Grey County

Corporate Policy

Tangible Capital Asset Accounting Policy

Approved by: County Council
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Policy Number: 7-3

Section: Finance

References and Related Documents
Municipal Act, 2001
Public Sector Accounting Handbook Section 3150 – Tangible Capital Assets

Policy Statement

The goals of this policy are to ensure assets owned by the County of Grey are:

I. Accounted for accurately;
II. Accounted for in compliance with relevant legislation.

Purpose

The purpose of this policy is to ensure the County of Grey's compliance with Public Sector Accounting Handbook Section 3150 – Tangible Capital Assets, which requires the County of Grey to account for and report tangible capital assets on County financial statements. This policy will prescribe the financial criteria that determine whether to capitalize tangible assets on the financial statements of the County of Grey, establish useful lifespans for the various assets Grey County owns that meet these criteria, and provide definitions to some of the terminology within and surrounding tangible capital asset accounting. The lifespans listed in this policy will also be referred to for asset management purposes.

It is anticipated that the tangible capital asset policy will be refined and amended over time; asset and their lifespans will change as technology advances, and thresholds will likely increase over time in accordance with inflation. Staff will continue to monitor thresholds, valuations, and useful lives to determine if adjustments are required.

Scope

This policy applies to all Grey County departments, boards, and organizations falling within the reporting entity of the County of Grey.

Application

Capital Thresholds

A capitalization threshold represents the minimum dollar amount that is used to determine whether expenditures will be capitalized as assets or treated as expenses in the year such expenditures are incurred. The capitalization thresholds that are established impact the size of the asset inventory and how future acquisitions and disposals are treated. The capitalization thresholds presented in Appendix 2 below attempt to balance accurate and meaningful presentation of information that can be used for decision-making and analysis against the cost of gathering and maintaining the information. Refer to Appendix 1 for a Tangible Capital Asset Recording Decision Tree.

Expenditures that meet the criteria to qualify as betterments to existing assets shall be capitalized when unit costs exceed the threshold for that asset category. An example of this would be a new roof replacement on a County building.

Valuation

Tangible capital assets will be recorded at historical cost as required by PSAB 3150 upon the latter of the acquisition or the in-service date, with the exception of contributed assets (see below). Amortization will then be taken annually using the straight-line amortization method on this historical value less any residual cost, as determined by the Director of Corporate Services and Deputy Treasurers in consultation with management of the respective department(s). This will result in the net book value of the asset being reported on the County's financial statements.

Obtaining the historical cost is the preferred method of valuation; however given the age of some municipal assets owned by the County, it was not practical or cost effective when PS 3150 was implemented in 2009 and the 2008 financial statements were restated as required. Where the actual acquisition or construction cost cannot be practically or cost effectively determined (i.e. during the original implementation of PS

3150 during 2009), the current replacement value is used and extrapolated back to the estimated historical cost using a deflator index.

Based upon the "Historical Cost Indices for PSAB 3150 Purposes" prepared February 25, 2008 by Watson & Associates Economics Ltd. the following deflator indices shall be used to calculate the estimated historical cost:

a) Non Residential Building Construction Price Index (NRBCPI) – Quarterly, Toronto for Infrastructure, Buildings and Facilities (CPI used for assets acquired or constructed prior to 1981 as NRBCPI not in existence prior to this date)

b) Consumer Price Index – Monthly, Toronto (CPI) for Land, Vehicles and Equipment (CPI Canada used for assets acquired or constructed prior to 1971 as CPI Toronto not in existence prior to this date)

Current replacement value may be determined through methods such as obtaining the current fair market value of the asset through the use of professionals (i.e. Appraisal, Condition Assessment, Insurance Appraisal, Engineering Study, etc.).

The cost of a contributed or donated tangible capital asset will be considered equal to its fair value at the date of contribution, and will be also recorded as revenue. Contributed or donated assets will be recognized as County owned assets when the Legal Title is transferred. Assets transferred from other governments will be accounted for in accordance with the CPA Canada Handbook.

Studies and other initiatives that relate directly to the acquisition of a tangible capital asset shall be capitalized at the time the asset is completely constructed. For example, an environmental assessment shall become part of the total cost of a bridge and shall not be capitalized until the bridge is completed. If the study/initiative does not relate directly to the acquisition of a tangible capital asset, the expense shall be recorded in the year(s) in which they occur. Examples of studies that would not qualify as part of a tangible capital asset are building assessments or roads needs studies.

Tangible capital assets that are to be developed or constructed shall be recorded as “Capital Work in Progress” during development. Amortization shall begin on the earlier of the day that the asset goes into service or that ownership/responsibility/control is transferred to the County. At this time, the asset will be transferred from “Capital Work in Progress” to the applicable asset category. Any interest (paid or accrued) that is directly attributable to the construction/development project shall be capitalized up to the “in service” date.

