

**REGIONAL DISTRICT OF OKANAGAN-SIMILKAMEEN
BOARD POLICY**

POLICY: **TANGIBLE CAPITAL ASSET POLICY**

AUTHORITY: Board Resolution dated August 3, 2023.

POLICY STATEMENT

A framework is established for the management and control of the Regional District of Okanagan-Similkameen's (RDOS) capital assets. Included in this framework is proper recognition, measurement, thresholds, aggregation, segregation, amortization, reporting, safeguarding and disposal. Additional guidelines relating to the purchase of assets are found in the RDOS's Purchasing and Sales Policy.

1.0 PURPOSE

This Tangible Capital Asset Policy (Policy) promotes sound corporate management of tangible capital assets and complies with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150.

Financial Statements prepared for the fiscal year starting January 1, 2009 require compliance with PSAB 3150. Comparative figures are required.

2.0 DEFINITIONS

“Amortization” The accounting process of allocating the cost, less residual value, of a tangible capital asset to operating periods as an expense over its useful life in a rational and systematic manner appropriate to its nature and use.

“Betterment” means subsequent expenditures on a recorded TCA that:

- a) increase output or service capacity
- b) increase the service life
- c) lower associated operating costs
- d) improve the quality of the output

Such expenditures should be classified as betterments and capitalized accordingly. Any other expenditure should be considered a repair or maintenance and should be recorded as an operating expense in the period.

“Capital Lease” A non-financial asset that has physical substance and a useful life extending beyond an accounting period and is held under lease by the Regional District for use, on an ongoing basis, in the

production or supply of goods and services. Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are, in substance, transferred to the RDOS without necessarily transferring legal ownership.

“Cost” means 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.

“Fair Value” means 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.

“Net Book Value” means the cost of a tangible capital asset less accumulated amortization and the amount of any write-downs.

“Residual Value” means the estimated net realizable value of a tangible capital asset at the end of its useful life to the Regional District.

“Tangible Capital Asset” means tangible capital assets (TCA) are non-financial assets having physical substance that:

- a) are held for use in the production or supply of goods or 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.

Intangible assets such as copyrights, trademarks, patents, easements and rights of way do not fall under this policy and are not capitalized.

“Useful Life” means the estimated period over which a capital asset is expected to be used by the Regional District. A tangible capital asset’s useful life may be shorter than the actual life of the asset due to limitations on the physical, technological, commercial or legal life of the asset.

“Write-down” means a reduction in the cost of a tangible capital asset to reflect the decline in the asset’s value due to a permanent impairment.

3.0 SCOPE

All tangible property owned by the RDOS, either through construction, donation or purchase and which qualifies as capital assets are addressed in this policy.

This Policy applies to all Departments, Boards, Agencies, and other organizations falling within the reporting entity of the RDOS.

4.0 PRINCIPLES

Principles in this policy provide guidance for policy development and assist with interpretation of the policy once applied.

- a) The purpose of this policy is for the benefit of the RDOS as a whole; for the users of the RDOS's financial statements and managers of the RDOS's tangible capital assets.
- b) The cost associated with data collection and storage is balanced with the benefits achieved by users of the data and reports.
- c) Budgeting follows PSAB 3150
- d) Compliance is with all legislation applicable to regional districts.
- e) Financial, operational and information technology system limitations are considered.
- f) Materiality is considered.
- g) Reporting deadlines are met.

5.0 POLICY

5.1 TCA Inventory – Acquisition & Valuation

- a) Tangible Capital Assets are recorded at cost plus all charges directly attributable to place the asset in its intended location and condition for use. TCA's are recognized as assets on the RDOS's Statement of Financial Position on date of receipt for capital goods or when the asset is put into use for capital projects.
- b) The cost of purchased assets is comprised of the consideration paid to acquire the item including all non-refundable taxes, duties, freight and preparation costs net of any discounts or rebates. For land, the cost will include costs such as legal fees, land registration and transfer taxes as well as any costs that make the land suitable for its intended use, such as demolition costs or site improvements that become part of the land.
- c) The cost of constructed or developed assets will include all costs directly attributable to the asset constructed or developed including, but not limited to, construction costs, professional fees and architectural costs.

- d) For assets owned by the RDOS but not paid for by the RDOS, including contributions, gifts, and donations, valuation may be assessed by fair value at the date of contribution. Fair value may be determined using market or appraisal values.

5.2 Classification, Aggregation & Segmentation

The level of detail required in the capital asset inventory is a balance between cost of data collection, tracking and analysis and the beneficial use of the information gathered.

The full cost of preparing a TCA for its intended use is considered the aggregate cost of the capital asset. The aggregate cost is further segmented into elemental components based on useful life.

