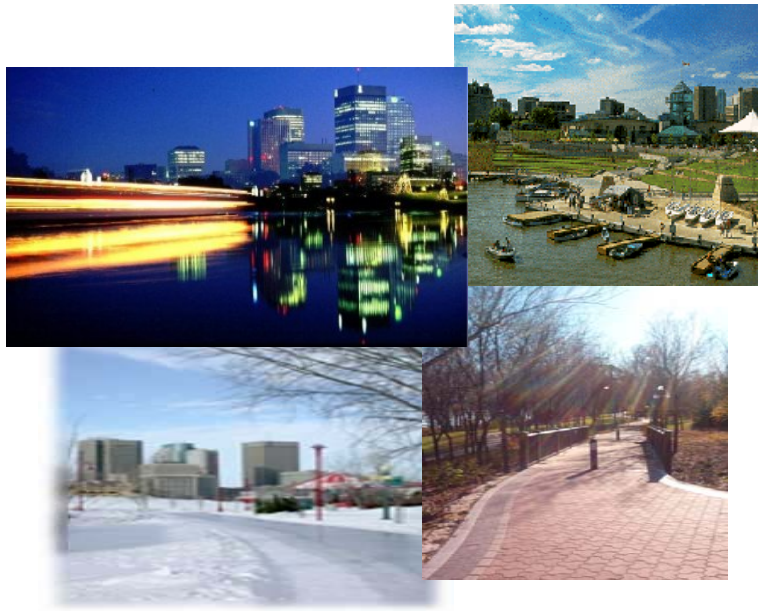
THE CITY OF WINNIPEG

Tangible Capital Assets – City of Winnipeg Experience



Agenda

- Overview
- Tangible Capital Assets
- Prior Period Adjustments
- Our Approach
- Significant Issues
- Major Asset Classes/how we did it
- Lessons Learned

Winnipeg

Overview

- Fully compliant with Section 3150 as at December 31, 2006
- Unqualified audit opinion
- No audit observation points from external auditors
- Internal Audit department satisfied with process and numbers
- Net book value of tangible capital assets - $3.6 billion
- Opening adjustments - $2.6 billion

Winnipeg

Information Sources

- OMBI website - www.ombi.ca
- CICA recent document - www.psab-ccsp.ca
- US Experience with GASB 34
- City of Winnipeg 2006 financial statements - www.winnipeg.ca
- Google others

***Take-away* – lots of information sources readily available**

Winnipeg

Just Do It!!

- Setup a timeline for delivery
- Internal communications (critical)
  - Departments
  - Senior Management
- Contact internal and external auditors
- Ensure that your are building audit files for review at the end
- Use excel and build systems later
- Talk to your departments and engineers to determine sources of information
- Don’t dwell on cost – use replacement values but watch out for recent inflation
- Aside for the use of internal resources – no cost to us

Take-away – **You can do it!!**

Winnipeg

Changes to Financial Statements

Capitalization and Amortization of Tangible Capital Assets – CICA task force – PS 3150	
New Reporting Model – PS 1200	
Government Transfers – PS 3410 – Reporting of capital grants as revenue	
Government Business Partnerships and Government Business Enterprises – PS 3060 and 3070 – Modified equity accounting	
Segment Disclosure – PS 2700 – disclosure of revenues and expenses by service or function	

Winnipeg

Resources

Process involved

- Recording tangible capital assets
  - three staff accountants
  - full-time for 8 months
  - involvement of all departments both in finance and engineering

Work included

- inventorying tangible capital assets
- determining cost
- estimating useful life of tangible capital assets
- set amortization rates
- set thresholds for capitalization
- review changes with the auditors (external and internal)

Winnipeg

Benefits

- Inventory of tangible capital assets for the first time in the history of the City
- Amortization expense reflects the declining service use of the asset. Amortization is based on the estimated useful life of the asset
- Will provide the foundation of financial information for tangible capital assets
  - Promote ongoing asset condition assessments
  - Improved financial planning related to maintenance and replacement needs
- Ancillary benefits from an insurance perspective relating to replacement costs
- Schedule of capital asset continuity tells the story

