



# Committee Report

<b>To:</b>	Warden Hicks and Members of Grey County Council
<b>Committee Date:</b>	March 14, 2019
<b>Subject / Report No:</b>	FR-CW-06-19
<b>Title:</b>	Tangible Capital Asset Accounting Policy Update
<b>Prepared by:</b>	Amanda Brooks, Asset Management Coordinator
<b>Reviewed by:</b>	Kevin Wepler, Director of Corporate Services Mary Lou Spicer, Deputy Treasurer
<b>Lower Tier(s) Affected:</b>	Not applicable
<b>Status:</b>	Recommendation adopted by Committee of the Whole as presented as per Resolution CW68-19;

## Recommendation

- 1. That Report FR-CW-06-19 regarding updates to the County of Grey's Tangible Capital Asset Policy be received for information;**
- 2. That the recommended updated Tangible Capital Asset Accounting Policy be approved; and**
- 3. That staff be authorized to apply these changes to the County of Grey's 2018 financial statements and prospectively.**

## Executive Summary

Finance staff members recommend that the County of Grey's tangible capital asset policies be updated so that the County's financial statements accurately represent the County's physical assets, whilst remaining in compliance with all applicable accounting standards.

## Background and Discussion

Grey County's current Tangible Capital Asset Accounting policies were originally written in 2009. These policies were written to ensure the County's compliance with Public Sector Accounting Board (PS) 3150. PS 3150 required municipalities to report tangible capital assets in the statement of financial position and to report the amortization of these assets as expenses on the statement of operations for the first time. At the time, useful lifespans over which the County's assets were amortized were determined based on suggestions provided by the Ontario Municipal Benchmarking Initiative (OMBI), policies developed by other municipalities, and the knowledge of County staff and consultants. These original lifespan estimates were used strictly for financial purposes, as Asset Management as a discipline had not

yet developed. Over time, County staff members have gained more data on the actual useful lifespans of capital assets used by the County and useful lives have changed with improvements to technology and changes in the use of County assets. It is important that the useful lifespans in this policy approximate the real useful lifespans of County assets, as these lifespans will be updated in the County's CityWide Asset Manager software, which is used for the County's Asset Management activities as well as for accounting purposes. The data stored in this software was used for the County's first two Asset Management Plans, and will continue to be used for future plans as required for Gas Tax Funding and for compliance with Ontario Regulation 588/17.

There are many tangible capital assets not addressed in the previous policy that are now in use by the County, as well as assets listed in the prior policy that are now obsolete and are no longer used by the County. Changes in available products and technology have occurred since the previous policy was written; such issues have been addressed in the proposed new policy.

Finance staff recommends that these changes be applied to all new assets acquired during 2018 and thereafter. For assets already in existence, staff recommends changes to lifespans be made for vehicles, and major infrastructure such as roads, bridges, culverts, and buildings. Staff does not recommend making these changes to other currently existing assets (such as computers and housing appliances) as these assets have short lifespans and smaller dollar values, and therefore there would not be a material benefit to making these changes.

## Legal and Legislated Requirements

None.

## Financial and Resource Implications

The application of the updated useful lifespans will have an effect on the amount of depreciation recorded for 2018 and all future years. For example, County urban and rural road bases were originally individually amortized over a useful life of 40 years per the previous policy. This would mean a \$750,000 urban or rural road base would have previously had an associated amortization expense of \$18,750 for each of the 40 years of its life. It has been determined through consultation with Transportation Services staff that County urban road bases are more likely to have a useful life of 50 years, and County rural road bases are more likely to have a useful life of 75 years. Going forward, a rural road base will be amortized over 75 years, and therefore such a road base will have an associated annual amortization expense of \$10,000 per year. This will create a lower amount of amortization per year (thus creating a lower annual amortization expense on the financial statements), but will create an expense for 35 more years in the future. However, the 75 year lifespan will more accurately reflect the reality of the life of the road base; County rural road bases are more likely to remain in useable condition for 75 years than 40 years. In this case amortizing the road bases over a useful lifespan that we now believe is more accurate will also improve the appearance of the financial health of the County, as the bases will not be depreciated faster on the financial statements than is being experienced.

### **Amortization of Road Base Example:**

\$750,000 Road Base	Original 2018 Amortization	Proposed 2018 Amortization	Difference
Rural	\$18,750	\$10,000	(\$8,750)
Urban	\$18,750	\$15,000	(\$3,750)

It is important to note that the County will continue to use owned assets until the actual end of the asset's useful life; assets that are still in acceptable condition at the end of their accounting useful life will remain in use until no longer functional, and assets that become deficient before the end of their accounting useful life will be disposed of or moved to an appropriate new use.

## Relevant Consultation

- Internal – All asset-owning departments
- External – Garland Canada, Public Sector Digest, surrounding Counties' Audited Financial Statements

## Appendices and Attachments

[Tangible Capital Asset Accounting Policy A-FIN-003](#)

[Tangible Capital Asset Accounting Policy A-FIN-003 Appendix 2](#)