Write-downs should occur when the County has determined that there is a permanent reduction in the expected future economic benefits from an asset. The write-down will equal the reduction in the asset’s value from its net book value. A write-down of an asset is more appropriate than a change in amortization method when new information has been obtained as this will result in a prospective accounting estimate change, not a retrospective accounting policy change. Write-downs may result from the occurrence of one of the following events:

- A change in the extent to which the asset is used
- A change in the manner in which the asset is used
- A decline in the demand for the services provided through the use of the asset
- A change in the laws or environment affecting the use of the asset
- Removal of the asset from service
- Physical damage
- Technological developments

When the tangible capital asset no longer contributes to the County’s ability to deliver goods or services, and the County has no intention of continuing to use the asset in its current capacity and there is no alternative use for the asset, the asset should be written down to its residual value.

When a tangible capital asset is taken out of service, destroyed, replaced, scrapped, dismantled or sold, the department head or designate must notify Finance of the asset's description, the effective date of disposal, and any proceeds received. The Finance department is responsible for adjusting the asset registers and accounting records to record a gain/loss on disposal. The gain/loss will be determined as the difference between the sale or salvage value and the net book value of the asset.

Any proceeds realized from the disposal, transfer or exchange of tangible capital assets will be transferred to the relevant reserve fund and can then be used in the future purchases of new assets. Exceptions to this policy may occur upon the discretion of the Director of Corporate Services and the Deputy Treasurers, such as in the case of some Information Technology assets, etc.

Useful Lifespan

The lifespan assigned to each asset is used to calculate the amount of annual amortization. Amortization is the allocation of the cost of an asset, less its estimated value on disposal over the estimated useful life of the asset. Amortization will be calculated using the straight line method; for example a building that costs $750,000 with a useful life of 75 years will have annual amortization of $10,000 ($750,000/75 years). Land has an unlimited useful life and is not amortized.

The useful lifespans presented in Appendix 2 below have been determined through reviewing material prepared by The Ontario Municipal Benchmarking Initiative (OMBI), policies from other municipalities, and consultation with management and staff of the County of Grey. The recommended lifespans are for amortization purposes and asset management planning only and are the best estimates at this time; it is assumed that these will be further refined over time. An asset that is still in use although fully amortized does not present an issue for accounting purposes; therefore the useful lifespans have been set conservatively.

It is recommended that the useful life should be set conservatively as an overly optimistic lifespan would result in a loss on disposal if the asset requires replacement earlier than anticipated. For example, a vehicle with a cost of $150,000 with zero value at disposal and a useful life of 15 years would have annual amortization totaling $10,000. If this vehicle requires replacement after 10 years, there would be a loss of $50,000 (cost of $150,000 less amortization of $10,000 per year for 10 years being $100,000).

The lifespans provided below are to be used as a guideline only; estimated useful lifespans may vary by department, or may change upon the occurrence of a significant event.

Any changes to lifespans shall be reviewed and approved by the Director of Corporate Services and the Deputy Treasurers.

For assets that are not listed in Appendix 2, the Director of Corporate Services and the Deputy Treasurers shall determine the useful lifespan in consultation with the Director/Manager of the respective department. In the event of a disagreement on the interpretation or implementation of these policies and procedures, the Director of Corporate Services and the Deputy Treasurers shall make the final decision, guided by the Municipal Act, the Public Sector Accounting Handbook Section 3150, the Ontario Municipal Benchmarking Initiative's "Municipal Guide for

Accounting for Tangible Capital Assets” and in consultation, if applicable, with the County’s Auditor.

Definitions

Accrual Based Accounting:

A system of accounting that measures the economic impact of transactions and economic events rather that cash flows.

Accumulated Amortization:

The sum of all amortization charges to a tangible capital asset. This represents the total consumed or used portion of that asset.

Amortization:

The accounting process of allocating the cost of a tangible capital asset, less any residual value, to operating periods as an expense over the useful life of the asset. This is also referred to as depreciation, as it demonstrates the value of an asset depreciating over the life of the asset as its useful life is depleted.

Assets:

Assets are economic resources controlled by a local government as a result of past transactions or events and from which future economic benefits may be obtained. Assets have three essential characteristics:

a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods or services, to provide future cash inflows, or to reduce cash outflows.
b) The government entity can control the economic resource and access to the future economic benefits.
c) The transaction or event giving rise to the government’s control has already occurred.

Betterments:

Subsequent expenditures on tangible capital assets to be capitalized that fulfill one or more of the following requirements:

a) *Increase* previously assessed physical outputs or service capacity;
b) *Lower* associated operating costs;
c) *Extend* the useful life of the asset; or
d) *Improve* the quality of the output.

