

Accounting for Capital Assets in Municipalities

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Presentation to AMCTO Zone 4
September 15, 2006

Presentation Outline

- What is “capital asset accounting” and how will it affect my municipality?
- What OMBI (Ontario Municipal Benchmarking Initiative) is doing in partnership with the Province.
- Food for thought!

**What is
“Capital Asset Accounting”
and how will it affect
my municipality?**

What is Capital Asset Accounting?

- The term “tangible capital assets” refers to roads, sewers, water mains, recreation centres, snow ploughs, computers and other such economic resources that:
 - Allow us to produce something, do our jobs, deliver services
 - Have a useful economic life of more than one year
 - Help us to create, fix or maintain an asset
- Capital asset accounting requires that we:
 - value these assets at cost, and,
 - recognize a part of that cost in our financial statements each year over the life of the asset.
- This is referred to as amortization of the asset. It allows us to expense the asset over its useful life rather than as and when it is paid for.

Why Capital Asset Accounting?

Taken from http://www.psab-ccsp.ca/index.cfm/ci_id/3952/la_id/1.htm. Has been summarized for this slide.

- Tangible capital assets represent a significant investment for local governments. Presently there is no generally accepted definition of a tangible capital asset, and local government practices re. capital assets can vary quite considerably.
- Financial information about the stock and use of tangible capital assets is currently not being provided in the financial statements of local governments.
- This information is seen to be vital for purposes of stewardship, accountability, benchmarking, performance reporting and asset management plans (including on going maintenance and replacement requirements)

Brief History

- Municipalities presently operate on an “expenditure accounting” basis, i.e. all expenditures are recorded when they are incurred.
- Accounting for Capital Assets in government has been seen by some as a natural transition from existing accounting practices for several years.
- In 2002 the Public Sector Accounting Board (PSAB) circulated a position paper *Accounting for Infrastructure in the Public Sector*
- In June 2006, PS-3150 *Tangible Capital Assets* was approved for implementation starting January 1, 2009

What Does This Mean?

- Municipal financial statements will be changed to reflect the assets owned by the municipality. This will bring us in line with the private sector that has always accounted for tangible capital assets.
- Municipal assets have to be counted, valued and depreciated. Need ability to track changes to assets, additions, write-downs.
- Provincial legislation will have to change
- Capital Asset Accounting must be in place in each municipality starting January 1, 2009

Implications for Us Inventory/Valuation

- What is an asset?! Is it a pump or a pumping station? The answer will differ from municipality to municipality.
- Where are our assets? Who is keeping track of them?
- How long do my assets last?
- What did they cost? How do I value them?
- What is my opening balance (or starting point)?

Implications for Us

Other Issues

- Keeping track of changes to assets starting Jan 1, 2009
 - What rules do I have in place?
 - Are people trained to implement them?
 - Do I need a new asset accounting system?

- Changes to financial statements and impact on:
 - Council
 - Corporate decision-making
 - Budgeting practices/policies

- Other

**What
OMBI (Ontario Municipal
Benchmarking Initiative)
and York Region
have done to date**

OMBI Capital Assets Project

<i>Phase</i>	<i>Timeline</i>	<i>Status</i>
OMBI Guide v. 1	Jan-Dec 2005	Complete
Phase II : “Testing the guide” through pilot implementations	Oct 2005 – Jan 2007	On-going
Phase III: Document learnings, recommendations.	Jan 2006 – March 2007	On-going

OMBI Capital Assets Project - Phase I

OMBI Guide

- Fixed Asset Sub-Committee developed guide in March, 2005
 - Writers : Sam Sidawi (Niagara Region), Joanne Cermak (Region of Durham), Ron Gibson (OMBI Director), Stefan Loker (Region of Waterloo) and Cam Weldon (City of Toronto)
- Reviewed the experience of others, e.g. US, the Ontario government. Built on work by the Public Sector Accounting Board (PSAB).
- Draft reviewed and commented on by:
 - PSAB
 - Chartered Accounting firms with municipal audit experience
 - Municipal Finance Officers of Ontario (MFOA) members
 - Province of Ontario

OMBI Capital Assets Project - Phase II

Testing the guide through pilot projects

- Partnership between Province and OMBI
- Six municipalities bid to participate
 - Niagara Region (Infrastructure, IT, Facilities, V&E)
 - City of Hamilton (roads, bridges and other road assets)
 - District of Muskoka
 - County of Brant
 - City of Thunder Bay
 - Region of York (roads, bridges and other road assets)
- Different scope to each pilot project

