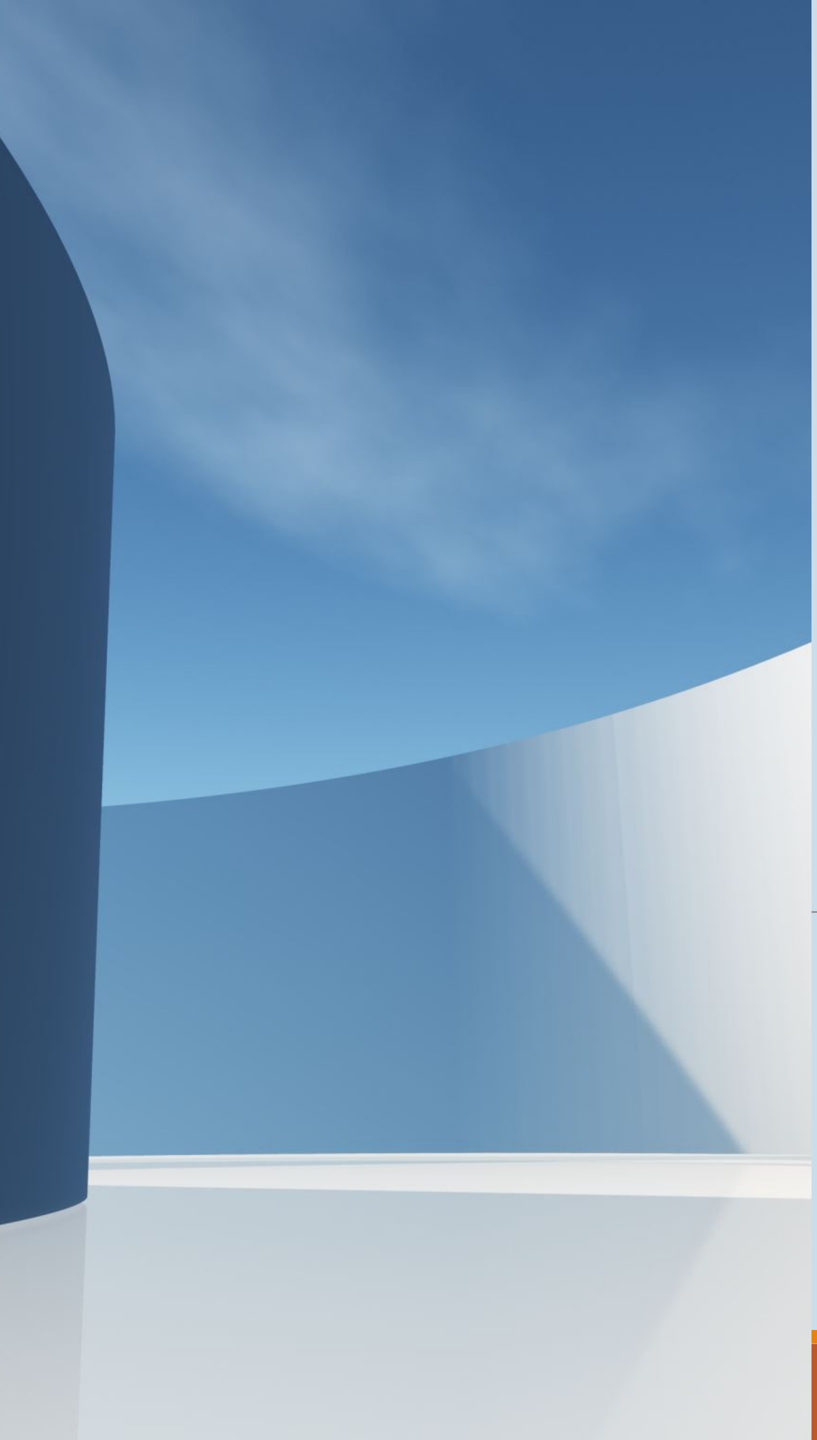

Fair Value Accounting

FOR INFRASTRUCTURE

Why?

- Canadian municipalities keep reporting accounting surpluses in their financial statements
- How could this be if infrastructure costs are weighing heavily?
- Stakeholders complain that they are being “overtaxed”
- Public does not recognize financial challenges that would be evident under fair value accounting

Fair Value vs Historical Cost

- Infrastructure is recorded at Historical cost in Canadian Financial Statements
- International Financial Reporting standards allow reporting at Fair Value

What is Fair Value Accounting

- For TCA it would be Replacement cost less depreciation
  - For instance the depreciable assets on the District’s balance sheet would show a value of $650m vs 100m
- Since fair value is reported, depreciation is higher
- Depreciation is essentially fair value/useful life
- Depreciation is recorded in the income statement as an expense and reduces the accounting surplus

Net book value		Balance, December 31, 2021
Land	$	2,852,877
Land improvements		1,702,559
Building and building improvements		17,269,136
Machinery and equipment		2,790,153
IT equipment		551,674
Vehicles		3,582,301
Roads, drains, sewer and water		40,838,308
Assets under construction		1,018,621
Total	$	70,605,629

	Historical	Fair Value
Land	2.8M	149.1M
Land Improvements	1.7M	6.7M
Building	17.3M	80.7M
Machinery and Equipment	6.9M	15.7M
Roads, Drains, Sewer and Water	40.8M	648.1M
TOTAL	69.5M	900.3M

Depreciation

		Historical Cost	Fair Value
A	Stormwater	$8,000,000	$80,000,000
B	Useful life	80 years	80 years
C	Depreciation = A/B	$100,000	$1,000,000

Illustrative Example

	2022 Budget	2022 Hypothetical Budget – Fair Value
Revenue	53.6M	53.6M
Expenses		
Operating	(47.0M)	(47.0M)
Amortization	(2.7M)	(12.2M)
Accounting Surplus (Deficit)	3.9M	(5.6M)
Add back Amortization	2.7M	12.2M
Net transfer from (to) reserves	12.3M	12.3M
Capital expenditures	(18.8M)	(18.8M)
Debt principal payments	(0.1M)	(0.1M)
Budgetary Surplus	-	-

Illustrative Example

	2022 Actual (Historical Cost)	2022 Hypothetical Actual (Fair Value)
Revenue	56.4M	56.4M
Expenses		
Operating	(45.4M)	(45.4M)
Amortization	(2.8M)	(12.2M)
Accounting Surplus (Deficit)	8.2M	(1.2M)

Illustrative Example

- Note changing to fair value accounting resulted in:
  - Budgeted Accounting surplus dropping from $3.9M to budgeted accounting deficit of $5.6M
  - Actual accounting surplus dropping from $8.2M to an actual accounting deficit of $1.2M

Example Financial Statement Note

“The District of Oak Bay currently records the historical cost value of its Tangible Capital Assets in note 6 of the Financial Statements. This note indicates gross cost of $129.6M. Under International Public Sector Accounting Standards Section XX, a reporting entity is permitted to record its Tangible Capital Assets at Fair Value. Were the District subject to, and adopted these accounting standards, the District’s Tangible Capital Assets would be valued at approximately $1.0B Fair Value. This valuation would materially increase the amount of amortization recorded in the District’s Statement of Operations from 2.8M to an estimated $12.2M. Accordingly, the District’s financial operations would appear as follows:

	Historical Cost	Fair Value
Revenues	56.4M	56.4M
Expenses	48.2M	57.6M
Accounting Surplus (Deficit)	8.2M	(1.2M)

[Caveat to make the auditors feel comfortable]”