CITY OF KELOWNA

MEMORANDUM

Date: November 28, 2007

File No.: 1615-03

To: City Manager

From: Financial Projects Manager

Subject: **Tangible Capital Asset Reporting Under PSAB 3150**

RECOMMENDATION:

THAT Council receive this report dated November 28, 2007 from the Financial Projects Manager for information;

AND THAT Council direct staff to prepare a project cost estimate for consideration during the 2008 Financial Plan discussions;

AND THAT Council adopt the attached Tangible Capital Asset Policy, which sets out the necessary guidelines for recognizing, tracking, amortizing and reporting on the City of Kelowna's Tangible Capital Assets.

BACKGROUND:

Changes to reporting standards for Tangible Capital Assets have recently been approved by the Public Sector Accounting Board (PSAB) of Canada. PSAB sets and controls the public sector regulations section of the Canadian Institute of Chartered Accountants (CICA). PSAB 3150 provides the directional regulations for the new reporting standards.

The new standards require local governments to include information about the inventory, historical cost, and useful life of tangible capital assets supporting governmental services as part of the annual Financial Statements. Implementing these new standards will provide a starting point that will assist the City of Kelowna in determining gaps in our asset management processes and in developing future work plans aimed at sustaining the infrastructure we have.

The standards required by PSAB 3150 had previously applied to senior levels of government in this country, and similar standards have been requirements for various government levels in other countries for some time. In September 2006, PSAB 3150 requirements were revised to be effective for local governments in Canada by 2009.

Current reporting standards require that tangible capital assets that are either purchased or constructed be recorded in the year of acquisition or construction. There is no requirement to amortize the use of those assets over their useful life as is required of private sector organizations. Tangible Capital Asset reporting will require the recording, tracking and reporting of the City's assets on an ongoing basis along with a requirement to ensure that the assets currently owned by the City are properly reflected in the City's 2009 financial statements.

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Adopting a Tangible Capital Asset Policy, ensuring non-qualified, audited financial statements and developing a comprehensive inventory register will provide the groundwork for future asset management processes, systems and procedures. We need to determine what we have, when we capitalized it, how much it cost, and how long it was intended to last. After this initial step, it will be important to put plans in place that will provide for the systematic replacement of the City's investment in infrastructure at the end of their useful life.

The accompanying Tangible Capital Asset Policy refers to three informational attachments (PSAB 3150, PSG-2, and PSG-7) which have not been included with this report for the sake of brevity. These attachments will be included with the policy when it is placed in the policy manual.

INTERNAL CIRCULATION TO:

Engineering Project Manager, Works & Utilities
Civic Properties Manager, Civic Properties
Recreation Supervisor, Recreation Finance & Administration
Parks Administration Supervisor, Parks Administration

LEGAL/STATUTORY AUTHORITY:

PSAB 3150

FINANCIAL/BUDGETARY CONSIDERATIONS:

A budget submission will be included in the 2008 Financial Plan for Council consideration at the December 13 2007 provisional budget meeting. The budget submission reflects the resources and associated costs required to comply with PSAB 3150.

Considerations that were not applicable to this report:

LEGAL/STATUTORY PROCEDURAL REQUIREMENTS: N/A

EXISTING POLICY: N/A

PERSONNEL IMPLICATIONS: N/A

TECHNICAL REQUIREMENTS: N/A

EXTERNAL AGENCY/PUBLIC COMMENTS: N/A

ALTERNATE RECOMMENDATION: N/A

Submitted by:

L.M. Walter,CMA, Financial Projects Mgr

Approved for Inclusion: Paul Macklem, CMA, Director of Financial Services

Attachment

CITY OF KELOWNA

COUNCIL POLICY MANUAL

POLICY:
PAGE:
APPROVAL DATE:
RESOLUTION #:
REPLACING #: N/A
DATE OF LAST REVIEW:

SUBJECT: **TANGIBLE CAPITAL ASSET POLICY**

PURPOSE

This Capital Asset Policy (Policy) promotes sound corporate management of capital assets and complies with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150 (Attachment I).

Financial Statements prepared for the fiscal year beginning January 1, 2009 will require compliance with PSAB 3150. Comparative figures for the year 2008 are also required.

SCOPE

All tangible property owned by the City, either through donation, dedication or purchase and which qualify as capital assets are addressed in this policy. In accordance with PSAB 3150, tangible capital assets (TCA) are non-financial assets having physical substance that:

i. are held for use in the production or supply of goods or services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of 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.

