



City of Richmond

Report to Council

To: Finance Committee

Date: October 29, 2009

From: Jerry Chong
Director, Finance

File:

Re: Tangible Capital Asset Project

Staff Recommendation

That the report on Tangible Capital Asset Project be received for information.

Jerry Chong
Director, Finance
(604-276-4064)

FOR ORIGINATING DEPARTMENT USE ONLY					
ROUTED TO:		CONCURRENCE		CONCURRENCE OF GENERAL MANAGER	
Budgets		Y <input checked="" type="checkbox"/> N <input type="checkbox"/>			
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, sets standards for financial accounting and reporting in the government sector. It has introduced new standards for capital asset accounting and reporting for local governments effective January 1, 2009. These standards have been in place for the private sector, some areas of the public sector and other senior level governments for many years. The local governments are the last ones to comply with these standards.

Section 167 (2) of the Community Charter requires local governments to comply with generally accepted accounting principles (GAAP) in preparing their financial statements and as such, requires them to comply with standards set out by PSAB. Non-compliance of GAAP results in auditors issuing a qualified audit report which signals unreliable financial statements that could have an impact on the City's credit rating and result in further scrutiny by the Auditor General of British Columbia.

The intent of these new standards for local governments is to:

- Provide meaningful information to the users of municipal financial statements regarding the current program costs, state of the capital assets and the health of the reserves that fund the replacement of these capital assets
- Place emphasis on the accountability and stewardship of the assets
- Focus on the capital asset replacement strategy based on the life cycle planning and economic evaluation

Analysis

As a result of the changes in accounting standards the City initiated the Tangible Capital Asset (TCA) Project in 2007. It is an organization wide project involving all departments that have custodial responsibilities for capital assets.

TCA Project Impact On The City

The City will be required to

- Maintain a capital asset inventory with appropriate financial information on an ongoing basis.
- Revise the financial statements of the City to reflect the net book value of the capital assets and amortization costs.
- Review capital and operating budget processes to accommodate capital versus operating cost submissions.
- Capitalize only the direct costs attributable to the construction or the development of capital assets

- Upgrade PeopleSoft financial system to capture information required for reporting purpose.
- Design new processes for information flow between departments and finance on an on going basis
- Plan resources to maintain the information as required by PSAB

Impact on City financial statements

The focus of the TCA Project is to capture financial information of the assets in a consistent and standardized manner, which will form part of the City's financial statements. The financial statements will then provide a clearer picture of the state of City's capital assets for Council, senior levels of government, users of municipal financial statements and the public in general on an annual basis. Under the new standards, the City's financial statements will reflect the following:

- All capital assets will be reported on the Balance Sheet otherwise known as the Statement of Financial Position at net book value, which is the net of the historical cost and accumulated amortization or depreciation.
- Amortization is the loss of the value of an asset over its estimated useful life as a result of its use and wear and tear. Generally it is calculated by dividing the cost of an asset by its estimated useful life.
- The annual amortization/depreciation of the assets will be shown in the Income Statement otherwise known as the Statement of Operations as the cost of operations.

This is a departure from the City's current practice of presenting all capital assets as expenditures in the year incurred.

Benefits

In the long run, the City with its large investment in infrastructure assets should benefit from the information that will be collected as a result of this project.

- Each asset will be identified with its acquisition date, estimated useful life, original cost and its replacement value where applicable. With this information, a long term corporate strategy for capital asset replacement could be developed based on life cycle planning and economic evaluation.
- A measurement for replacement of assets in relation to amortization expense can be developed
- A better understanding of the City's infrastructure deficit and relating health of capital reserves can be developed
- A corporate asset management system can be developed to better manage city assets.

Project Status Update

The TCA project has proven to be one of the most challenging projects with its organization wide impact. It has required active participation of various departments to collect essential information. Despite the challenging timelines and competing priorities, working groups have

been formed comprising various city departments and progress has been made to extract financial information relating to capital assets.

Setting up asset inventories

- Developed inventories for each category of assets as at the end of year 2007 with financial, physical and demographic information. For example, the asset category “Land” has the acquisition year, historical costs, location/address, property identification number and the area. The major asset categories are as follows.
 - Land
 - Land Improvements (Parks assets)
 - Buildings (Facilities)
 - Infrastructure Assets (Roads, Waterworks, Sanitary sewer, Storm drainage etc.)
 - Machinery and Equipment
 - Capital work-in-progress

Currently in the process of updating the 2007 asset inventory with additions and disposals for years 2008 and 2009.

Collecting financial information

- Collected financial information such as the historical cost, acquisition year and estimated useful life for each asset in the 2007 inventory.
- This information is being updated for 2008 and 2009 inventory items.

Setting up amortization rate and net book value

- Based on the estimated useful life, the amortization rate and the net book value have been calculated for each asset in the 2007 inventory. (Net book value is the difference between the historical cost and the total accumulated amortization)
- This information is being updated for 2008 and 2009.

Developing policies and procedures

- Drafted financial policies defining capital assets, capitalization thresholds, maintenance and betterment, amortization of assets and disposal of assets.
- These policies will be submitted to TAG for approval before they are rolled out to the departments later in the year.
- A procedural manual for capital asset accounting and reporting is being developed.

Upgrading financial system and developing business processes

- A new Project Costing module has been implemented and an Asset Management module is scheduled for implementation in the PeopleSoft Financial System to capture aggregated asset information. Detailed asset information will still reside in such systems as GIS, Pavement Management Systems, VFA (Facilities System) and others maintained by departments.
- Resulting business process changes are being assessed with affected departments and new processes are being developed.

KPMG review

- Completed KPMG review of asset inventories as at December 31, 2007.
- Currently in the process of addressing their review questions
- Preparing for their review of 2008 additions and disposals in mid November 2009.
- Review of 2009 additions and disposals will take place during their interim audit in December 2009
- Final audit of PSAB capital asset standards will be completed in March 2010.

Project Cost

The project received \$396,697 from the 2007 surplus as approved by Council. To-date \$ 295,000 has been spent on the project. We anticipate a further \$100,000 will be spent on audit fees and consulting fees.

Financial Impact

There is no financial impact for this report. Additional resources may be required to maintain and manage the changes in the accounting standards on an ongoing basis. Staff will assess the impact of these changes and the corresponding need for resources and bring forward a report to Council if required.

Conclusion

The TCA project will have a significant impact on the tracking and reporting of City's capital assets. It is expected that the information generated as a result of this project will prove to be valuable to decision makers to formulate comprehensive asset replacement strategies at the corporate level and develop a better understanding of the infrastructure deficit and the health of the replacement reserves.



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