TANGIBLE CAPITAL ASSET MANAGEMENT

This procedure is governed by its parent policy. Questions regarding this procedure are to be directed to the identified Procedure Owner.

Category:	B. Financial / Administrative
Parent Policy:	B31
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Procedure Owner:	Chief Financial Officer

Overview:

To provide a clear and standardized approach to how to acquire, maintain, identify, monitor and dispose of tangible capital assets (TCA) in a way that allows for efficient tracking and reporting of the assets.

This procedure guidance document is to complement and provide guidance on how Public Sector Accounting Standards, specifically section 3150 applies to Olds College.

Procedures:

1. **Budget**
   1.1. Departments prepare at least a 3-year capital plan which is consulted with Business Services and approved by the Capital Committee. The capital plan has each year's capital budgets clearly identified.
   1.2. During the annual planning cycle the requirement for tangible capital assets is assessed at a department level and is included in the capital budget. The annual budget is approved by the Capital Committee and the approved budget for tangible capital assets is given to Business Services. See B02 - Operations Budgets.

2. **Business case financing**
   2.1. Business cases are the responsibility of the budget owner and are prepared upon request by Business Services or College leadership.
   2.2. Business cases are to be reviewed and signed by one level above the business case owner prior to review by the Capital Committee.
   2.3. Business cases are to include:
      2.3.1. A description of the activity;
      2.3.2. An estimate of the capital equipment and renovation cost;
      2.3.3. A three year forecast of revenue and direct operating expenditures;
      2.3.4. A calculation of the payback period;
      2.3.5. A description of the consultation that has occurred with affected areas (other programs, IT, facilities

management, contract owners); and

2.3.6. Additional information as necessary.

3. Capitalization

3.1. Follows Procurement policies B300 Supply of Goods and Services Policy. Budget owners must secure an approved funding source prior to a capital asset acquisition.

3.2. A competitive purchasing process may be required and should be factored into planning timelines. Requirements are defined in B300 - 5PR Competitive Purchasing Procedure.

3.3. The purchasing requisitioner determines that the expenditure is a tangible capital asset, this is reviewed by the budget owner before they approve the purchase requisition. The purchase requisition goes to purchasing through Fusion. Purchasing issues a purchase order for the item. Accounts payable validates the purchase order against the invoice and checks the box ("Track as asset" box) identifying that this is a tangible capital asset based on account coding. Refer to B300 3PR - Purchase Order System Procedure.

3.4. Operations accountant runs scheduled processes (monthly) that imports all identified tangible capital assets within the asset module of Fusion.

3.5. Operations accountant verifies the additions to supporting documentation and confirms that the expenditure is capital in nature (by applying Tangible Capital Assets Definition Procedure and Tangible Capital Asset Policy), confirms that the capital acquisition was budgeted for and if the asset is available for use. The asset is entered into Fusion with the following information:

3.5.1. Asset number - unique to each asset;
3.5.2. In-service date;
3.5.3. Estimated useful life;
3.5.4. Asset owner;
3.5.5. Location;
3.5.6. Asset description;
3.5.7. Cost.

Tangible capital assets will be assigned to categories outlined below by Business Services based on information from budget owners. The estimated useful lives will be in the ranges noted:

Asset category	**Estimated useful life**
Operating equipment	3-10 years
Heavy equipment	10-25 years
Computer software	3-10 years
Computer hardware	3-10 years
Constructed building	10-70 years
Prefabricated building	5-25 years
Building improvements	10-70 years

Site improvements and landscaping	10-70 years
Land	indefinite
Furniture	3-10 years
Vehicles	5-15 years

3.6. The estimated useful life is the period of time for which the tangible capital asset is expected to be useful to the college. Estimated useful life ranges noted in the table above are intended to apply to assets that arrive in new condition. Used assets that are acquired could have a shorter estimated useful life than what is noted in the provided ranges.

3.7. Estimating the useful life requires judgment based on a number of factors, but should be consistently applied. Relevant factors to consider include:

- 3.7.1. Technological obsolescence;
- 3.7.2. Expected wear due to time, not just use;
- 3.7.3. Planned maintenance program; and Controller Removal
- 3.7.4. Expected use.

3.8. Tangible capital asset acquisitions in Fusion require Manager, Business Operations review before being posted to the GL.

3.9. A reconciliation between the asset module within Fusion and the GL is prepared by the operations accountant and is reviewed by the Manager, Business Operations.

3.10. Applicable departments have stewardship over the tangible capital assets and are expected to:

- 3.10.1. Maintain the asset according to the maintenance schedule identified by the manufacturer;
- 3.10.2. Properly store assets to protect from weather and other potential damage;
- 3.10.3. Safeguard assets from theft; and
- 3.10.4. Be aware of the physical location of assets.

3.11. In concert with the payment run performed by Business Services, the Manager, Business Operations reviews payments. This process has a specific focus on reviewing items that have been expensed and exceed $5,000 to see if they are capital in nature.

3.12. For quarters 2, 3 and 4 a list of acquisitions and dispositions will be given to departments to ensure that all capital assets acquisitions and dispositions are recorded.

4. Information and communication technology systems

4.1. Some projects are large or complex and are implemented in modules. If a module, once implemented, is able to operate on its own (not dependent on another module) then the module may be considered a separate project and be available for use when the other modules are not completed. If multiple modules need to work together to operate the system, then the entire system is considered a project.

4.2. Costs incurred in the “preliminary project stage” on an information technology project are not capitalized, they are expensed as incurred. These costs are typically associated with the following activities:

- 4.2.1. Problem is defined;
- 4.2.2. High level system performance requirements are determined; and
- 4.2.3. Business case analysis.