Examples of tangible capital assets include (but are not limited to):

i. roads, bridges, sidewalks;
ii. treatment facilities;
iii. buildings, building improvements;
iv. furniture and fixtures;
v. land
vi. art and historical works

PRINCIPLES

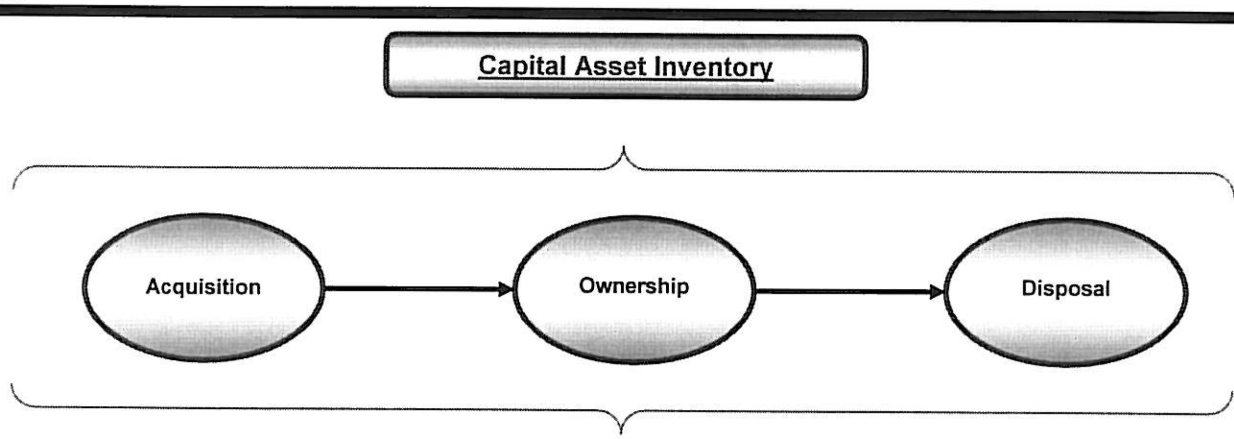
Principles in this policy provide guidance for continuing policy development and assist with interpretation of the policy once applied.

1. This policy is for the benefit of the City as a whole; for the users of the City's financial statements and managers of the City's tangible capital assets.
2. The cost associated with data collection and storage is balanced with the benefits achieved by users of the data and reports.

3. Budgeting follows PSAB 3150. Only capital items meeting the capital asset criteria in this policy will be budgeted as capital.
4. Compliance is with all legislation applicable to municipalities.
5. Financial, operational and information technology system limitations are considered.
6. Materiality is considered.
7. Reporting deadlines are met.
8. Initial inventory historical costs for the City's Tangible Capital Assets will be based, wherever possible, on the unamortized, opening balances used for the 1987 Fixed Assets on the City's financial statements and the 1987 financial statement working papers. Prior to 1987, the City's audited financial statements included provisions for depreciation of these assets; the change was made in accordance with reporting requirements of the Ministry of Municipal Affairs at the time.

POLICY

A framework is established for the management and control of the City's capital assets. Included in this framework is proper recognition, measurement, thresholds, aggregation, segregation, amortization, reporting, safeguarding and disposal.



TCA Inventory - Acquisition

Tangible Capital Assets are recorded at historical cost. TCA's are recognized as assets on the City's Statement of Financial Position on date of receipt for capital goods or when the asset is put into use for capital projects.

COST as defined by PSAB 3150, is the gross amount of consideration given up to acquire, construct, develop or better a TCA, and includes all costs directly attributable to acquisition, construction, development or betterment of the TCA, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed TCA, including a TCA in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related TCA. The cost of a leased TCA is determined in accordance with Public Sector Guidelines PSG-2 (Attachment II), Leased Tangible Capital Assets.

Assets owned by the City but not paid for by the City including contributions, dedications, gifts and donations, are to be valued at fair value. **FAIR VALUE** is the amount of the consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act.

Thresholds

Thresholds are established for a minimum dollar value and number of years of useful life. Thresholds help to determine whether expenditures are to be capitalized as assets and amortized or treated as a current year expense. For financial reporting purposes thresholds are set fairly high, however, details may be useful for the City's capital asset management programs. Therefore, an optimal threshold for each asset category is a balance between the two.

Initial thresholds, for the purpose of establishing the City's starting inventory of tangible capital assets will be set at $5,000 for those assets other than land assets. All land assets will be capitalized.

The City's ongoing threshold levels are set in accordance with the US Government Accounting Standards Board (GASB) 34. American municipalities have had more exposure to TCA accounting and management than Canadian municipalities to date. Thresholds will be adjusted for inflation based on annual reviews.