Any other expenditure would be considered a repair or maintenance and should be expensed in the period.

Capital Lease:

A lease with contractual terms that transfer substantially all of the benefits and risks inherent in the ownership of the leased property to the lessee. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or both of the following conditions must be met:

a) Reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term.
b) Lease term is of such duration that the lessee will receive substantially all of the economic benefits to be derived from the use of the leased property over its lifespan.

The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.

Work in Progress:

The accumulation of capital costs for partially constructed or developed projects. These projects and related costs will not be amortized until the later of their completion or ‘in service’ date.

Cost:

The gross amount of consideration given up to acquire, construct, develop, or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development, or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset. The cost of a leased tangible capital asset is determined in accordance with Public Sector Guideline PSG-2, Leased Tangible Capital Assets.

Disposal:

The removal of a capital asset from service as a result of sale, destruction, loss, or abandonment.

Fair Value:

The amount of the consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties, who are under no compulsion to act. Fair value would be used to assign an amount to a donated asset received by the County of Grey.

Financial Assets:

Assets that are available to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Examples of financial assets are cash on hand and accounts receivable.

Gain on Disposal:

The amount by which the net proceeds realized upon an asset’s disposal exceed the asset’s net book value.

Grouped/Pooled Assets:

Similar assets that have a unit value below the capitalization threshold (on their own) but have a material value as a group. Such assets shall be 'pooled' as a single asset with one combined value. Although recorded in the asset ledger as a single asset, each unit of the pool may be recorded in an asset sub-ledger for monitoring and control of their use and maintenance. Examples would include the following:

- Computers
- Street lights
- Furniture and appliances
- Small machinery or equipment

As similar items are purchased, they will be added to the pool. This may require an inventory to be taken at the end of each fiscal year. If necessary (if the actual count is less than the system tally), an entry will be recorded in Great Plains to adjust the pool balance to the actual inventory count (this will account for pooled units disposed of during the year).

Assets will only be pooled if as a combined total they meet the pool threshold (listed in the "Threshold" column of Appendix 2). Individual assets will only be added to the pool if they have an individual value of $500 or more, with the exception of furniture, which must have an individual value of $1,000 or more.

Impairment:

When it is determined that an asset no longer contributes to the County's ability to provide goods and services or has a future benefit value of less than the net book value of the asset, this would result in a write-down of the asset.

'In Service' Date:

Realized as the date at which the asset begins to be utilized by the County. The calculation and recording of amortization will not begin until the 'in service' date has been reached.

Leasehold Improvements:

Improvements and/or betterments to leased assets, which do not qualify under the definition of a capital lease. These improvements will be capitalized and amortized based on the criteria contained in the Capital Thresholds and Valuation sections of the policy.

Loss on Disposal:

The amount by which the net book value of a capital asset exceeds the net proceeds realized upon the asset's disposal.

Net Book Value:

The cost of the tangible capital asset less both accumulated amortization and the amount of any write-downs.

Non-Financial Assets:

Assets that do not normally provide resources to discharge liabilities. They are employed to deliver municipal services, and are not generally for sale. Examples of non-financial assets are capital assets and inventories held for consumption or use.

Operating Lease:

A contract that allows for the use of an asset but does not transfer substantially all of the benefits and risks inherent in the ownership of the leased property to the lessee (see Capital Lease). The costs of an operating lease are treated as an expense in the statement of operations.

PSAB:

The Public Sector Accounting Board overseen by the Accounting Standards Oversight Council (AcSOC). PSAB has the authority to set accounting standards for the local government sector in Ontario by virtue of Section 294.1 of the Municipal Act, 2001.

Repairs and Maintenance:

Ongoing activities to maintain a capital asset in operating condition. These activities are required to obtain the expected service potential of a capital asset over the estimated useful life. Costs for repairs and maintenance are expensed.

Residual Value:

The estimated net realizable value of a tangible capital asset at the end of its useful life. A related term, salvage value, refers to the realizable value at the end of an asset's life. If it is expected that a capital asset will be used for its full life, residual value and salvage value are the same.

Service Potential:

The output or service capacity of a capital asset to provide goods and services in accordance with an entity's objectives, without necessarily generating any net cash in-flows.

Straight-Line Method:

An amortization method which allocates the cost of a capital asset equally over each year of its estimated 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 held for re-sale in the ordinary course of operations.

Works of art or historical treasures and collections (i.e. Grey Roots artefacts) are not considered to be tangible capital assets, and therefore will not be assigned a set useful life or be amortized.

Threshold:

The minimum cost an individual tangible capital asset must have before it is recorded as a capital asset on the statement of financial position. Different asset types and classes have different thresholds.

