



THE NEW WORLD OF CAPITAL ASSET ACCOUNTING

Presentation by:

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Deputy Minister, Ministry of Municipal Affairs & Housing
(Larry Clay, Regional Director substituting)

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68th Annual Meeting and Professional Development Institute
June 11 - 14, 2005,
Blue Mountain Resort, Town of The Blue Mountains, Grey County, Ontario

Wednesday, June 14, 2006
9:00 – 10:30 am

ABOUT THE PRESENTER

John Burke is the Deputy Minister of Municipal Affairs and Housing, joining the MMAH after a stint as Deputy Minister of Natural Resources. Previously the CAO for the City of Ottawa, he has also been CAO for the Regional Municipality of Halton, the City of Dartmouth, Nova Scotia, the City of Gloucester and the City of North Bay. He has worked in municipal administration in Grande Prairie, Alberta, Halifax and the county of Richmond, Nova Scotia.

Tim Beauchamp is the Director of the Public Sector Accounting Board of Canadian Institute of Chartered Accountants and has been directly involved in standard setting for the public sector for over 15 years. He currently serves as a member of the Independent Advisory Committee of the Office of the Auditor General of Canada and on various local government committees including the AMCTO/MFOA partnership on capital asset accounting.

Nigel Bellchamber retired in 2001 from the position of Commissioner of Finance and Administration for the City of London, after 32 years in Public Administration, including holding the CAO positions for both Huron and Middlesex Counties. Since 2001, Nigel has acted as the part time General Manager for the Ontario Municipal Administrators' Association, as well as co-designing and delivering AMO's very successful four part Effective Municipal Councillor Program.

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CAPITAL ASSET ACCOUNTING

John Burke

Deputy Minister
Municipal Affairs and Housing
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Background

- ❑ Municipalities have been preparing their financial statements in accordance with generally accepted accounting principles as recommended by PSAB since 2000
- ❑ To date, municipalities have not been required to report their tangible capital assets (TCA) as assets in their financial statements
- ❑ PSAB will approve the reporting of TCAs in municipal financial statements on June 12, 2006

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Revised section PS 3150 PSA Handbook

- ❑ Will apply to local governments
- ❑ TCAs accounted for and reported as assets on the statement of financial position
- ❑ At present, TCAs accounted for and reported as capital expenditures
- ❑ TCAs should be recorded at historical cost
- ❑ TCAs should be amortized over their useful lives

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Revised section PS 3150 PSA Handbook cont'd.

- ❑ Provides guidance for write-downs and disposal of TCAs
- ❑ Municipal financial statements should disclose for each major category of TCAs information such as the cost at the beginning and end of the reporting period, additions in the period, disposals, accumulated amortization

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Initiatives underway to assist municipalities

- ❑ Ontario Municipal CAO's Benchmarking Initiative (OMBI) developed a guide to provide information to establish and operate a tangible capital accounting system. The Guide provides steps to implementing a capital accounting systems. For example it discusses the completion of inventories of TCAs, valuing TCAs, depreciation and managing TCAs.

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Initiatives underway to assist municipalities cont'd.

- The guide is posted on the OMBI website and is accessible to all municipalities. The concepts of the guide have not been tested. The testing and development of an education/training component is anticipated to be completed by the spring of 2007.
- The Province of Ontario funded the development of the guide and will provide funding for the testing and the education/training component associated with the guide.

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Initiatives underway to assist municipalities cont'd.

- Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF) funding of approximately \$6 million will be available to assist municipalities with asset management development. The funding program will be announced later this year.
- Municipalities with public transit systems are in the process of providing the Ministry of Transportation (MTO) with Transit Asset Management Plans. The Ministry has developed a document: "A Guide to prepare a Transit Asset Management Plan" that has been made available to these municipalities.
- The Ontario Good Roads Association (OGRA) is developing asset management solutions to store road and bridge asset management information. This can be expanded to other asset categories.

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Initiatives underway to assist municipalities cont'd.

- A co-ordinating committee for municipal asset management initiatives comprised of senior staff from various provincial ministries and municipal organizations including AMCTO has been established and has met twice. The purpose of the committee is to organize and share information on asset management, accounting, reporting and regulatory activities and education and training that are underway to ensure that these initiatives proceed in a timely and coordinated manner and also to ensure that resources are utilized effectively and efficiently.

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Initiatives underway to assist municipalities cont'd.

- The Municipal Finance Officers Association (MFOA) and AMCTO have formed a joint working committee to respond to PSAB proposals. This committee includes MMAH staff as a resource and is a helpful forum for identifying related issues arising from PSAB proposals.
- MMAH plans to work formally with the municipal sector, including AMCTO and MFOA to review possible legislative changes and future data requirements arising from PSAB requirements.

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Tim Beauchamp

Director, Public Sector Accounting
CICA

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My role and my goal

- My role is to explain why financial statements and the standards they are based on can help you
- My goal is to get you excited about the need to account for capital assets

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What this is all about

- Full accrual accounting and that means, in part:

CAPITALIZATION AND AMORTIZATION OF CAPITAL ASSETS

- Reporting financial position and annual results

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Task force members

- Nigel Bellchamber (Chair)
- David Cluff, ADM Infra. Canada
- Peter Desrochie, Dir., SMCD SB Ont.
- Del Dyck, GM Corp., St. Albert, Alta.
- Archie Johnston, Partner KPMG BC
- Vivian Lund, GM Fin. Regina, Sask.
- Dan Rae, Dir., Municipal Affairs, NB
- Mike Ruta, Controller, Winnipeg, Man.
- Larry Ryan, CFO Region of Waterloo, Ont.