Asset Category	**Threshold for Cities with Revenues Exceeding $100M**
Land	Capitalize Only
Parks Infrastructure	$50,000
Buildings	$100,000
Building Improvements	$100,000
Construction in Progress	Capitalize Only
Machinery and Equipment	$10,000
Vehicles	$10,000
IT Infrastructure	$10,000
Infrastructure (e.g. water, electrical, wastewater, roads etc.)	$100,000

Thresholds apply to capital goods purchased and capital projects constructed with the total cost of the good or project meeting the threshold criteria. Long term assets that would not meet threshold limits on an individual basis, but which do meet those thresholds when purchased in quantity are to be capitalized. The useful life threshold is set at two years.

Further refinement to threshold levels will occur as the City develops an understanding of its asset and reporting needs. Improvements and betterments that meet threshold limits are capitalized when they extend the useful life of the asset.

Classification, Aggregation & Segmentation

The level of detail required in the capital asset inventory is a balance between cost of data collection, tracking and analysis and the beneficial use of the information gathered. Classification is at the categories shown above for GASB 34 with infrastructure further segmented by utility type. These utility types include electrical, water, sewer, drainage, and roads.

The full cost of preparing a TCA for its intended use is considered the aggregate cost of the capital asset. The aggregate cost is further segmented into elemental components based on useful life.

LAND

Land owned by the City includes parkland, land for City owned facilities and land under roads and sidewalks. All land owned by the City is segmented by each parcel held. City parkland and the land for City facilities and leased facilities is quantified and included in the City's tangible capital asset inventory. Due to the age of some infrastructure such as roads and sidewalks, existing City land under some roads and sidewalks may be considered to have a nominal value of $1.

PARKS INFRASTRUCTURE

Parks infrastructure includes playground equipment, outdoor pools, fencing, and artificial fields. Each asset when capitalized is separately recorded with an attached useful life.

BUILDINGS

Buildings owned by the City include City Hall; City facilities including pools, arenas and community centers; and third party leased properties. A building is segmented by envelope, roof and equipment and other significant component parts based on useful life. This treatment provides for capital replacement of each major component over the years of ownership.

BUILDING IMPROVEMENTS

Building improvements include furniture, fixtures and equipment along with interior fit-outs required to make the building ready for use. Furniture, fixtures, equipment and fit-outs are capitalized if purchased in volume and the volume exceeds the threshold limit or if the individual cost of individual items exceed the threshold.

CONSTRUCTION IN PROGRESS

Construction in progress contains capital projects underway but not complete or put to use. These projects are individually segmented and are capitalized if final costs are expected to exceed the threshold limits for the particular asset category that the construction in progress will be included with, once the project(s) are completed.

VEHICLES, MACHINERY AND EQUIPMENT

Vehicles, machinery and equipment are pooled, segmented at unit level for threshold purposes.

IT INFRASTRUCTURE

IT infrastructure includes software, hardware, infrastructure, computers, printers, scanners, photocopiers and the telephone network. This IT infrastructure is capitalized if each purchase or project meets threshold limits. Segmentation for the network is by each hub and each software application. Computers and printers, scanners, photocopiers, etc. are capitalized if purchased in volume and the volume exceeds the threshold limit

INFRASTRUCTURE

ELECTRICAL

Electrical TCA's include substations, feeders, transformers, switches, street lights, poles and vaults. All substations are capitalized. Individual feeders are capitalized as segments. Feeders are from the substation to the feeder end and include vaults, transformers, switches, poles and other connected assets.

WATER

The water system components include and are segmented by reservoirs, pump stations, water mains, valves, hydrants and services. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

SEWER AND DRAINAGE

The sewer system components include and are segmented by sewer mains, pump stations, storage ponds, culverts, ditches, manholes, catch basins and services. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

TRANSPORTATION

Transportation assets include and are segmented by roads, lanes, sidewalks, traffic intersections, signage, and structures. Structures include bridges and tunnels, retaining walls and parkades. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

TCA Inventory - Ownership

Ownership of assets requires safeguarding, maintenance, amortization for replacement and possibly write-downs. These requirements are addressed in this section.

It is the responsibility of the director, area manager and staff member to ensure capital assets assigned to his or her custody are maintained and safeguarded.