OMBI Capital Assets Project - Phase II

Testing the guide - Purpose of Pilots

- Test the OMBI guide. Address outstanding issues
- Implement Capital Asset Accounting:
 - Inventory & Value Assets.
 - Develop protocols
 - Document experience
- Deliverables:
 - Develop training material for other municipalities
 - Make recommendations to province based on learning

OMBI Capital Assets Project - Phase II

Testing the guide - Pilot site management

- Each pilot being managed by a pilot site manager
- Each manager responsible for organizing and overseeing the conduct of their pilot project. Includes:
 - Inventorying assets
 - Valuations
 - Calculation of Depreciation
 - Assessment of impacts on Financial statements
- Test year 2005

OMBI Capital Assets Project - Phase III

Document learning and recommendations

- Guide - updated and finalized
 - Provide information and advice to municipalities to assist in the implementation of Tangible Capital Asset Accounting
- 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
- Project Report and Recommendations
 - Make recommendations :
 - That encourage successful implementation and
 - Tell standard setters and legislators about “what else is important”

York Region's Participation In The OMBI Pilot Project

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York Region

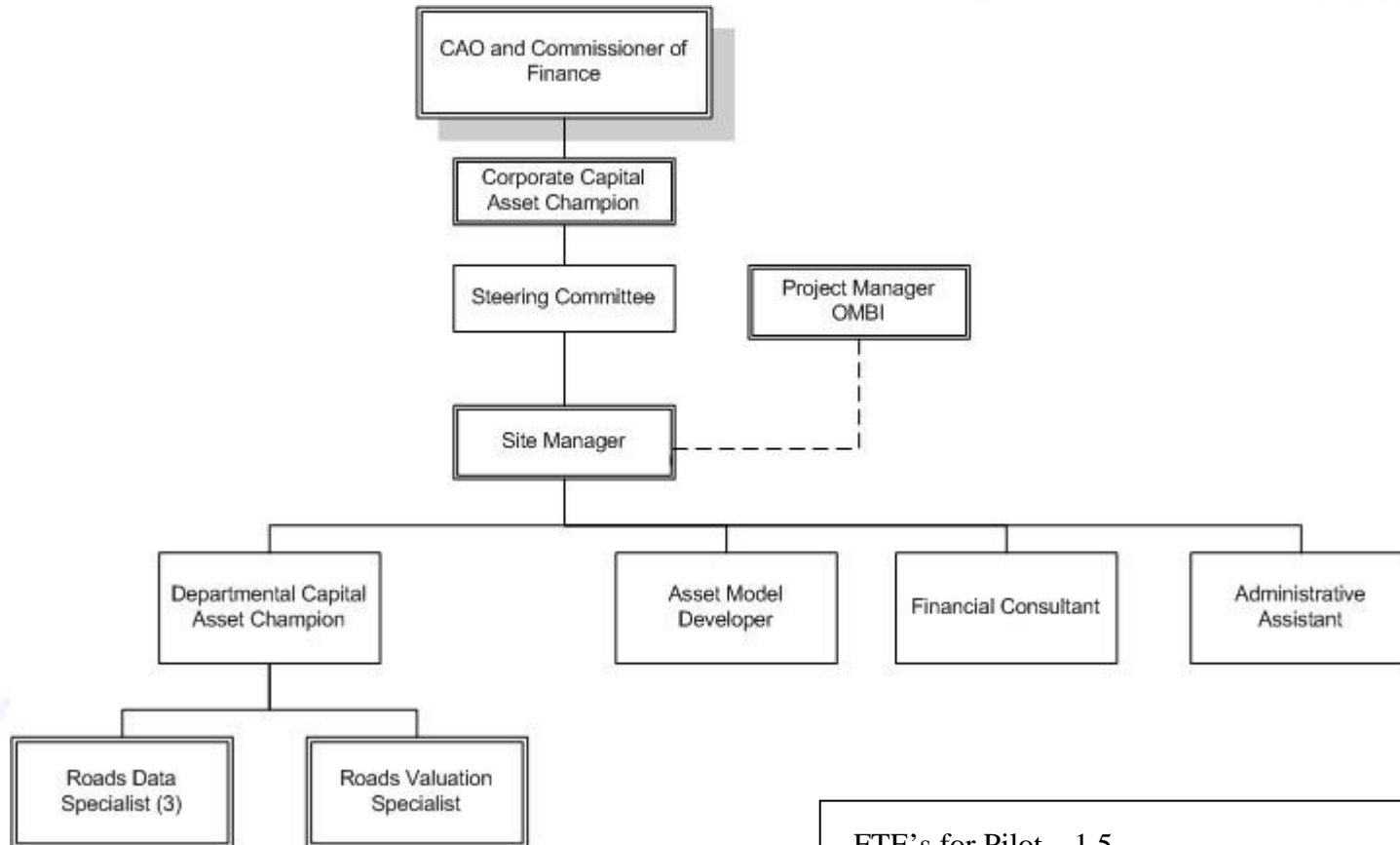
- Too large to pilot all assets in one year. Chose “roads infrastructure” for the OMBI pilot because:
 - Dollar value was substantial (\$2.4 billion)
 - The complexity of Roads assets would allow us to address most of the issues necessary to test the guide

