STRATHCONA COUNTY

Policy

Tangible Capital Assets Financial Reporting Policy

Cross-reference: FIN-001-004 Expenditure and Budget Management

Policy Statement

The Tangible Capital Assets Financial Reporting Policy supports organizational decision making, provides enhanced reporting and increased transparency to the organization, the public and other stakeholders. The recognition, recording and reporting of Tangible Capital Assets are necessary financial processes to support the strategic goal to strategically manage, invest and plan for sustainable municipal infrastructure.

Purpose

The purpose of this policy is to provide direction for the recognition, recording and reporting of Tangible Capital Assets on a consistent basis and in accordance with Public Sector Accounting Standards. The Tangible Capital Assets Financial Reporting Policy is required to:

- measure and report the full cost of the County's operations;
- ensure that all Tangible Capital Asset acquisitions are approved by Council;
- ensure that clear guidance, training and support is provided to departments;
- support stewardship of the County's Tangible Capital Assets; and
- support efficient and effective use of the County's Tangible Capital Assets.

Definitions

Amortization
An annual non-cash expense in the statement of operations that spreads the cost of a Tangible Capital Asset across its Useful Life.

Assets
Assets are economic resources controlled by the County as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets have three essential characteristics:

a) they embody a future benefit that involves a capacity, singly or in combination with other Assets, to provide future net cash flows, or to provide goods and services;
b) the County can control access to the benefit; and
c) the transaction or event giving rise to the County's control of the benefit has already occurred.

Betterment
Subsequent expenditures that enhance the Service Potential of the Asset by one or more of the following:

a) increasing the physical output or service capacity;

b) lowering associated operating costs;
c) improving the quality of the output; or
d) extending the Useful Life.

Capital Lease
A lease, with contractual terms, that transfers substantially all the benefits and risks inherent in ownership of property to the County.

Capitalization Threshold
The value above which Tangible Capital Assets are capitalized and reported in the financial statements within the major Tangible Capital Asset categories.

Component
A part of an Asset with a cost that is significant in relation to the total cost of the Asset.

Chief Commissioner
Chief Administrative Officer

Fair Value
The amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Net Book Value
The cost of a Tangible Capital Asset, less accumulated Amortization and the amount of any Write-downs.

Nominal Value
The value assigned to an Asset when no Asset valuation method is relevant, or where the accuracy of any estimate could not be supported in an audit. Nominal Value in this context is defined by the County to be one Canadian dollar.

Recognition Criteria
The Recognition Criteria for an item in the financial statements (including a Tangible Capital Asset), are as follows:

a) the item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and
b) for an item that involves obtaining or giving up future economic benefits, it is expected that such benefits will be obtained or given up.

Residual Value
The estimated net realizable value upon disposition or sale of a Tangible Capital Asset at the end of its Useful Life.

Service Potential
The Tangible Capital Asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and Useful Life.

Tangible Capital Assets
Non-financial Assets having physical substance that:

a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other Tangible Capital Assets;

b) have useful economic lives extending beyond an accounting period;
c) are to be used on a continuing basis; and
d) are not for sale in the ordinary course of operations.

For the purposes of this policy, Tangible Capital Assets are defined to include computer software.

Useful Life
The estimate of either the period over which the County expects to use a Tangible Capital Asset or the number of production or similar units that it can obtain from the Tangible Capital Asset. The life of a Tangible Capital Asset may extend beyond its Useful Life. The life of a Tangible Capital Asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial or legal life.

Write-down
The reduction in the cost of a Tangible Capital Asset to reflect the decrease in the quality or quantity of its Service Potential due to a permanent impairment.

Guidelines

1. Recording Assets

1.1. When to Record Tangible Capital Assets

A Tangible Capital Asset will be recorded in the County financial statements as of the date it meets all of the following:
a) the definition of an Asset;
b) the definition of a Tangible Capital Asset;
c) the Recognition Criteria of an item in the financial statements; and
d) the Capitalization Thresholds for major Tangible Capital Asset categories.

The following Assets will not be capitalized:
- land (or other Assets) acquired by right, such as Crown lands, forests, water and mineral resources;
- works of art and historical treasures; and
- intangible Assets such as patents, copyrights and trademarks.

1.2. Classification

Tangible Capital Assets will be classified in the following major categories:
- Land
- Land Improvements
- Buildings
- Engineered Structures
- Machinery & Equipment
- Library Collections
- Vehicles

1.3. Capitalization Thresholds

Tangible Capital Assets that have an acquisition value (see section 2 below) per individual item or unit that exceeds the following Capitalization Thresholds by Asset type will be capitalized:

a)	Land	$ 0
b)	Land Improvements	$ 10,000
c)	Buildings	$ 100,000
d)	Engineered Structures	$ 100,000
e)	Machinery & Equipment	$ 10,000
f)	Library Collections	$ 10,000
g)	Vehicles	$ 10,000

1.4. Capital Leases

The County will account for a Capital Lease as an acquisition of a Tangible Capital Asset and incurrence of a liability, in accordance with Public Sector Accounting Guideline PSG-2, Leased Tangible Capital Assets.

1.5. Betterments versus Maintenance

Betterments which exceed the Capitalization Threshold of the applicable capital Asset class will be included in the Tangible Capital Asset's cost. Any other expenditure would be considered a repair or maintenance and expensed in the period.

1.6. Single Asset versus Asset Division into Components and/or Segments

Tangible Capital Assets may be accounted as a single Asset or by Components. A linear Asset may also be accounted for by segments or a combination of segments and Components. Whether the Component and/or segment approach is to be used will be determined by the usefulness of the information versus the cost of collecting and maintaining information at the more detailed Component or segment level.

