

# Accounting for Tangible Capital Assets

# **Tangible Capital Assets 2006**

- **No comprehensive reporting by Canadian local governments of**
  - **Stock**
  - **Use, or**
  - **Condition**

# Tangible Capital Assets 2006

- “Stock” means what do we own?
- “Use” means at what rate are we consuming it?
- “Condition” refers to what economic value remains

# Tangible Capital Assets 2006

- **What is a TCA?**
  - **Buildings**
  - **Land**
  - **Vehicles**
  - **Equipment**
  - **Utility systems**
  - **Basically anything tangible which has an economic benefit longer than the accounting period**



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KEEP BACK 50 FEET





A tall, cylindrical water tower with a white body and a dark top section. The word "Walkerton" is written in white on a dark curved banner across the middle. Above the banner is a small graphic of a sun rising over a horizon. The tower is set against a clear blue sky with a few wispy clouds. A thin antenna or pole extends from the top of the tower.

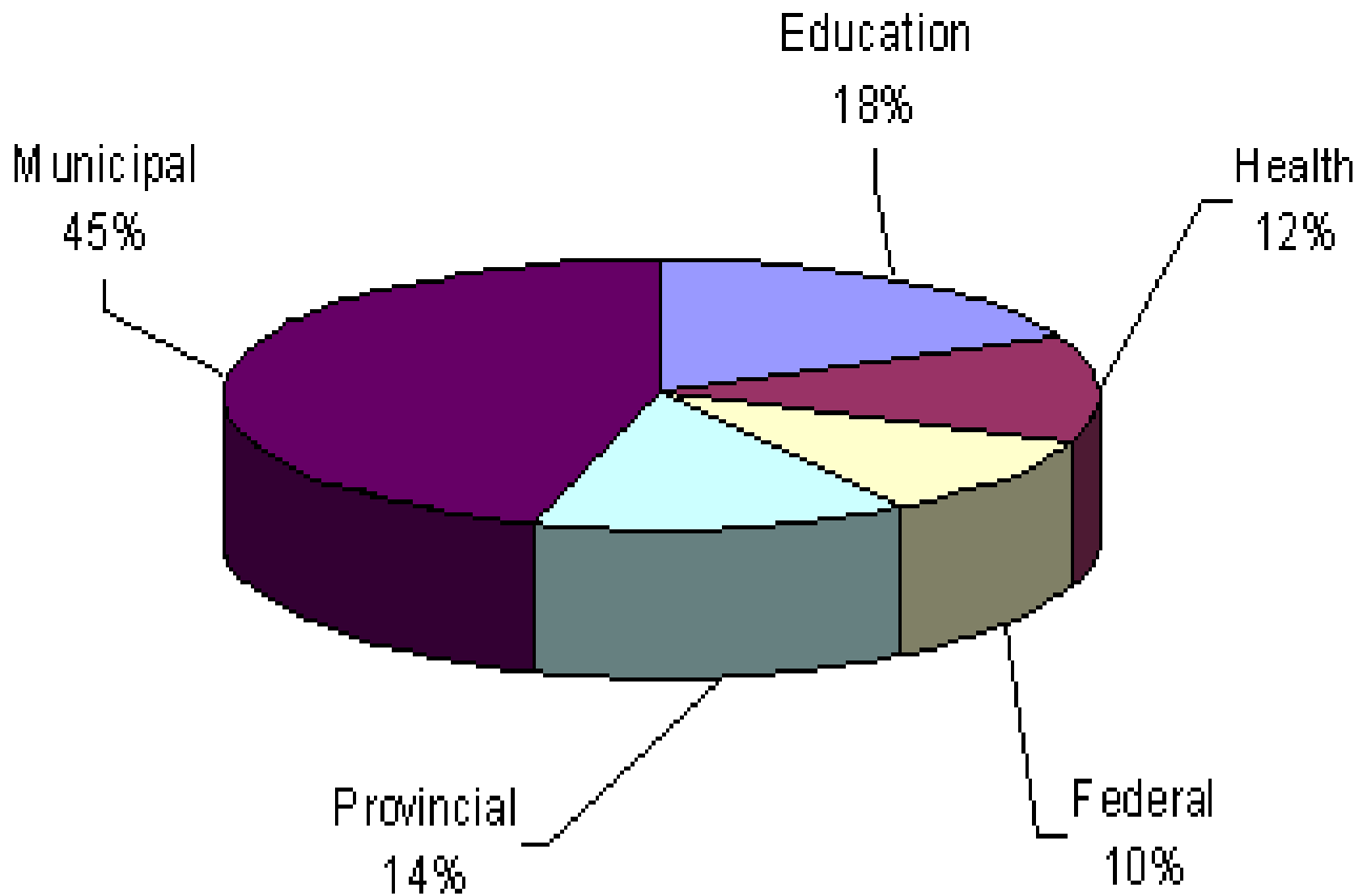
Walkerton



# Tangible Capital Assets 2006

- **Why bother to report?**
  - Improved accountability to taxpayers
  - Better basis for decision making
  - Determine whether “management” is deferring expenditures for short term \$\$ appearances

# Ontario's Public Infrastructure Providers, 2003



# How to Report?

- Historic / current value / replacement ?
- All relevant
- Historic determined to be easiest and most economical for audit purposes.
- Records should include current value and replacement for planning and rate setting.

# Tangible Capital Assets 2006

- **Currently report only a figure for TCA's which have debt principal outstanding at year end.**
- **does not relate to stock, use or condition!**
- **just a “plug” figure**

# What would an amount for a TCA look like?

- **Assume:**
  - Equipment with 10 yr life bought 6 years ago for \$100,000
  - Usual approach is to depreciate on a ‘straight line’ basis so that it would have accumulated depreciation of \$60,000 and a net book value of \$40,000 recorded on the statements

# Tangible Capital Assets 2006

- **Alternate depreciation methods**
  - **Units of service (perhaps hours of operation)**
  - **Percentage of declining balance recognizing less service potential over life of asset**