Winnipeg

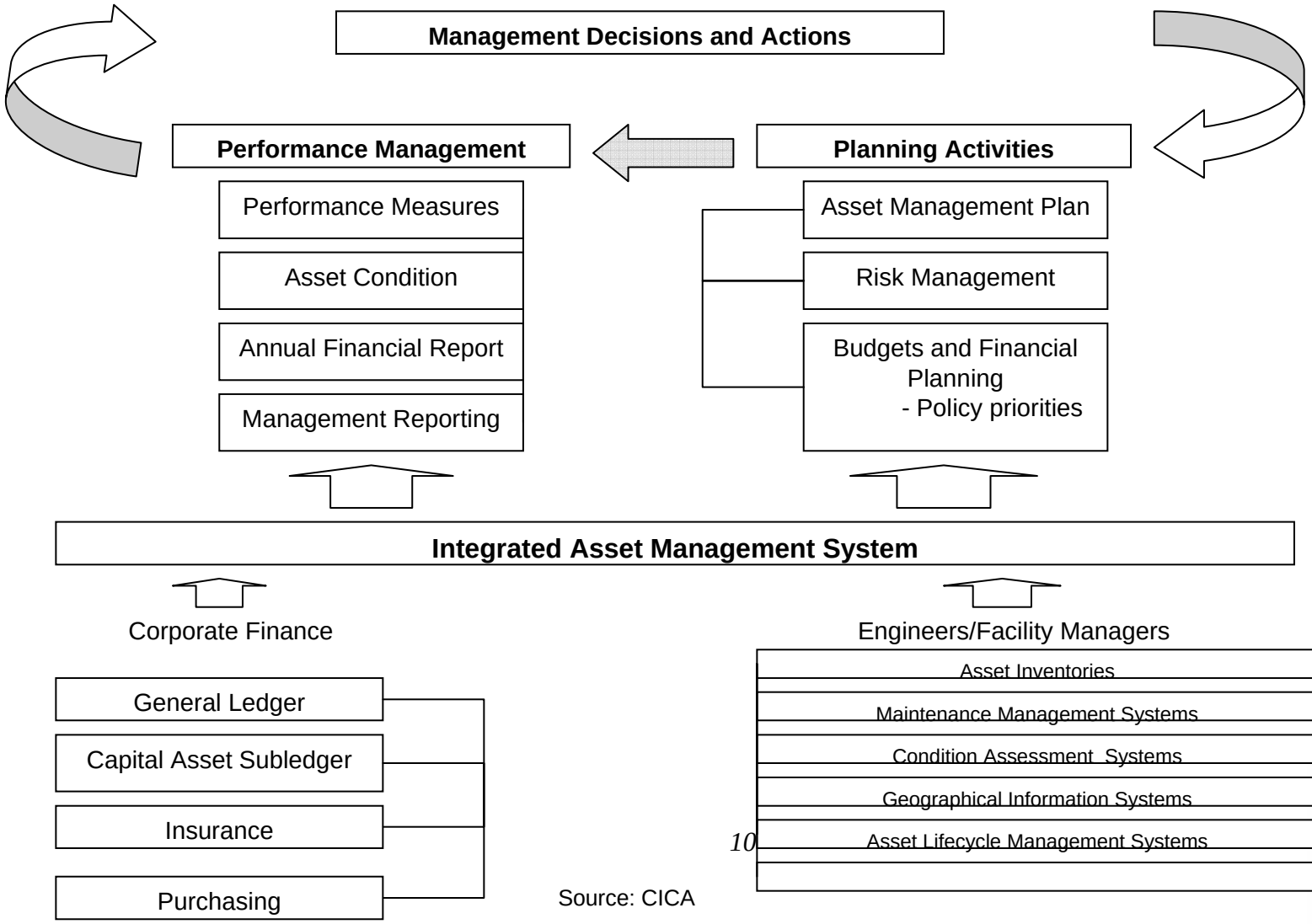
Next Five Years

- Manager of Capital Projects
- Development of innovative financing alternatives – P3's
- Rollout of Capital Project Administration Directive
- Maintenance of inventory of capital assets in PeopleSoft
- Improved reporting of capital assets owned and projected spending. Linkages with service based budgeting
- Integration with life cycle costing systems currently used by departments
- Evaluation of infrastructure challenges and requirements for investment (new vs. used)

***Take-away* – More work to come**

Winnipeg

Tangible Capital Assets



Source: CICA

Winnipeg

Tangible Capital Assets

Source: City of Hamilton, 2005 Life-Cycle State of the Infrastructure Report on Public Works Assets

Winnipeg

Tangible Capital Assets

	2006
Land	$ 171
Buildings	224
Vehicles	125
Computer	45
Other	50
Plants and facilities	228
Roads	724
Underground and other networks	1,634
Bridges and other structures	315
Assets under construction	154
Net Book Value	$ 3,670

(In millions of dollars)

