STARLAND COUNTY
POLICY MANUAL

FUNCTION: Finance and Accounting (All Departments)

FUNCTION NUMBER: 970

POLICY: Tangible Capital Asset Policy

POLICY NUMBER: 970-2

DATE: October 01, 2008

Purpose: The objective of this policy is to prescribe the accounting treatment for tangible capital assets so that users of the financial report can discern information about the County's investment in property, buildings and equipment and the changes in these investments. The principal issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts and amortization changes and the recognition of any related impairment losses.

The requirement to implement this change in accounting procedures is required to comply with Section 276(1) of the Municipal Government Act, which states:

"Each municipality must prepare annual financial statements of the municipality for the immediately preceding year in accordance with the generally accepted accounting principles for municipal governments recommended from time to time by the Canadian Institute of Chartered Accountants, and any modification of the principles or any supplementary accounting standards or principles established by the Minister by regulation."

Starland County will work progressively towards complying with the required reporting of Tangible Capital Assets, but only because the reporting is required by statute.

Finally, the policy provides direction and outlines procedures to:

1. Protect and control the use of all tangible capital assets.
2. Provide accountability over tangible capital assets.
3. Gather and maintain information needed to prepare financial statements.

1.0 Definitions:

1.1 "Betterments" – means subsequent expenditures on tangible capital assets that:

- Increases previously assessed physical output or service capacity;
- Lowers associated operating costs;

- Extends the useful life of the asset; or
- Improves the quality of the output by a measurable amount,

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

1.2 "Capital Lease" – is a lease with the contractual terms that transfers substantially all the benefits and risks inherent in ownership of property to the County. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met:

- There is reasonable assurance that the County will obtain ownership of the leased property by the end of the lease term;
- The lease term is of such a 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
- 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.

1.3 "Fair Value" – means 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.

1.4 "Group Assets" – means assets that have a unit value below the capitalization threshold but have a material value as a group. Grouped assets are normally 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. Example could include personal computers, furniture and fixtures, small moveable equipment etc.

1.5 "Tangible Capital Assets" – are assets that have a physical substance that:

- Are used on a continuing basis in the County's operations;
- Have useful lives extending beyond one year; and
- Are not held for re-sale in the ordinary course of operations.

2.0 Capitalization:

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

- All land;
- All buildings;
- Municipal Infrastructure systems (built assets such as roads, bridges, sewers, water, parks etc.) with a unit cost of $25,000.00 or greater;
- All others with a unit cost of $5,000.00 or greater

3.0 Categories:

A category of assets is a grouping of assets of a similar nature or function in the County's operations. The following list of categories shall be used as a reference:

- Land;
- Buildings;
- Equipment;
- Roads;
- Water;
- Sewer;
- Bridges;
- Communication networks;
- Vehicles;
- Furniture and Fixtures;
- Computer Systems (hardware and software)

4.0 Valuation:

Tangible capital assets should be recorded at cost plus all ancillary charges

4.1 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. It is net of any trade discounts or rebates.

Cost of land includes purchase price plus legal fees, and land registration fees. Costs would include any costs to make the land suitable for intended use, such as pollution mitigation, demolition and site improvements that become part of the land.

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 fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

4.2 Acquired, Constructed or Developed Assets

Cost includes all costs directly attributable to the acquisition, construction or development of the asset (e.g. Construction, architectural and other professional fees). Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized. Capitalization of general administrative overhead or costs is not included.

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

4.3 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 being incurred and activities that are necessary to prepare the asset for its intended use are in progress.

4.4 Donated or Contributed Assets

The cost of donated or contributed assets that meet the criteria for recognition 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.

5.0 Componentization:

Tangible capital assets may be accounted for using either the single asset or component approach. Whether the component approach is to be used will be determined by the usefulness of the information versus the cost of collecting and maintaining information.

Factors to consider when determining whether to use a component approach include:

- Major components have significantly different useful lives and consumption patterns than the related tangible capital assets;
- Value of components in relation to the related tangible capital asset.

Municipal infrastructure systems should use the component approach. Major components should be grouped when the assets have similar characteristics and estimated useful lives or consumption rates.

6.0 Amortization:

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. The amortization method and estimate of useful life of the remaining unamortized portion should be reviewed on a regular basis and revised when the appropriateness of a change can be demonstrated.

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

Generally, the County will use a straight-line method for calculating the annual amortization. The useful life of an asset will be established by administrative staff in consultation with the various County departments and/or specialized consultants.

7.0 Disposal:

Disposal of tangible capital assets that are moveable personal property is the responsibility of the Department Supervisors in consultation with the Chief Administrative Officer. The Department Supervisors should provide the Chief Administrative Officer with a three year estimate of assets that can be disposed of. The annual list of disposed assets will be reviewed by Council during review and adoption of the annual budget.

Disposal of real property will be the responsibility of the Chief Administrative Officer in conjunction with Council.

When any tangible capital asset is taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the Department Supervisor must notify the Chief Administrative Officer of the asset description and effective date. Administration is responsible for adjusting the asset register and accounting record.

8.0 Capital Leases:

Starland County will account for a capital lease as if it were acquiring a capital asset and incurring a liability. The County will account for a lease as an operating lease when the net present value of the future minimum lease payment or fair value, whichever is less, is less than $10,000.00.

Policy Amendments:

October 01, 2008 (C08-162) – Adoption of Policy for Implementation of Tangible Capital Assets