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So what's the issue

Capital assets – the gift that keeps on taking

Some of our highways were named to commemorate Queen Elizabeth – but they were built when she was still a princess \$\$\$

Infrastructure deficit = 79,000 hits on Google

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The need for change

- Current reporting = MUBAR
- Trained accountants can't figure it out
- You are in the asset management business
- Engineering and financial systems are specialized, fragmented and incomplete

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Not just about municipalities

- This is a national issue – the federal and provincial governments all have a vested economic interest
- Everybody governments, taxpayers, councils, administrators and investors need to know what is owned and the costs of services provided

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Better information can lead to better decisions

- Policy makers you don't have good financial information
- It is difficult to judge financial sustainability, flexibility and vulnerability
- It is difficult to assess the affordability of programs and resource allocation decisions

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Dispelling the myths

- ❑ Financial statements will not:
 - ✗ dictate funding or tax rates
 - ✗ make decisions easier
 - ✗ solve or report the infrastructure deficit
 - ✗ tell you the condition of or cost of replacement of assets

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So what are they good for

- ❑ Financial statements will:
 - ✓ promote common understanding
 - ✓ show whether you are maintaining your net asset position
 - ✓ raise awareness of the financial implications of capital assets
 - ✓ explain levels of rates and fees
 - ✓ provide a corporate-wide basis for asset management

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Inside the numbers

- ❑ More than just accounting for capital assets
- ❑ Improving financial indicators
- ❑ Understanding and thinking about the full cost
- ❑ Improving internal control

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The impacts

- ❑ Better asset management
- ❑ More transparent to you, the public and others
- ❑ Increased awareness of a "national" issue
- ❑ Data supports funding needs
- ❑ Promotes better capital planning

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The issues

- ❑ Balanced budget legislation
- ❑ Disposition of surplus/deficit
- ❑ Creating the inventory
- ❑ Formulating policies
- ❑ Valuation

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Summary

- ❑ Financial statements won't solve the infrastructure deficit that is a future funding requirement
- ❑ They can show whether the level of capital assets is sustainable/cost
- ❑ The information will help you with funding requests
- ❑ Go talk to your council and auditor – get them excited!!

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Nigel Bellchamber

General Manager,
Ontario Municipal Administrators'
Association (OMAA)

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Three Questions

- ❑ So why is this accounting change important for municipal government?
- ❑ What do I need to do now, mid term and later?
- ❑ Where do I get the resources?

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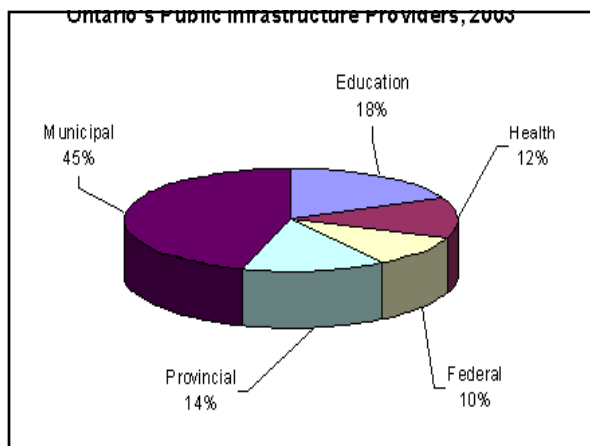
- ❑ So why is this accounting and reporting change important for Municipal Governments?

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Important because:

- ❑ Municipalities are the owners of most of Ontario's Infrastructure as of 2006
- ❑ We don't have all of the needed data consistently and readily available to manage that responsibility

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- ❑ This infrastructure is critical to the lives of residents and the Ontario economy

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- Where do I get the information that TCA reporting needs?
- You already have much of it in various forms

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- Roads Needs Studies

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- Bridge Condition Reports

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- Building and Land Inventories, along with Assessment records and Insurance Listings, and Registry Office Records

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- Equipment Inventories and Insurance Records

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- It won't all be easy
 - Challenge will be acquisition values for some older assets and donated assets

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- ❑ Before you start sit down for a couple of hours and read the "Draft" OMBI Interim Guide to Accounting for Capital Assets
 - ❑ www.OMBI.ca
 - ❑ Send a copy to your Auditor

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- ❑ Early involvement of your auditor is important to design any system changes
 - ❑ ie New Module or simple spreadsheet?
 - ❑ Assist with source data and valuation decisions

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- ❑ How do I pay for this ?
 - ❑ What if I have a complex network system w/o much data?
 - ❑ What if I have to hire Engineers or other assistance?

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- ❑ Check your Federal Gas Tax Agreement – capacity building
 - ❑ COMRIF Funds allocation - \$6 Million
 - ❑ Start now – summer student?

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- ❑ Some tough decisions still ahead re budgeting legislation
 - ❑ When implemented we will all have a better picture of what the corporation owns and how well it is managing those assets

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AMCTO's 68th Annual Meeting

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Thank you for your time