Winnipeg

Prior Period Adjustments

Accumulated surplus - January 1, 2005	**$**	**930,067**
Add:		
Net book value of tangible capital assets recorded		**2,612,400**
Investment in government businesses and wholly-owned corporations		**20,720**
Accumulated surplus - January 1, 2005 restated	**$**	**3,563,187**

(In thousands of dollars)

Winnipeg

Prior Period Adjustments

Excess revenues over expenses, 2005 previously reported	$	**44,658**
Assets capitalized but previously expensed		**39,050**
Revenue from contributed tangible capital assets		**17,080**
Capital grants received and recorded as revenue		**21,685**
Increase in amortization expense		**(44,540)**
Other		**(2,208)**
Excess revenues over expenses, 2005 restated	$	**75,725**

(In thousands of dollars)

Winnipeg

Prior Period Adjustments

Net financial assets, 2005 previously reported	$	14,864
North Portage Development Corporation - government business partnership		19,912
Winnipeg Housing Rehabilitation Corporation - government business enterprise		32,942
Land held for resale		12,153
Other		1,149
Net financial assets, 2005 restated	$	81,020

(In thousands of dollars)

Winnipeg

Our Approach

Starting Point

- General Policy document
- Timing - Fall, 2005
- Document included
  - Major asset categories
  - Capitalization thresholds
  - Useful lives
- Living document - revise as you go
- Feedback from departments

Take away **– allow time for feedback / you will make adjustments**

Winnipeg

Our Approach

Next - Meet with Departments

- Timing – spring 2006
- Similar to an audit planning meeting with client
- Time spent – approx. 2hrs per department
- Purpose
  - Knowledge of the business
  - Identify significant assets in the departments
  - Identify information sources available
  - Identify key contacts

***Take away* – involve your departments at the planning stages**

Winnipeg

Our Approach

Next - Fieldwork

- Timing – September/October, 2006
- Validate amortization policies, need to understand
  - Nature of business
  - Asset lifecycles
- Identify information sources available
- Expect to make changes
- Expect surprises (information may not appear exactly as described)
- Expect to be challenged
- Accounting should not drive business decision making
- How you go forward impacts how you do the opening balances

Take away **– any changes in policy past this point work will result in rework**

Winnipeg

Our Approach

Final Step – Calculating the Numbers

- Timing – October to January/07
- CICA Guidance
  - use actual cost if available and practical,
  - otherwise, use estimates
- Information Required
  - cost
  - acquisition date
  - useful life
- Replacement cost method
  - estimate replacement cost today
  - use CPI index to discount
  - discounting exercise very straight forward/difficulty is in the valuation
  - Watch effect of construction inflation

Take away **– Conservatism**

Winnipeg

Communication

Remember to communicate with

- External auditors
- Internal auditors
- Senior management
- Departments
- “No surprises”

Take away **– these are large scale changes, keep the major players in the loop**

Winnipeg

Information Sources

- Lots of information available throughout your organization
- Do not need to create any “net new”
- Will not be a perfect fit/will have short comings
  - Incomplete listings
  - Inconsistencies in the same information tracked by different systems
  - Timing issues
  - Quality/reliability issues
  - No date of acquisition
- Requires some manipulation to get into the format you require
- May mix information from sources (e.g. - square footage from database/average cost per square foot estimated from recent appraisals)
- Use estimates where information is just not available
- “The devil is in the details”

Take-away **– at the end of the day, the numbers need to be solid**

Winnipeg

Use of Estimates

- Historical cost for more recent, but will be using estimates in most cases
- Valuation will be the difficulty
  - Many potential information sources
  - More than one way to estimate
  - Replacement cost estimates may be a range
  - No acquisition date
- No estimate is perfect, but some estimates better than others
  - (quality of base data, systematic, auditable)
- Potential "black hole" for time
  - Researching potential information sources
  - Spin wheels deciding between estimation methods
  - Make decisions
- Conservatism
- Construction inflation

Take away **– numbers have to be solid, supported and auditable**

Winnipeg

Significant Issues

- Capitalization thresholds
- Individual item vs. program basis
- Amortization method
- Capital asset is in use, but the is still open and accumulating costs in your projects model (i.e. - need a year end process)
- Capital Projects that do not meet the definition of capital (i.e. - need a year end process)
- Contributions in-kind
- No netting

***Take-away* – decide these things up-front as these will impact how you build your numbers, later changes will cause rework**

Winnipeg

Major Assets

Land

- Data dump of all City owned properties by Property Assessment
- Complete list – but no cost or acquisition date
- Attempt to identify cost and acquisition date
- Remaining properties (say 80%) based on estimate
- Assessed values used to estimate replacement cost
- Replacement cost discounted using CPI index
- Year of acquisition
  - Actual (if known)
  - Building construction date (if applicable)
  - “Unicity” amalgamation date (if no information)