# **So what's the problem?**

- Data – inventories and records**
- Historic costs of older assets**
- Staff and Council understanding**
- Resources**
- Differences between accountability and management needs**
- Impacts on budgeting and historic accounting practices**

# Budgeting Impact

- Now balance on “modified cash” basis
- Designed to manage debt repayment and to keep tax rates low in short term
- Has in part contributed to infrastructure problems
- Reporting TCAs will add to *accumulated surplus!*



# Budgeting cont'd

- **Municipalities are largest owners of government assets**
- **This asset based “surplus” will not be the same kind of “surplus” traditionally available to reduce tax rates in the following year.**
- **A simple change to the Municipal Act 2001 will be needed**

# Tangible Capital Assets 2006

- Change definition of “surplus” or eliminate??
- Changing the definition only will focus attention away from the municipality’s ‘Stock, Use and Condition’ of its TCAs
- Eliminating it will require a thoughtful analysis by staff and Council of the components of the “*accumulated surplus/deficit*” at budget time

# ***“Accumulated surplus (or deficit)”* components primarily**

- Operating surpluses or deficits**
- Net book value of TCA’s**
- Unfunded Long term liabilities**
- Net financial assets (including what are currently known as reserves and reserve funds)**

# Challenges of change

- Resources-people and dollars
- Knowledge
- Data availability
- Arguments about data utility
- Cost of keeping data current
- Added audit costs
- Time
- Budgeting changes

# Tangible Capital Assets 2006

- Budgeting will have to include as now data on:
  - **Cash requirements for operations**
  - **Cash requirements for debt repayment**

Plus

- **Recognition of depreciation of existing assets**
- **Recognition of increases in other liabilities**
- **Asset management plans**
  - **Acquisition of new assets**
  - **Condition of assets**

# Tangible Capital Assets 2006

- **Today municipalities can manipulate “surplus” by use of reserves or in how they finance capital “expenditures”**
- **“Expense” based system will focus on all aspects of accumulated surplus or deficit and can only make for improved management, governance, and accountability.**