterment => capitalized costs => amortization
 - Maintenance => expense costs => fund reserve to cover such costs



Directly Attributable Costs

- Can you include directly attributable costs in the capitalization value of a TCA?
 - CERTAINLY (PS3150.10). You will know what these are down to the penny
- Include any and every cost that can be directly attributed to the acquisition of the particular asset
- Carrying and financing costs may be included, if that is your municipality's policy (PS3150.15), but only up until the date of capitalization (PS3150.17)



Such As:

- Installation/set-up costs
- Design and engineering fees
- Legal fees
- Survey costs
- Site preparation costs, including disposal costs
- Freight charges
- Transportation insurance costs
- Custom duties and taxes
- Permits and fees
- Environmental assessment study costs
- Meetings and hearings costs
- Project management costs
- Inspection and testing costs



Other Related Charges

- Anything goes, as long as it is
 - Directly attributable, and
 - Would not be incurred, were the asset not to be acquired
- General management costs and corporate overheads cannot be included



Capitalization Of Assets - Theory

- Is to occur when the asset is ready for productive use (PS3150.18)
- Depends on circumstances in which asset is to be operation, e.g. customizing of vehicles for use
- Consider productive capacity, occupancy levels or the passage of time as indicators
- What is supposed to happen?



Date of Capitalization

- This is a matter of fact, not discretionary
 - Vehicles = later of delivery or customization date
 - Sewage plant = first effluent down outfall pipe
 - Administrative building = 50.1% occupancy
 - Playground = first day available for use
- There may be deficiencies and holdbacks outstanding



Capitalization Of Assets - Reality

- The bills won't all be in till after the asset has gone into service
- Accounting is for the fiscal year, not the fiscal day
 - You will probably want to capitalize at year-end, but assume a mid-year capitalization date for amortization
- If an asset has gone into use by year-end, capitalize it, otherwise.....



Work-In-Progress

- Up to date of capitalization, all acquisition costs and directly attributable costs are charged to “work-in-progress” or “assets under development”
 - And reported as such (PSG-7.7(c))
- On date of capitalization, move asset and all associated costs to your asset inventory
 - Begin amortization of asset



Accounting Issues

- Transfers and donations of assets
- On-going capitalization thresholds
- What will you include or exclude from inventory?
- Completeness and accuracy of data



Transfers & Donations of Assets

- Treat as an acquisition or disposition at fair value
- Account as for any other tangible capital asset
- If fair value cannot be reasonably determined, use a nominal value = \$1.00CAD (PS3150.14)



On-Going Capitalization Thresholds

- These are part of your TCA accounting policies, however:
 - They are not carved in stone
 - Revise as and when appropriate
 - Subject to materiality considerations, and
 - Subject to PSAB guidelines



What To Include or Exclude?

- Not so much an issue, but an on-going question
- The guidelines won't change significantly
- Remember that the accounting for an asset is not affected by how it was budgeted and/or financed



Completeness And Accuracy Of Data

- Acquisitions will be relatively easy to capture
- What about disposals and transfers out?
 - How well will you be able to track them?
 - Accuracy should improve over time



The Acid Test

- Your auditor will review your annual changes for completeness, accuracy and materiality
- The Treasurer/Chief Financial Officer will have to sign off on the statements
- Again, have you operating managers sign off on their individual asset inventories as being complete and accurate to the best of their knowledge (the Sarbanes-Oxley approach)



Financial Reporting Requirements

- Revamped financial statements
- Revamped Financial Information Return (to Ministry)



Resources Available

- CICA Public Sector Accounting Handbook
- PSAB Guide to Accounting and Reporting TCA
- OMBI (Ontario Municipal Benchmarking Initiative) Manuals
- MFOA/AMCTO PSAB Newsletters
- Workshops like this one



Thank You

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Budgets, Statements and FIRs

- Winnipeg financial statements
- Budgets and TCA accounting
- FIR changes for 2009