Useful Life:

The estimate of either the period over which a tangible capital asset is expected to be used, or the number of production or similar units that can be obtained from the tangible capital asset. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset. 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.

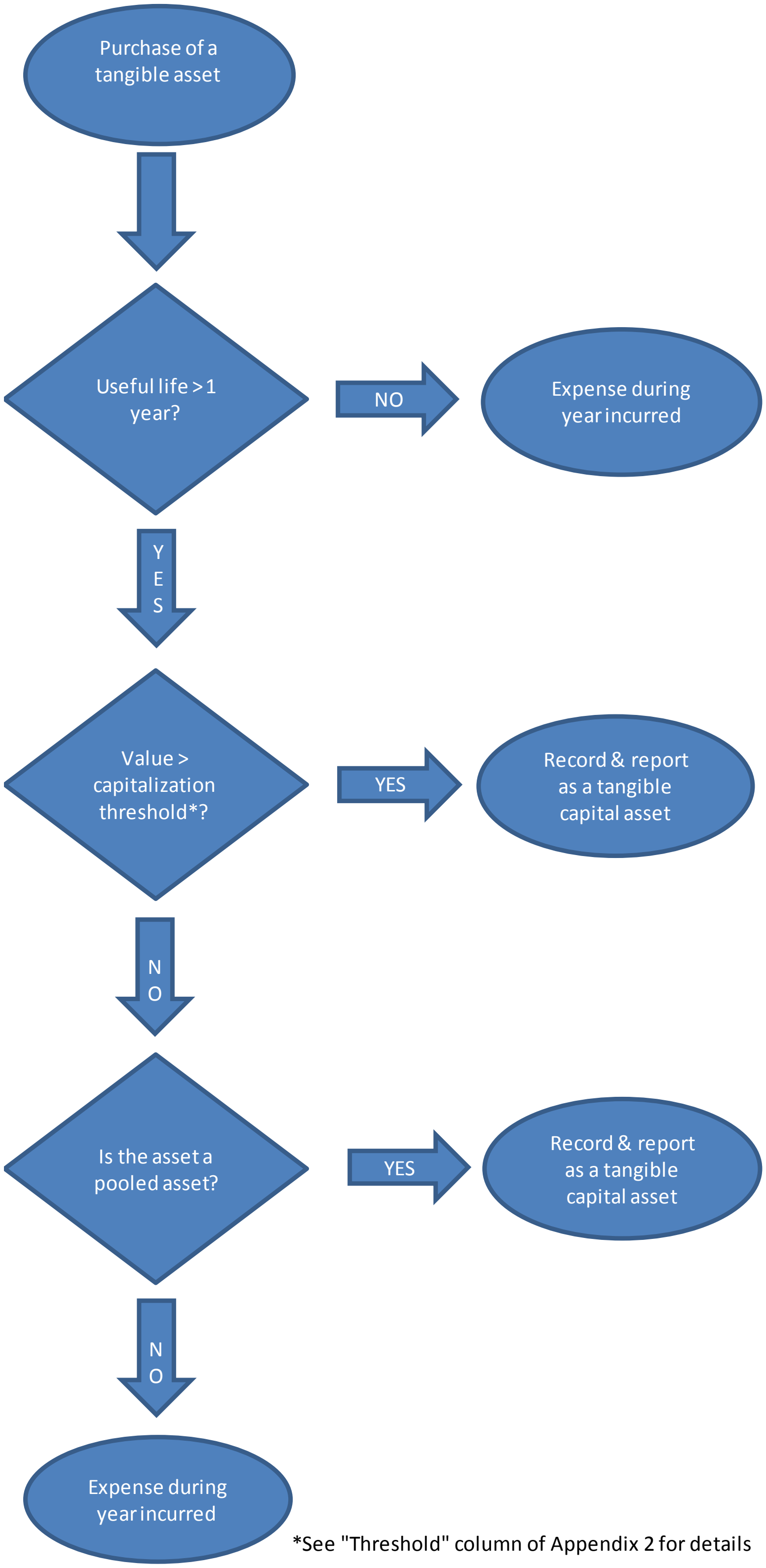
Works of Art and Historical Treasures:

Property that has cultural, aesthetic, or historical value that is worth preserving perpetually. These assets are not capitalized as their service potential and expected future benefits are difficult to quantify.

Write-down:

When conditions indicate that a tangible capital asset no longer contributes to the ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. The net write-downs of capital tangible assets are accounted for as expenses in the statement of operations, and a write-down should not be reversed. A write-down should be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

Appendix 1: Tangible Capital Asset Recording Decision Tree



*See "Threshold" column of Appendix 2 for details

Appendix 2: Tangible Capital Assets Chart

Tangible Capital Assets Chart