Department **Administration**	Policy No. **AD(25)**	**Page** **1 of 6**
Policy Title **ACCOUNTING FOR TANGIBLE CAPITAL ASSETS**	Date: **October 13, 2011**	Resolution No. **C/627/11**

Policy Statement:

This policy prescribes the accounting treatment for tangible capital assets so that users of the County's financial statements can discern information about the investment in property, plant and equipment and the changes in such investment. The principal issues in accounting for tangible capital assets are the recognition of assets, the determination of their carrying amounts, amortization charges and the recognition of any related impairment losses.

In addition, this policy establishes policies and procedures to:

a) Protect and control the use of all tangible capital assets;
b) Provide accountability for tangible capital assets; and
c) Gather and maintain information needed to prepare financial statements in accordance with the Public Sector Accounting Handbook Section 3150 (PS 3150).

Guidelines/Procedures:

1. Scope:

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

2. Effective Date:

   In accordance with PS 3150, the effective date for the reporting and recording of Lacombe County tangible capital assets is January 1, 2009.

3. Definitions:

   a) Tangible Capital Assets - assets having physical substance that:

      i. Are used on a continuing basis in the County's operations;

      ii. Have useful lives extending beyond one year;

      iii. Are not held for re-sale in the ordinary course of operations; and

      iv. Are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the construction, maintenance or repair of other County tangible capital assets.

   b) Betterments - subsequent expenditures on tangible capital assets that:

      i. Increase previously assessed physical output or service capacity;

ii. Lower associated operating costs;

iii. Extend the useful life of the asset beyond 10 years; or

iv. Improve the quality of the output.

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

c) Group Assets - assets that have a unit value below the capitalization threshold but have a material value as a group. Group assets are recorded as a single asset with one combined value. Although recorded in the financial systems as a single asset, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance.

d) 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.

e) Capital Lease - a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the County. For all of the benefits and risks of ownership to be transferred to the County substantially, one or more of the following conditions must be met:

i. There is reasonable assurance that the County will obtain ownership of the leased property by the end of the lease term;

ii. The lease term is of such duration that the County will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span; or

iii. 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.

4. <u>Policies:</u>

a) Capitalization - tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:

i. All land; and

ii. All buildings over $25,000;

iii. Engineered structures (built assets such as roads, bridges, water and sewer systems) with unit cost of $50,000 or greater;

iv. All other assets, including computer equipment, with a County unit cost of $5,000 or greater.

Varied thresholds may be used for group assets. Betterments will be capitalized to existing assets.

b) Classification – a classification of assets is a grouping of assets of a similar nature or function in the County's operations. The following list of classifications shall be used:

ii. Land;

iii. Land Improvements;

iv. Buildings;

v. Engineered Structures;

vi. Equipment and Machinery;

vii. Vehicles; and

viii. Cultural and Historical assets.

c) Sub-classification - the following minor classifications to further define engineered structures will be used:

ii. Roadway System;

iii. Water System;

iv. Wastewater System; and

v. Storm/drainage System

A classification system will be established to further define the asset categories in the fixed asset sub-ledger. The classification system will group assets having similar characteristics and useful lives.

d) Valuation - tangible capital assets will be recorded at cost plus all additional charges necessary to place the asset in its intended location and condition for use.

i. Purchased Assets - cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc.

Cost of land includes purchase price plus legal fees, land registration fees, taxes, and other costs necessary to make the land suitable for its intended use.

When two or more assets are acquired for a single purchase price, it is necessary to allocate the purchase price to the various assets acquired. Allocation should be based on the fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

ii. Acquired, Constructed or Developed Assets - cost includes all costs directly attributable (e.g., construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized. Capitalization of general administrative overhead is not permitted.

Capitalization of carrying costs ceases when no construction or development is taking place or when the tangible capital asset is ready for use.

iii. Capitalization of Interest Costs - borrowing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use should be capitalized as part of the cost of that asset.

Capitalization of interest costs should commence when expenditures are being incurred, borrowing costs are incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization should be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use are complete.

iv. Donated or Contributed Assets - the cost of donated or contributed assets is equal to the fair value at the date of construction or contribution. Fair value may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost. Additional costs will be capitalized.

e) Componentization - tangible capital assets may be accounted for using either the single asset or component approach. Whether the component approach will be used will be determined by the usefulness of the information versus the cost of collecting and maintaining information at the component level.

Consideration factors used to determine whether or not to use a component approach should include:

i. Major components have significantly different useful lives and consumption patterns than the related tangible capital asset.

ii. Value of components in relation to the related tangible capital asset.

Infrastructure Systems would generally be valued using the component approach. Major components should be grouped when the assets have similar characteristics and estimated useful lives or consumption rates.

f) Amortization - the cost 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. The amortization method and estimate of useful life of the remaining unamortized portion should be reviewed on a frequent basis and revised when the appropriateness of a change can clearly be demonstrated.

Useful life is normally the shortest of the asset's physical, technological, commercial or legal life.

Generally, the County uses a straight-line method with no residual value in calculating the annual amortization.

The Municipal Affairs useful life chart will be used as a guideline to determine the period of amortization for specific asset categories. However, County departments, boards and commissions, agencies and other organizations are responsible for establishing and utilizing an appropriate estimated useful life for assets acquired.

Amortization will commence the month after the asset is in service and cease the month prior to disposal.

g) Disposal - when tangible capital assets are sold, taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the department head or designate must notify the County's Corporate Services Department of the asset description and effective date. Corporate Services must record the gain or loss on disposal and remove the asset from the fixed asset sub-ledger.

h) Capital Leases - capital leases meeting the definition described herein will be recorded as an asset acquisition and an incurred liability. A lease where the fair market value is less than $10,000 will be recorded as an operating lease.

i) Reviews **-** Asset reviews will be completed by each department to determine existence, impairment, and update of useful life changes where appropriate. The review schedule for each asset category is as follows:

ASSET CATEGORY	REVIEW
Land	Yearly
Land Improvements	3 Years
Buildings	3 Years
Engineered Structures	5 years
Machinery & Equipment	3 years
Vehicles	Yearly
Cultural & Historical Assets	Yearly

j) Impairment - when conditions indicate that a tangible capital asset no longer contributes to the County's 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.

k) Write-downs - if a permanent impairment is identified, a write-down adjustment to the cost of the asset is required. The corresponding adjustment is reported as an expense in the statement of operations. The new cost is to be amortized over the remaining useful life of the asset. Write-downs that have been recorded should not be reversed.