- Developed guiding principles
 - Defined the asset, segment and unit of measure
 - Defined threshold and materiality factors
 - Determined useful life and depreciation

- Documented and costed roads infrastructure inventory using:
 - Inventory Records
 - Maintenance Records
 - Internal Engineering Estimates or Appraisals
 - External Valuation Specialists

ORGANIZATION STRUCTURE FOR THE OMBI PROJECT

Note: All boxes do not represent FTEs!



FTE's for Pilot – 1.5
0.5 Site Manager, 0.5 Corporate Finance, 0.5 Roads

Next Steps

- Roll out our Capital Asset Plan to ALL operating branches in the Region
- Prepare templates for counting and costing assets. Establish a due date for completion/validation of inventory
- Review technology options
 - Asset management systems vs. Asset accounting needs
- Develop plan to change policies and business processes

Food for thought!

Pilot Implementations – My Observations

- Needed time to research. Steep learning curve.
- Inventories generally available but not always easy to get your hands on
- Each pilot brings different strengths to the table. Opportunity to share ideas and learn from each other – priceless!
- One size does not fit all.
- Everything takes a lot longer than you think!

Pilot Implementations - Challenges

- Getting already busy staff engaged
- Establishing capitalization thresholds, standardizing asset categories
- How to divide complex networks into manageable pieces (Segmentation). When to combine assets to form “grouped” assets (Aggregation)
- Difficulty getting to historical cost - developing alternatives (Valuation)
- Specific items –Cemeteries; donated assets
- Application of the principle of “betterment” – capital or repair?

Pilot Implementations - Learnings

- Proposed PSAB changes will mean
 - Substantial undertaking for municipalities across Ontario/Canada
 - Change management initiative with potential for substantial:
 - Budgetary implications,
 - Financial Reporting/ Municipal Finance implications
 - Capital Asset Accounting and Asset Management implications

- Proposed OMBI Tangible Capital Asset Accounting Methodology:
 - Pilots show the methodology works and does what it sets out to do
 - Early experience is that the methodology is robust and flexible
 - More work is required to determine impacts and implications
 - Transition/conversion issues still to be completed

OMBI Capital Assets Project

Top Ten List: Getting Started

- 1) Appreciate the breadth of the change
 - Massive change. Largest change in municipal accounting in decades!

- 2) Start early. Become informed. Suggested background reading:
 - 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) – on OMBI website
 - iii) CICA Exposure Draft - PS3150 – Tangible Capital Assets
 - iv) CICA Exposure Drafts PS1000, 1100, 1200
 - v) For those with keen & immediate interest & time, read up on GASB 34 (USA implementation of TCAA recently implemented)

OMBI Capital Assets Project

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 (discounted reproduction/replacement cost);
 - iii. Book Value Calculator
 - iii) calculate depreciation – need useful life estimates;
 - iv) Consider ‘cradle to grave’ implementation- small department; small section of large department

OMBI Capital Assets Project

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 asset accounting/ management system?

OMBI Capital Assets Project

Top Ten List: Getting Started

7) Consider corporate capital policy items:

- i) capitalization thresholds
- ii) asset categories
 - i. categories currently being tested : Buildings, Capital Work-in-Progress, Infrastructure, Land, Land improvements, Leasehold Improvements, Machinery and Equipment, Vehicles
 - ii. Infrastructure subcategories – Land, Land Improvements, Buildings, Leasehold Improvements, Machinery and Equipment (integral to network operation)
 - iii. Functional categories
- iii) Level of aggregation (breaking assets into ‘components’ or ‘pooled asset’ approach?)
 - i. Level you choose has implications for capitalization & implications for future budgets

OMBI Capital Assets Project

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

OMBI Capital Assets Project 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.

*Opportunity is missed by most people
because it is
dressed in overalls and looks like work.*

Thomas A. Edison (1847 - 1931)

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Questions ?