1.7. Grouped/Pooled Assets

Tangible Capital Assets that have an individual unit value less than the corresponding Capitalization Threshold (on their own) but have a significant value as a group will be 'grouped' as a single Tangible Capital Asset with one combined value in the accounting records.

2. <u>Tangible Capital Asset Acquisition Value</u>

Tangible Capital Assets are recorded at cost plus all ancillary charges necessary to place, prepare, and install the Asset in its intended location and condition necessary for its intended use. Cost includes all non-refundable taxes and is net of any trade discounts or rebates. Funding sources such as grants and donations are not netted against the cost of the related Tangible Capital Asset.

Feasibility costs are incurred to make a decision on whether or not an Asset should be acquired. These costs are excluded from the cost of a Tangible Capital Asset as they are not directly attributable to the cost or the future economic benefit of the Asset. This is evidenced by the costs being incurred in advance of a formally approved capital project.

2.1. Purchased Assets

The cost of purchased assets includes the purchase price and other acquisition costs to install the Asset at the location and in the condition necessary for its intended use; such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties.

2.2. Constructed or Developed Assets

The cost of constructed or developed assets includes the gross amount of consideration directly attributable to acquire control of, construct or develop the Asset and to install the Asset at the location and in the condition necessary to prepare it for its intended use.

2.3. Donated or Contributed Assets

The cost is equal to the Fair Value at the date of donation or contribution. Fair Value may be determined using market or appraisal values. If it is not possible or practical to determine the fair market or appraised value, other reasonable methods of valuation may be applied to determine an estimated cost, such as discounted cash flows or replacement cost. If an estimate of Fair Value cannot be made, the Tangible Capital Asset would be recognized at Nominal Value. Ancillary costs necessary to place, prepare, and install the donated Asset in its intended location and condition for use should be capitalized.

2.4. Leased Tangible Capital Assets

The cost of a leased Tangible Capital Asset is determined in accordance with Public Sector Guideline PSG-2, Leased Tangible Capital Assets.

3. <u>Amortization Expense & Estimated Useful Life</u>

3.1. Amortization Expense

The cost, less any Residual Value, of a Tangible Capital Asset with a limited life should be amortized over its Useful Life in a rational and systematic manner appropriate to its nature and use. Land has an unlimited Useful Life and should not be amortized. No Amortization expense should be recorded on Tangible Capital Assets which have been removed from service but not yet physically disposed of either through sale, demolition/dismantling, trade-in or transfer.

3.2. Estimated Useful Life

An Asset's Useful Life is based on the County's planned use of that Asset and experience with other similar Assets. The Amortization method and estimate of the remaining Useful Life of a Tangible Capital Asset should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

3.3. Residual Values

In most cases, the County will hold a Tangible Capital Asset for an extended period of time and as a result, the Residual Value will be immaterial for most Asset classes. A Residual Value may be recorded for a Tangible Capital Asset when it is likely that the Asset will have a significant value beyond its Useful Life to the County.

4. <u>Write-downs for Impairment</u>

A Write-down for impairment of a Tangible Capital Asset is required when either:

a) Service Potential is impaired (i.e. the Asset no longer contributes to the County's ability to deliver goods or services); or
b) future economic benefits are impaired (i.e. the Net Book Value of the Tangible Capital Asset is in excess of the future economic benefits expected from its use and this excess is expected to be permanent).

Write-downs of Tangible Capital Assets should be recorded as a current period expense in the period that the decrease can be measured and is expected to be permanent.

Write-downs are permanent and cannot be reversed in subsequent periods even if circumstances change.

5. Tangible Capital Asset Disposal

An Asset disposal will be recognized when Tangible Capital Assets are taken out of service, destroyed, replaced due to obsolescence, scrapped, abandoned, dismantled or otherwise written off as of the effective date of the change in the use of the Asset. Any gain or loss on the disposal will be recorded as a revenue or expense, respectively, in the period of the disposal.

6. Maintaining Records

Corporate Finance will maintain records of the complete inventory of the County's Tangible Capital Assets and the related Amortization based on historical Tangible Capital Assets acquisitions and disposals.

7. Financial Reporting

7.1. Amortization

Amortization is accounted for as an expense in the statement of operations.

7.2. Disclosure Required

In total and for each major category of Tangible Capital Assets, the County will disclose the following in the annual financial statements:

- Cost at the beginning and end of the period;
- Additions in the period;
- Disposals in the period;
- The amount of any Write-downs in the period;
- The amount of Amortization expense for the period;
- Accumulated Amortization at the beginning and end of the period; and
- Net Book Value at the beginning and end of the period.

8. Administration and Approvals

Approvals relating to capital expenditures must be in accordance with the Expenditure and Budget Management Policy (FIN-001-004).

9. Valuation of Previously Unrecognized Tangible Capital Assets

Historical cost at time of acquisition should be used to determine the cost of a previously unrecognized purchased, constructed or developed Tangible Capital Asset. If historical cost is not available, the valuation methodology in order of preference is discounted or deflated reproductive cost, replacement cost, market value, or Fair Value. In all cases, the estimated current value is adjusted by a deflation factor to estimate the original historical cost of the Asset when acquired, constructed or developed.

10. Roles and Responsibilities

10.1. Departments

It is the responsibility of departments to be in compliance with the Tangible Capital Assets Financial Reporting Policy and the related Administrative Procedures to the Policy.

10.2. Corporate Finance

It is the responsibility of Corporate Finance to oversee the organization's ongoing compliance with the Tangible Capital Assets Financial Reporting Policy and to ensure that proper training and support is provided to departments.

Policy Record

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