Aggregation

Smaller assets that individually would not meet the threshold, but as a group would meet or exceed the threshold, may be capitalized as a pool and amortized accordingly. Assets within the pool that are replaced during the amortization period will be considered an operating expense.

Asset Classification

Assets will be classified in Major, Minor and Subclasses as outlined in this section.

- Major – A group of TCAs that is significantly different in design and use.
- Minor – A classification within a major class that has unique characteristics.
- Subclass – A further classification that may be required due to unique TCA criteria, applications, methodologies and asset lives. There is the option to classify further into subclass one, subclass two, subclass three, etc.

TCA recorded in the Major classification will include:

1) LAND

Land owned by the RDOS includes parkland and land held for RDOS owned facilities. All land owned by the RDOS is segmented by each parcel held. Land improvements such as earth moving and environmental assessments and remediation would be added to the cost of land. A right of way, where the regional district has the right to enter or occupy private property, is not a TCA and will be recorded as an operating expense.

2) LAND IMPROVEMENTS / PARK INFRASTRUCTURE

Land improvements / park infrastructure include parking lots, park trails, playground equipment, fencing, and sport fields. Each asset when capitalized is separately recorded with an attached useful life.

3) BUILDINGS

Buildings include all structures that provide shelter from elements. Buildings can be segmented by structure and significant components based on useful life if it provides better information for asset management purposes. Buildings owned by the RDOS include the RDOS Office building; recreation facilities including arenas, community centers, outdoor pools, washrooms and picnic shelters; firehalls; and water and sewer system buildings.

4) BUILDING IMPROVEMENTS

Building improvements include HVAC systems, roof, flooring, arena and pool systems, building control systems and components with a useful life less than the building itself and are capitalized when they exceed the threshold. This treatment provides for capital replacement of each component over the years of ownership.

5) CONSTRUCTION IN PROGRESS

Construction in progress contains capital projects underway but not complete or put to use. These projects are individually segmented where possible and are capitalized once complete or put into use if costs exceed threshold limits. No amortization is calculated on construction in progress.

6) MACHINERY AND EQUIPMENT

Machinery and equipment are pooled and segmented by type (eg. Recreation, water, sewer, emergency, EOC, other) at unit level for threshold purposes. This category includes furniture. Computer equipment is included under IT Infrastructure.

7) VEHICLES

Vehicles are capitalized if the cost of individual items exceed the threshold. Vehicles are segmented into Fire Truck and Other categories.

8) IT INFRASTRUCTURE

IT infrastructure includes software, hardware, computers, printers, scanners, photocopiers and the telephone network. This IT infrastructure is capitalized if each purchase or project meets threshold limits. Segmentation for the network is by each hub and each software application.

9) UTILITIES INFRASTRUCTURE

Utilities Infrastructure includes linear underground systems such as water and sewerage systems which are generally constructed or arranged in a continuous and connected network, or water and sewerage process components that do not qualify as a building. Solid waste infrastructure would also be included in this classification.

WATER

Water infrastructure has two major categories – supply and distribution - which may be segmented by major component - reservoirs, mains, valves, pump stations, hydrants, meters and service connections, and by service area. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part where possible and applicable. Smaller water systems can be aggregated when allocation by component part would not provide added value for asset management purposes.

SEWER AND DRAINAGE

The sewerage system components include and are segmented by sewer mains, lift stations, manholes, catch basins, valves and service connections, and by service area. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part where possible and applicable. Smaller sewerage systems can be aggregated when allocation by component part would not provide added value for asset management purposes.

5.3 Capitalization Thresholds

Thresholds are established for a minimum dollar value and number of years of useful life. Thresholds help to determine whether expenditures are to be capitalized as assets and depreciated or treated as a current year expense.

Asset Category	Asset Sub Category	Thresholds
Land		Capitalize Only
Land Improvements / Park Infrastructure		\$ 25,000
Works of Art & Historical Treasures		Capitalize Only
Buildings		\$ 25,000

Asset Category	Asset Sub Category	Thresholds
Building Improvements		
	HVAC Systems	\$ 25,000
	Roofs	\$ 25,000
	Electrical/Plumbing/Fire	\$ 25,000
	Site Works – Asphalt, Water and Sewer lines	\$ 25,000
	Other	\$ 25,000
Building Envelope		\$ 25,000
Construction in Progress		Capitalize - <i>IF</i> final project cost will meet the applicable TCA threshold and result in a new TCA.
Machinery and Equipment		\$ 5,000
	Furniture	\$ 5,000
	Emergency	\$ 5,000
	Emergency Operations Centre	\$ 5,000
	Other	\$ 5,000
Vehicles		
	Fleet	\$ 5,000
	Fire Trucks	\$ 5,000
	Other	\$ 5,000
IT Infrastructure		
	Hardware	\$ 5,000
	Software	\$ 5,000

Asset Category	Asset Sub Category	Thresholds
	Telephone Systems	\$ 5,000
	Communication Devices	\$ 5,000
Utilities Infrastructure		\$ 100,000
	Water	\$100,000
	Sewer	\$ 100,000
	Drainage	\$ 100,000

Thresholds apply to capital goods purchased and capital projects constructed with the total cost of the good or project meeting the threshold criteria. Improvements are capitalized when they extend the useful life of the asset. The useful life threshold is set at two years.

