




To: Finance Committee
 From: Jerry Chong
 Director, Finance
 Re: Tangible Capital Assets

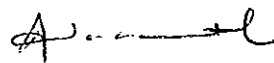
Date: January 29, 2007
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Staff Recommendation

To implement PSAB requirements regarding tangible capital assets as outlined in this report, one time funding of \$400,000 be considered for funding from any arising 2006 surplus.



Jerry Chong
 Director, Finance
 (4064)

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CONCURRENCE OF GENERAL MANAGER		
		
REVIEWED BY TAG	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
REVIEWED BY CAO	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>

Staff Report

Origin

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants has the authority to set accounting standards for the public sector in Canada. In June 2006 PSAB approved new section PS 3150 Tangible Capital Assets which is applicable to local governments. The date for implementation is 2009 which would require the City of Richmond to report capital assets at historical cost, net of accumulated depreciation and commence recording depreciation expense in its 2009 financial statements. However the City would be required to present comparative 2008 figures, therefore, work processes, policies, systems and asset records need to be updated and ready for use before the end of 2008.

Analysis

In order to be able to comply with these new requirements, a number of tasks must be completed including,

- Review of policies related to the acquisition of new assets
- Preparation of an inventory of capital assets
- Valuation of the assets based on historical costs and determining the amount of depreciation of each asset
- Consideration of changes that may be required to the budget policies and changes to budgetary procedures
- Review of financial software for recording assets
- Review of financial software for budget preparation

Review of policies for the capitalization of assets

Policies are required for what is considered a tangible capital asset and how the City will record and report them. These policies will need to address the following issues:

- Threshold values for capitalization
- Categories and classification of assets and whether there should be different thresholds for each classification?
- What can be included in the total cost for capitalization?
- When will the valuation of an asset be written-down, and how will the disposal and retirement of assets be handled?

Preparation of an inventory of existing capital assets

The City currently has some information with respect to certain capital assets for insurance, maintenance, development charges, and long-term capital planning purposes. However, no single comprehensive database currently exists and the amount of information varies greatly from one type of asset to another. For many assets the historical cost is not recorded, as it was not a relevant piece of information to keep. Work will need to be undertaken to retrieve and classify all the information that currently exists on the City assets. The adequacy of this information will need to be assessed and any shortfalls identified. Methodologies and procedures will need to be developed to compensate for these shortfalls.

Valuation of the assets based on historical costs and determination of depreciation

Where records do not exist that identify the historical cost of the City assets, alternative valuation methods must be developed to approximate the value for inclusion on the financial statements. Each asset will also need to be considered for the amount of life remaining and a value calculated equal to the amount of depreciation to date for that asset. Both the estimated historical cost and the total depreciation to date will need to be included in the financial statements for 2009. The 2009 financial statements will also include an amount for annual depreciation in the statement of operations for the first time. This may have an impact on the amount of surplus or deficit for the City in 2009.

Changes to budget policy

Currently the capital budget includes many projects that would not meet the definition of a tangible capital asset under PSAB, such as, studies and plans. A review of our existing capital budget policies will need to be undertaken and decisions made regarding keeping projects within the capital budget or moving them into the operating budget for consistency with PSAB. Policies providing clarification regarding activities that are maintenance in nature versus capital will need to be explored and enforced. Policies related to the operating budget will also need to be considered, such as how the annual depreciation charges will be accommodated within the budget.

Review of financial software

The City does have some asset information in a variety of forms and levels of detail, but this information is not currently part of the Peoplesoft accounting system. An evaluation of the functionality required to meet the on-going requirements of adhering to the PSAB standards will need to be made. The implementation of a capital asset accounting system and the integration of that system into our accounting system will need to occur prior to January 2009.

Other considerations

Will municipalities be required to budget for the depreciation charges and include those charges in setting tax levies?

Staff will form a team with representatives from various departments to review and plan for the upcoming changes. The City has also begun to participate with other Cities within the Lower Mainland in user groups in order to address common issues and concerns.

Financial Impact

In order to successfully implement PSAB in 2009, additional resources will need to be dedicated to this project. One time funding from any arising surplus is requested in order to cover the costs associated with the changes needed in the City. It is estimated that the costs associated with the implementation will be \$400,000 to collect all the data, develop costing models, estimate

remaining useful life, implement new systems and develop the policies and procedures for maintaining this new database of information.

Since the information will be presented on the financial statements, the data and systems will also be subject to external audit. Post 2009, there will be an on-going requirement for an asset management staff position to maintain the data as well as increases to our annual audit fees, software and administrative costs to cover the increased scope of work. The ongoing costs are estimated to be approximately \$125,000 annually.

Conclusion

The changes to the PSAB handbook will create corporate standards, policies and uniform documentation regarding the value of our assets and will provide a measurement regarding the management of those assets in the supply of service. The new reporting requirements will require governments to keep track of their capital property as assets and charge annual results with the cost of using the assets over many years.



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JC:jc