



cutting through complexity™

GFAOBC / ICABC Fall 2011 Local Government

Accounting for Contributions of Tangible Capital Assets



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- **Accounting requirements**
- **City of Vancouver Experience**
- **Specific Examples, Accounting and Audit Perspective**
- **Special Announcement**

<http://www.conquercancer.ca/goto/BrianSzabo>

Senior governments

- Parks
- Roads
- Buildings

General public

- Art
- Parkland

Developers

- Community amenities
- Art
- Parkland
- Infrastructure
- Other?

PS3150.14:

The cost of a contributed asset is considered equal to its fair value at the date of contribution. Fair value of a contributed tangible capital asset may be estimated using market or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset would be recognized at nominal value.

PS3150.05 (c):

The amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

- **Building?**
- **Roads and infrastructure?**
- **Parkland?**
- **Public Art ? ? ? ?**

- **Not donations/contributions**

Contribution is a non-reciprocal transaction whereby the contributing party receives no financial or other benefit in return

Developer contributions – What are they?

- **Assets acquired in transaction with a developer in exchange for the local government providing zoning, permits or other rights, or in lieu of developer charges**
- **Therefore – non-monetary transaction**

No PSAB guidance ☹️

**CICA Handbook Part II (Private Company
GAAP):**

Section 3831.06:

***An entity should measure an asset
exchanged or transferred in a non-
monetary transaction at the more
reliably measurable of the fair value of
the asset given up and the fair value of
the asset received***

- **2010 – “Backward glance” by audit team**
- **Considered objectivity and evidence over amounts recorded for contributed assets (primarily developer “contributions”)**
- **Challenged some of the conceptual principles**
- **Enter Greg . . .**



COV CONTRIBUTED ASSET HISTORY



Year	Asset
2009	Vancouver Convention Centre Viaduct - \$18M
2010	Hillcrest Curling/Arena/Library - \$31M Community amenity space - \$11 Daycares (2) - \$13M
2011	Daycare (1) - TBD Community Amenity Space (2) – TBD
Future	Daycares

Proposed - \$ 38M Council reports and \$175 sq/ft

Recorded - \$31M VANOC 2010 schedule

- **Council report does not necessarily reflect fair value**
- **Few comparable facilities as guidelines**
- **Information from VANOC – verifiable from audit perspective?**

Proposed

- \$ 1.6M airspace BCA assessment
- \$11.0M internal estimate

Recorded

- \$ 1.6M airspace BCA assessment
- \$ 9.3M Marshall/Swift

- **Internal estimate based on ?**
- **Audit procedures required to allow use work of management's expert**
- **Audit evidence over internal estimate . . .**
- **Marshall/Swift?**

Which Swift are we talking about here?



- **Validation of Marshall/Swift as appropriate index**
- **Validation of appropriateness of the index to specific asset received**
- **Validation of application of the index to the asst received (i.e. index X sq. ft)**
- **Validation of area of the asset received**

Proposed

-\$ 1.3M BCA assessment

-\$ 11.3M internal staff at \$650 and \$750/sq ft

Recorded

-\$ 1.3M BCA assessment

-\$ 11.3M with internal construction comparables at \$435-\$860/sq ft

- **Validation of management's internal expert**
- **Validation of inputs to comparable internal construction**
- **Validation of asset received (i.e. square footage; location; title)**

- **No consistent policy applied to various categories of assets received either as contributions or as developer “payments”**

→ **Management Letter Point** 😞



2010 Management Letter from External Auditor



Observation:

During our audit procedures over tangible capital assets, we noted the Finance Department places reliance on the Real Estate department to provide estimates of fair values for purposes of recording the historical cost of contributed tangible capital assets. There is no formal process within the Finance Department to review and validate the fair value estimates provided by the Real Estate Department, particularly with respect to contributed tangible capital assets received from developers in lieu of developer charges. The lack of validation may result in a material misstatement of the fair value of the contributed asset. Further, as the fair values of the contributed tangible capital assets are used by Risk Management for insurance purposes, the valuation of these assets may impact the insured amount on these assets.



2010 Management Letter from External Auditor



Recommendation:

We recommend that a formal process be established by the Finance Department for validating the estimates of fair values for contributed tangible capital assets.

Management response:

Management concurs with the recommendation and will consider developing a formal process to ensure that contributed capital assets are recorded at an objective and appropriate fair value.



CONTRIBUTED ASSET VALUATION METHODS – AN INTERNAL PERSPECTIVE



Asset Class	Valuation Options	Consideration
Land under roads Land Airspace parcel Building Engineering asset	Internal construction comparables Internal staff – Real Estate Dept Internal staff – Quantity Surveyor Developer supplied information BC Assessment External appraisals External benchmark (Marshall Swift) Nominal value	Cost Usefulness Auditor acceptance Volume of activity Comparability factors Access to audit evidence

Asset Class	Valuation Approach
Land under roads	TBD
Land Airspace parcel	BC Assessment 1. Downtown 2. Westside 3. Eastside
Building	A1 - Developer provided information A2 - Recent internal comparables B - Marshall Swift Benchmark
Developer - streets, sewer, water	Internal comparables
Material asset alternative * material level to be discussed	External appraisal

Questions?