



# Accounting for Tangible Capital Assets "Getting Started"

Presentation to MFOA Symposium,  
Hockley Valley

June, 20, 2006

## Presentation Outline

- Background to OMBI Project
  - OMBI Mission
  - Benefits of Capital Asset Accounting – why bother?
  - OMBI Tangible Capital Asset Accounting(TCAA) Project
- Getting Started – Top Ten List

## OMBI's Mission

- "The Ontario Municipal CAO's Benchmarking Initiative (OMBI) is the result of a CAO's partnership effort to continuously strive for service excellence in municipal government. Participating municipalities are working together to identify and share performance statistics, operational best practices and to network in a spirit of innovation and entrepreneurship to push for even greater successes".

## Benefits of Capital Asset Accounting – why bother?

- Improves accountability for assets
- Better information on the cost of municipal service provision
- Provides a base from which replacement cost can be incorporated & future financing needs forecasted
- Financial statements that make more sense
- Improved comparability between jurisdictions – improved info for performance measurement

## OMBI – Tangible Capital Asset Accounting Project

<i>Phase</i>	<i>Timeline</i>	<i>Status</i>
OMBI Guide v. 1	January, 2004 - October 2005	Complete
Phase II : Testing the Guide through pilot implementations	October, 2005 – January, 2007	On-going
Phase III : document learnings, recommendations	January, 2006- March 2007	On-going

## Guide v. 1- Contents

- Introduction
- Methodology
  - Inventory
  - Classification, segmentation, aggregation
  - Materiality
  - Valuation
  - Depreciation
  - Subsequent acquisitions and dispositions

## Guide - Contents - continued

- Accounting, Budgeting, Costing and User Fees
  - Impacts on financial reporting
  - Impacts on municipal budgeting
  - Costing of services and user fees
- Next Steps
  - Phase II (Pilot projects)
  - Phase III (Guide completion)
  - Outstanding Issues
- Appendix
  - Examples



## Ph II "Pilot Projects" - Purpose

- Test the guide
- Address outstanding issues
- Document processes, roadblocks and fixes
- Assess impacts
- Provide case studies for others to follow
- Provide training material
- Recommend changes to the Guide v.1
- Target completion – mid November'06
- Funding provided by Province

## Ph II - Pilot Project Sites

- Six municipalities conducting pilot projects
  - Niagara Region (Infrastructure, IT, Facilities, V&E) – pop 394k
  - City of Hamilton (roads, bridges and other road assets)- 459k
  - District of Muskoka – 46k
  - County of Brant – 29k
  - City of Thunder Bay – 112k
  - Region of York (roads, bridges and other road assets) – 634k

*(population estimates = 2003)*

### Ph III - Project Deliverables

- Guide - updated and finalized
  - Provide information and advice to municipalities to assist in the implementation of Tangible Capital Asset Accounting
  - Establish consistency with PS3150
  - Establish consistency with new Reporting Model Exposure Drafts:
    - PS 1000 Financial Statement Concepts
    - PS1100 Financial Statement Objectives
    - PS 1200 Financial Statement Presentation
  - Provide definitions of accounting terms, further reference sources
  - Identify options
- Anticipate completion by March 2007

### Ph III - Project Deliverables

- Training material
  - Capture lessons learned from pilots
  - Develop training material to support “how to” training to Ontario municipalities
  - Pilot material may be summarized as case studies
  - lists for planning & execution
  - Underway : compiling Table of Contents (fall, 2006)
- Project Report and Recommendations
  - Make recommendations :
    - That encourage successful implementation and
    - Tell standard setters and legislators about “what else is important”
- Anticipate completion by March 2007

## Top Ten List: Getting Started

...and we do believe you should get started now.....

- 1) Appreciate the breadth of the change!  
Massive change....largest change in municipal accounting in decades
- 2) Start early. Become informed. Know what PS3150 requires.  
Suggested background reading (in order of publication):
  - i) CICA research study – Accounting for Infrastructure in the Public Sector (2002)
  - ii) OMBI – Municipal Guide to Accounting for Capital Assets – v. 1 (March, 2005) – see [www.OMBI.ca](http://www.OMBI.ca)
  - iii) PS3150 – Tangible Capital Assets
  - iv) CICA new Reporting Model - Financial Statement Concepts, Objectives & Presentation (Exposure Drafts PS1000, 1100, 1200) – comment ddIn : August 15, 2006
  - v) For those with keen & immediate interest & time, read up on GASB 34 (USA implementation of TCAA recently implemented)

## Top Ten List: Getting Started

- 3) Plan your implementation – employ project management techniques
  - i) inventory assets
  - ii) valuations
    - i. historical cost records
    - ii. alternative valuation methods (reproduction/replacement cost; discounted);
    - iii. Infrastructure – standard costing of typical cross section - deflated
  - iii) calculate depreciation – need useful life estimates;
  - iv) Consider 'cradle to grave' implementation- small department; small section of large department

## Top Ten List: Getting Started

- 4) Consider resources to complete the various tasks.
  - i) Who will complete what tasks?
  - ii) Will consultants be needed?
  - iii) Will 2007 budget for tasks ahead be necessary?
- 5) Get Buy-in!
- 6) Plan record keeping system
  - i) stand alone database or
  - ii) accounting system with Fixed Asset module
  - iii) integrated Fixed Asset accounting/ Asset Management system?

## Top Ten List: Getting Started

- 7) Consider corporate capital policy items:
  - i) capitalization thresholds
  - ii) asset categories
    - i. Classes : General Capital & Infrastructure
      - i. Sub classes – Land, Land Improvements, Buildings, Leasehold Improvements, Machinery and Equipment, Vehicles.....Linear Assets
    - ii. Functional categories
  - iii) Level of aggregation (breaking assets into 'components' or using 'whole asset' approach?)
    - i. Level you choose has implications for capitalization & implications for future budgets



## Top Ten List: Getting Started

### 8) Transition Options

- i) Maintain 'expenditure' based G/L:
  - i. Convert accounts to 'expense' basis through a significant conversion process at year end,
  - ii. Convert budgets to 'expense' basis at year end (for comparison to actual)

OR

- ii) Convert to 'expense based' G/L (implemented as of transition date:)
  - i. Convert budgets and general ledgers to an 'expense' basis of accounting
  - ii. Ideally, on or prior to 2009 implementation year.

## Top Ten List: Getting Started

- 9) Consider your "go forward" policies
  - i) Who will be responsible for what parts of the capital asset accounting system?
  - ii) What changes to business practices in all divisions will be needed?
  
- 10) Break the project into small tasks.
  - i) Watch for future training opportunities & OMBI Guide version 2 !

If you're in a bad situation, don't worry it'll  
change.

If you're in a good situation, don't worry it'll  
change.

John A. Simone, Sr.



Questions?  
[www.ombi.ca](http://www.ombi.ca)

Knowledge is Power....  
OMBI is sharing collective wisdom

*905-685-4225 ext. 3453*