Amortization is an annual charge to expenditures for the use of a capital asset. The City sets amortization rates on a straight line basis based on the number of years in service less salvage value. The asset categories are amortized as follows:

Asset Category	**Amortization of Cost less Savage Value**
Land	Not amortized
Land Improvements	Straight line over useful life of each asset unit
Buildings	Straight line over useful life of each asset unit
Building Improvements	Straight line over useful life of each asset unit
Construction in Progress	Not amortized
Machinery and Equipment	Straight line over useful life of each asset unit
Vehicles	Straight line over useful life of each asset unit
IT Infrastructure	Straight line over useful life of each asset unit
Infrastructure (e.g. water, electrical wastewater, roads etc.)	Straight line over average useful life of each segment

Amortization is calculated and accumulated annually. Amortization of newly acquired assets is for one-half year in the year of acquisition; amortization of newly disposed assets is for one-half year in the year of disposal. Attachment IV is a general guide to useful life.

A write down of assets occurs when a reduction in future economic benefit is expected to be permanent and the value of future economic benefit is less than the TCA's net book value. A write down should not be reversed. Further information regarding write-downs may be found in Attachment I (PSAB 3150).

TCA Inventory - Disposal

All disposals of TCA's are recorded in the City's financial statements in accordance with PSAB 3150, see Attachment I.

ACCOUNTING

The Public Sector Accounting Board expectations regarding transition to PSAB 3150 is provided in PSAB 3150.43 to PSAB 3150.48. PSG-7 (Attachment III) provides further guidance on the notes to the Financial Statements.

Preliminary transition steps are as follows:

i. Remove Tangible Capital Assets and Investment in Tangible Capital Assets from the Statement of Financial Position.
ii. Keep long term debt as a financial liability.
iii. Add to the Statement of Financial Position, the recently valued, currently held, tangible capital assets along with related accumulated amortization. The offsetting account is prior year surplus.
iv. Record new additions on the Statement of Financial Position with the offsetting entry to cash, accounts payable or long term debt. Do not expense the cost of capital assets.
v. Record disposals at the time of replacement. Disposals reduce the cost of the asset, accumulated amortization with the residual recorded as either an expense or revenue.
vi. Amortize the assets each year.
vii. Write-downs are an adjustment to the cost of the TCA (PSAB 3150.31) and expensed.
viii. Offsetting adjustment for amortization in the budget for the purposes of a balanced budget is a transfer from equity.
ix. Budgeting for capital assets will be for the costs expected on the Statement of Financial Position.

Tangible Capital Assets on the financial statements will result in net capital assets on the balance sheet and expenditures for depreciation and write-downs on the income statement.

PRESENTATION AND DISCLOSURE

In total and for each major category of capital assets, the city will disclose the following in accordance with CICA Public Sector Guideline 7 (PSG-7/Attachment III):

a. Cost at the beginning and end of the period;
b. Additions in the period;
c. Disposals in the period;
d. The amount of any write-downs in the period;
e. The amount of amortization for the period;
f. Accumulated amortization at the beginning and end of the period;
g. Net carrying amount at the beginning and end of the period;

Also in accordance with PSG-7 disclosure will include:

a. The method used to determine the cost of each major category of TCA;
b. The amortization method used, including amortization period or rate for each major capital category of TCA;
c. The net book value of TCA's not being amortized because they are under construction or development or have been removed from service;
d. The nature and amount of contributed TCA's received in the period;
e. The nature and use of tangible capital assets disclosed at nominal value;
f. The nature of the works of art and historical treasures held by the government ; and
g. The amount of interest included in the cost in the period.

ASSET USEFUL LIFE – General Guidelines **ATTACHMENT IV**

ASSET TYPE	**USEFUL LIFE IN YEARS**
Parks Infrastructure	
Playground Equipment	15 - 20
Artificial Turf Field	10 - 12
Washrooms, Concessions, Picnic Shelters	40 - 50
Outdoor pools, spray pools	50 - 60
Building Structure	40 - 75
Building Improvements	
Exterior Envelope	30 - 40
HVAC Systems	10 - 12
Roofs	15 - 20
Electrical/Plumbing/Fire	15 - 20
Site works – Ashphalt, water and sewer lines, etc.	10 - 100
Machinery & Equipment	
General Equipment	7 - 10
Grounds Equipment and Machinery	10 - 15
Heavy Construction Equipment	5 - 10
Vehicles	
Cars and Light Trucks	5 – 10
Fire Trucks	15 - 20
IT Infrastructure	
Hardware	4 - 5
Software	5 - 10
Telephone system	7 - 10
Infrastructure (dependent upon component and material)	
Electrical	20 - 25
Water	10 - 100
Sewer	10 - 100
Drainage	10 - 100
Transportation	10 - 100