Further refinement to threshold levels may occur as the RDOS develops an understanding of its asset and reporting needs

5.4 TCA Inventory – Ownership

Ownership of assets requires safeguarding, maintenance, amortization for replacement and possibly write-downs. These requirements are addressed in this section.

It is the responsibility of the director, area manager and staff member to ensure capital assets assigned to his or her custody are maintained and safeguarded.

Amortization is an annual charge to expenditures for the use of a capital asset. The RDOS sets amortization rates on a straight line basis based the on number of years in service less salvage value. The asset categories are amortized as follows: (see next page)

Asset Category	Amortization of Cost less Savage Value
Land	Not amortized
Works of Art & Historical Treasures	Not amortized
Buildings	Straight line over useful life of each asset unit
Building Improvements	Straight line over useful life of each asset unit
Construction in Progress	Not amortized
Machinery and Equipment	Straight line over useful life of each asset unit
Vehicles	Straight line over useful life of each asset unit
IT Infrastructure	Straight line over useful life of each asset unit
Utilities Infrastructure	Straight line over average useful life of each segment for cost less salvage value

Amortization is calculated the month the asset is put into service. Economic useful life is used for amortization rather than physical useful life. Attachment I provides a general guide for useful life.

A write down of assets occurs when reduction in future economic benefit is expected to be permanent and the value of future economic benefit is less than the TCA's net book value. A write down should not be reversed.

5.5 TCA Inventory - Disposal

All disposals or retirements of TCA are recorded in the regional district's financial statements in accordance with PSAB 3150. Infrastructure assets that are part of a network will only have a disposal if the replacement of the elements of the network exceeds the established threshold. In most cases, the annual replacement of a small percentage of the network will be an operating expense and there will not be any asset disposal. The annual replacement of individual assets in a pool will also be considered an operating expense if less than the established threshold and no asset disposal will be recorded.

Disposal procedures for capital assets are in accordance with the regional district's purchasing and sales policy.

5.6 Asset Retirement Obligations

Asset Retirement Obligations are legal obligations associated with the retirement of tangible capital assets and are accounted for in accordance with PS 3280, Asset Retirement Obligations (PS 3150.21A). These obligations are predictable, likely to occur and unavoidable.

6.0 PRESENTATION AND DISCLOSURE

In total and for each major category of capital assets, the RDOS will disclose the following in accordance with CICA Public Sector Guideline 7 (PSG-7):

- a. Cost at the beginning and end of the period;
- b. Additions in the period;
- c. Disposals in the period;
- d. The amount of any write-downs in the period;
- e. The amount of amortization for the period;
- f. Accumulated amortization at the beginning and end of the period;
- g. Net carrying amount at the beginning and end of the period;

Also in accordance with PSG-7 disclosure will include:

- a. The method used to determine the cost of each major category of TCA;
- b. The amortization method used, including amortization period or rate for each major capital category of TCA;
- c. The net book value of TCA's not being amortized because they are under construction or development or have been removed from service;
- d. The nature and amount of contributed TCA's received in the period;
- e. The nature and use of tangible capital assets disclosed at nominal value;
- f. The nature of the works of art and historical treasures if any, held by the government ; and
- g. The amount of interest included in the cost in the period.

ATTACHMENT I

7.0 ASSET USEFUL LIFE – General Guidelines

<u>ASSET TYPE</u>	<u>DEPRECIABLE LIFE IN YEARS</u>
Land Improvements	5 - 20
Building Structure	40 - 75
Building Improvements	
Exterior Envelope	30 - 40
HVAC Systems	10 - 12
Roofs	10 - 20
Electrical/Plumbing/Fire	15 - 20
Site works – Asphalt, water and sewer lines, etc.	10 - 50
Other	
Machinery & Equipment	
Furniture & Equipment	5 - 20
Emergency	5 - 10
Emergency Operations Centre	5 - 10
Other	5 - 20
Vehicles	
Fleet	5 - 10
Fire Trucks	10 - 20
Other	5 - 10
IT Infrastructure	
Hardware	3 - 5
Software	5 - 10
Telephone system	7 - 10
Utilities Infrastructure (dependent upon component and material)	
Water	10 - 75
Sewer	10 - 75
Drainage	10 - 75