Winnipeg

Major Assets

Buildings

- Building listing compiled by Corporate Finance using multiple information sources available
- Year constructed and square footage available from assessment database
- External agency already providing the City with estimated replacement cost on certain buildings
- Replacement cost estimated systematically by applying a cost per square foot to building
  - (buildings classified by type –eg. – indoor pool)
- CPI index used to discount replacement cost
- Tax supported (except Transit) held in Corporate Finance due to ownership disputes between departments

Winnipeg

Major Assets

Computer

- Includes computer hardware/computer software
- Most hardware below capitalization threshold - $25,000
- Software above $100,000 threshold likely major software systems

Vehicles

- Based on inventory listings provided by departments
- In most instances, historical costs provided by departments

Winnipeg

Major Assets

New Roads (Roadbeds)

- Based on Public Works database, database tracks roads by segment
- Year of original construction as well as area available for segment
- Database summarized (total Lane kilometer (Lkm) by construction year)
- Replacement cost estimated by applying current construction cost to the Lkm total
- Discounted back to year of construction
- Conservatism
  - replacement cost based on 2004 (before market increase)
  - valued towards bottom of price range (cost per m2)
  - Amortization – 50 years
- Contributions in-kind – Residential Streets
- Disposals recorded based on segments reconstructed/Lkm removed from total for year of original construction

Winnipeg

Major Assets

Roads – Major Refurbishments (Asphalt Overlays)

- Capitalized on a program basis
- Cost estimates based on actual Capital Budgets
- Database considered/not accurate in this instance/more accurate on a program basis
- Capital Budget information available/shorter amortization period than roadbeds
- Amortization period – 20 years
- Disposals recorded on FIFO basis, year after asset fully amortized

Roads – Minor Refurbishments (Thin Bituminous Overlay)

- More recent method of construction for us
- Based on actual cost
- Amortization period - 10 years

Winnipeg

Major Assets

Bridges

- Based on listings provided by Public Works Engineering Division
- Listing of all bridges with a replacement cost greater than $1.0 million
- Bridge listing detailed the bridge type, year constructed and year of last major refurbishment
- Replacement cost estimates provided by Public Works Engineering Division
- Engineering Division used a systematic approach (standard cost per m2 *area)
- Standard cost per m2 tested by Corporate Finance
- Replacement cost discounted back to year of construction using CPI index
- Amortization rates set based on life cycle at
  - New Bridges – 75 years (maximum)
  - Major Refurbishments – 25 years
  - Timber bridges – 30 years

Winnipeg

Major Assets

Underground & Other Networks

- Based on Geographic Information System database
- Network lengths and units provided by W&W Engineers
- Age of components identified by database
- Replacement cost estimated by W&W Engineers/support verified by Corporate Finance
- Discounted using CPI index
- Amortization – 50 to 100 years

Pumping Stations

- Original construction costs available (original contracts on file)
- Historical cost estimated by grossing up construction costs for engineering
- Amortization period – 50 to 75 years

Winnipeg

Major Assets

Aqueduct

- Estimated replacement cost available from department
- Discounted using CPI index
- Actual cost available for more recent rehabilitations
- Amortization – 50 to 75 years

Sewage Plants

- Replacement cost estimated using third party appraisal reports done for insurance purposes
- Detailed listing of plant contents available
- Discounted using CPI
- Amortization – 50 to 75 years

Winnipeg

Major Assets

Special Operating Agencies (Fleet, Golf, Parking)

- Capital assets already recorded on SOA statements
- Consolidated in the City's financial statements
- Adjustments required
  - Cost adjusted for write-up of asset when transferred to SOA
  - Amortization from date acquired by the City (vs. inception of SOA)
  - Amortization over periods consistent with the City policies

Winnipeg

Lessons Learned

- Build audit files right from the start
- Quality – end of the day, numbers have to be solid
- Conservatism
- Information is already in the organization/no cost beyond use of internal resources
- Internal quality assurance/second set of eyes (prior to audit)
- Consider administration/amount of work involved on a go forward basis
- Get the numbers first/worry about building systems later
- Test cost estimates (prior to audit)
- Validate information (caution – actual database may not be as described by Engineer)
- Replacement cost price ranges can be material when applied to an asset population (e.g. – roads network)
- Be prepared to defend the discount index used
- Build spreadsheets to be flexible (i.e. – change a variable, it will flow through)
- Recent spike in construction inflation (not reflected in CPI)

Winnipeg