



To: Finance Committee

Date: November 4, 2011

From: Jerry Chong
Director, Finance

File:

Re: Tangible Capital Assets

Staff Recommendation

That the report on tangible capital assets from the Manager, Finance Systems Support, be received for information.

Jerry Chong
Director, Finance
(604-276-4064)

FOR ORIGINATING DEPARTMENT USE ONLY			
ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER	
Real Estate Services	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
Community Social Services	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
Information Technology	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
Engineering	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
Fire Rescue	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
Parks	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
Recreation	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
Transportation	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
Project Development	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
Heritage and Culture	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
REVIEWED BY TAG	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	REVIEWED BY CAO	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>

Staff Report

Origin

This report provides an update with respect to the accounting treatment and inventory on the City's Tangible Capital Assets (TCA). The purpose of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements should be understandable, relevant, reliable and comparable. Reported assets, liabilities, equity, revenue and expenses are directly related to an organization's financial position and further information beyond financial statements is provided in order for users to make assessments and judgements concerning operations and management. This report deals specifically with Tangible Capital Assets.

Analysis

Under generally accepted accounting principles (GAAP) expenses are the cost of the economic resources that are consumed in and identifiable with the operations of the accounting period. For example, salaries, utility charges and supplies are consumed during a given period. Whereas, assets are economic resources, which are controlled by an entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. Tangible capital assets are a significant economic resource managed by the City and a key component in the delivery of many City programs.

Effective with the City of Richmond's 2009 audited financial statements was the change in accounting for Tangible Capital Assets (TCA). The City now capitalizes TCA and figures were restated to show the historical cost of the assets, amortization expense and remaining net book value (NBV) based on the useful life. Previously TCA were expensed in the year of acquisition. Current GAAP measures the consumption of resources through the amortization of the TCA during each accounting period, which is consistent with the practices of other governments and the private sector.

Historical cost is the actual cost of the asset or the estimated cost at the date of acquisition. This includes land assets from as early as the 1800's and infrastructure from the 1930's. Accounting standards require the use of Historical cost for financial statement presentation. Replacement cost is not utilized under GAAP in preparing financial statements due to the problems in establishing an accurate and reliable valuation of the asset. However, various departments could provide additional information with condition assessments and replacement costs in their own context. For water, sewer, drainage and road infrastructure, Engineering staff reported to Council on June 27, 2011, utilizing replacement value. For facility infrastructure, Project Development staff reported to Committee on September 21, 2011 utilizing replacement costs and the facility condition index.

The NBV of the assets, which is calculated based on the historical cost less accumulated amortization, represents the future balance of the asset. When reviewing the NBV it should be assessed in conjunction with the overall NBV ratio. This is calculated by taking the future

balance divided by the historical cost. The higher the ratio, the newer the assets, for example Building and Improvements have 74% of their useful life remaining. The City's tangible capital assets NBV at December 31, 2010 was \$1.71 billion, 70% of which is still not consumed.

For operational purposes various other City departments may utilize alternative valuation methods, however for purposes of financial accounting the City uses historical cost.

The following table summarizes asset data as at December 31, 2010:

2010 Tangible Capital Asset Data Summary

in (\$'000s)	Historical	2010	2010	Net book value	2010
	cost balance		amortization		
	at Dec 31,	additions	expense	at Dec 31, 2010	NBV%
	2010				
Land	543,098	95,333	-	543,098	100%
Work In Progress	34,379	15,502	-	34,379	100%
Total non-depreciable assets	577,477	110,835	-	577,477	100%
Infrastructure	1,455,639	34,573	29,338	864,378	59%
Roads	490,024	8,797	12,437	256,504	52%
Storm Drainage	452,618	8,914	6,348	296,980	66%
Sanitary Sewer	210,754	620	3,243	128,107	61%
Water works	198,646	7,870	2,882	118,826	60%
Parkland Improvement	69,103	7,282	3,671	41,628	60%
Street Lights	34,495	1,089	756	22,333	65%
Buildings and improvements	313,067	7,279	11,386	232,578	74%
Equipment	81,498	5,611	5,832	33,679	41%
Traffic Signals	27,676	434	1,077	16,543	60%
Fleet	22,367	2,452	1,541	6,086	27%
Information Technology	17,551	2,256	1,833	5,738	33%
Law and Community Safety	11,758	338	802	4,235	36%
Oval Corporation	1,712	132	485	824	48%
General	434	-	94	253	58%
Library	8,203	1,441	1,169	3,066	37%
Total depreciable assets	1,858,407	48,904	47,725	1,133,701	61%
Total	\$2,435,884	\$159,739	\$47,725	\$1,711,178	70%

The Asset Management (AM) module in PeopleSoft has been implemented and serves as the central repository for the tracking and reporting of assets. Finance and various departments have incurred many hours to record asset information into the AM module. The database is extensive and made up of assets that are diverse and unique, such as aquatic centres, arenas, bridges, community centres, dykes, fire halls, libraries, parks, roads, vehicles and so on.

Consistent with the Long Term Financial Management Strategy, each respective department has established individual asset replacement plans in order to address assets with low ratios to ensure the City's aging assets are replaced on a proactive basis.

Financial Impact

None

Conclusion

That the report on tangible capital assets be received for information.



Lisa Skippen
Manager, Finance Systems Support
(8660)