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PUBLIC SECTOR ACCOUNTING CHANGES

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, May 11, 2007, from the Commissioner of Finance:

1. RECOMMENDATION

1. It is recommended that this report be received for information.

2. PURPOSE

The purpose of this report is to provide an update on the Tangible Capital Asset Accounting (TCAA) implementation and roll-out in York Region as required by the Public Sector Accounting Board (PSAB).

3. BACKGROUND

Starting January 1, 2009, Tangible Capital Asset Accounting (TCAA) will be required for all municipalities, including boards and agencies that presently report through municipalities. This requirement has been established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and is applicable to all municipalities across Canada.

At present, municipal financial statements do not include the billions of dollars in physical infrastructure (roads, sewers, water mains etc.) that are owned by the municipality. This change will require that these assets be included in municipal financial statements starting 2009. It will bring municipal government financial reporting in line with the private sector and other levels of government.

This is the most significant change to municipal finance in recent history. As well, it is expected to bring the important issue of prudent asset management to the forefront when financial information on assets is more visible.

4. ANALYSIS AND OPTIONS

The requirement to implement TCAA is not a surprise to the municipal sector. In recent years the CICA has required the implementation of TCAA in first the Federal government, then the Provincial government, school boards and hospitals. Municipalities, possibly because of the complexity and diversity of assets, are the last level of government required to implement TCAA.

4.1 York Region Activities to Date

York Region has been an active player in both developing expertise in TCAA and assisting our municipal colleagues in preparing for a TCAA roll-out.

4.1.1 Roads Infrastructure Pilot

At its meeting of June 23, 2005, Regional Council approved York Region's participation in the Ontario Municipal Benchmarking Institute (OMBI) Pilot Project. Some funding support was provided by the Province of Ontario and a pilot study of our Roads Infrastructure in February was completed 2007. This pilot study proved to be a very valuable activity for York Region because it required staff to quickly become familiar with the complications of capitalizing assets in a local government environment and to better understand the accounting implications of capitalizing these assets.

It became very clear early in the pilot process that capitalizing the Region's assets was an extremely time consuming exercise requiring important choices and decisions that would significantly affect the values we report in our financial statements in future years.

The lessons York Region and the other participants learned in conducting their pilot studies allowed us to take a leadership role in this initiative and to assist the CICA and the Provincial Government introduce Tangible Capital Asset Accounting to other local governments throughout Canada.

4.1.2 Region-wide Rollout of TCAA

We are currently in the process of rolling out TCAA to all the operating departments in York Region. For the first time in the history of the municipality, we require all departments to list all their assets, provide key information on each asset, and identify what they paid for them.

This is a significant effort, requiring dedication of staff time in every department, review of our financial and other records, and detailed counts and listings of all regional assets.

Significant progress has been made on this activity and we believe that it will be completed and tested by our external auditors for reasonableness by year end 2007.

The data will then be loaded into the Region's accounting system and tested throughout 2008 before go-live on January 1, 2009.

As well, we are working with departments to develop new policies and procedures for the treatment of capital expenditures in the new era of Tangible Capital Asset Accounting.

4.2 Municipal Leadership in TCAA

4.2.1 Within York Region

York Region has assumed a leadership role in sharing information and providing a forum for exchange of ideas and research among the municipalities within York Region.

In February 2007, a workshop was held for municipal finance staff from the local municipalities. It was well attended and much appreciated. It was decided that quarterly follow-up meetings, to be hosted by York Region, will be scheduled to ensure we continue to network amongst ourselves on this important issue.

4.2.2 AMCTO / MFOA Workshops

In partnership with the Association of Municipal Clerks and Treasurers of Ontario (AMCTO) and the Municipal Finance Officers of Ontario (MFOA), York Region staff, involved with the OMBI pilot, is participating in workshops being held across the province to bring Ontario municipalities up to speed on TCAA and being adequately prepared for this significant change.

4.2.3 Other

As other municipalities discover the work that has been done to date at York Region on TCAA, staff is frequently asked to participate on panel discussions, present to groups and provide advice on issues related to TCAA.

4.3 Technology Implementation to Support TCAA

In order to effectively report tangible capital assets in our financial statements we must load the information into our financial reporting system. A project team is in place to ensure appropriate integration with our existing asset management systems, and appropriate data loads and testing with a goal of completing the initial data load by year end 2007.

4.4 Working with our External Auditors to implement TCAA

One of the key components of our implementation plan is to regularly communicate our project status with our external auditors, KPMG. They have been more than willing to work with us since the very early stages of this project and the communication we both have enjoyed during this time has been invaluable to both parties.

We are in regular contact with KPMG to discuss the status of our project, identify issues, get advice and share experiences as both parties work their way through this new initiative.

We have asked KPMG to plan an audit of our data in Q4 2007 to ensure York Region is on track and KPMG agrees with our methodology and valuation procedures.
KPMG welcomed this suggestion and have schedule the audit.

5. FINANCIAL IMPLICATIONS

Resources associated with implementing TCAA in York Region have been included in the 2007 Operating Budget.

The change in accounting is likely to also have an impact on municipal budgeting since depreciation expense will become an operating expense. The Province may need to review the existing “balanced budget” legislation within the Municipal Act once the impact of the accounting change is known. It is expected that this will not be addressed until 2008.

6. LOCAL MUNICIPAL IMPACT

All municipalities in Ontario will be required to implement TCAA by January 1, 2009. York Region is taking on a leadership role in disseminating information and supporting the roll-out of TCAA in the local municipalities.

7. CONCLUSION

Tangible Capital Asset Accounting will be required for all municipalities by January 1, 2009.

Through its involvement in the OMBI pilot project the Region is well positioned to comply with the requirement.

Significant work remains to be done. However, staff in all departments are aware of the timelines, the requirements and the deliverables. We continue to work diligently, as one team, focused on meeting our goals.

The Senior Management Group has reviewed this report.