4.3. Fees paid to third parties for software development can often have service components that provide IT support for a defined period of time. These costs should not be capitalized, but expensed in the periods that the service is provided.

5. Cloud computing arrangements

5.1. Cloud computing is a model for enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (such as networks, servers, storage, applications and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction.

5.2. Multiple element contracts is an agreement whereby a customer purchases both the license of software or the software development and has service delivery by the provider.

5.3. Multiple element contracts have elements the could require different accounting treatment for capitalization or expensing:

- 5.3.1. Capitalize - if it relates to the license of software or software development; or
- 5.3.2. Expense - if it relates to service delivery by the provider.

5.4. The license of software or software development can be capitalized only if the arrangement meets both the following criteria:

- 5.4.1. The college has the contractual right to take possession of the software at any time during the term of the cloud computing arrangement *without significant penalty*; and
- 5.4.2. It is feasible for the college to run the software on its own hardware (or to contract with another party to host the software).

5.5. The reference to "*without significant penalty*" above implies that the college can take delivery of the underlying software without significant cost and to use the software separately without a significant reduction in value.

5.6. In a cloud computing service contract (i.e. an arrangement without a software license), an entity may incur implementation and other up-front costs that directly or indirectly relate to the software service received over time. These costs may relate to activities performed by the vendor, the entity's staff or third parties. The following table provides a summary of recommended treatment of various implementation and upfront costs that entities may incur in a cloud computing service contract.

Activity	**Defer**	**Capital**	**Expense**
Upfront payments relating to enhancing the functionality of the software service	X	X	

Evaluation of the entity's existing hardware and software for compatibility with the software service			X
Enhancements or modifications to the entity's existing software that will continue to be used under the cloud computing arrangement		X	
Testing for proper functionality of the software service			X
Business process reengineering			X
Report development		X	
Employee training on the use of software service			X
Data conversion costs relating to - reconciling new data with the data extracted from the old system - purging existing data - creating or inputting new data			X
Maintenance work to be performed by a third party			X
Rights to future prepaid upgrades and enhancements	X		
Overhead costs, including general and administrative costs			X

6. Leases

6.1. Lease contracts are identified on the contract checklist forms in the workflow system. Lease contracts being entered into, with the college being the lessee (receiving the asset), require an assessment to see if they are capital leases or operating leases. The criteria for this assessment is included in Tangible Capital Assets Definition Procedure and on PSAS, Public Sector Guidelines 2. The assessment is to be prepared by an Operations Accountant and reviewed by the Capital Committee.

6.2. If the lease is considered to be a capital lease then the leased asset is set up as a tangible capital asset as described in 3.1 above. If the lease is an operating lease then all expenditures associated with the lease are expensed in the period incurred.

6.3. Lease commitments will be reported in the annual financial statements as required by generally accepted accounting principles.

7. Donations (Gifts in Kind)

7.1. Donations of tangible capital assets, the factors affecting their acceptance, the responsibilities of the receiving unit and other issues relating to gifts in kind are the responsibility of those identified on the B100 - Signing Authority for Contracts and

Obligations Procedure who will assess for risk and ensure that the asset is recorded at the fair market value, in consultation with the Capital Committee for financial risk.

7.2. In order for gifts in kind to be recorded as a tangible capital asset they must meet all criteria of an asset as noted on Tangible Capital Assets Definition Procedure.

8. Estimated useful life adjustments

8.1. The estimated useful lives of assets should be reviewed on a regular basis and revised when appropriate. Any changes to the estimated useful lives of assets should be documented and applied prospectively.

8.2. Events that may result in changing an estimated useful life include:

- 8.2.1. Use of the asset exceeding expectations;
- 8.2.2. Completion of a betterment;
- 8.2.3. Removal of the asset from use for an extended period of time;
- 8.2.4. Change in extent or manner of how the asset is used;
- 8.2.5. Physical damage or accelerated wear;
- 8.2.6. Change in environmental or other legislative requirements; and
- 8.2.7. Consistent recording of large gains or losses on disposal of like assets.

9. Capital asset counts and impairment

9.1. Annually, as part of the financial statement close process, Business Services will coordinate, with respective departments, the counting and impairment assessment of tangible capital assets. This annual process is to ensure that tangible capital assets are physically counted and inspected according to a 3 year rotating plan.

9.2. Physical asset count and assessment will include the following assertions:

- 9.2.1. Confirming that the College still has and owns the asset;
- 9.2.2. Assessing for impairment wherein the asset owner will comment on if the asset is still in functioning condition;
- 9.2.3. If the asset is obsolete (through technological advancements or other means);
- 9.2.4. If the asset has experienced notable damage or accelerated wear; and
- 9.2.5. If the asset is in reasonable condition in light of maintenance or lack of maintenance performed.

9.3. Results of the assessment will be used by business services to write down or write off the asset if necessary.

10. Change in use of assets

10.1. Business Services need to identify tangible capital assets that have had the nature of their use change. This is to reflect the change in the financial statements where necessary.

11. Amortization

11.1. Tangible Capital Assets are identified and tracked within Fusion.

11.2. Assets that are identified as not being “available for use” or not having an in-service date that has passed yet are reviewed by the

Operations Accountant each month. The review is to confirm that the assets are not yet required to have amortization recorded.

11.3. The college will record amortization based on the straight-line basis.

11.4. The month in which the asset is available for use will have a full month's amortization recorded. There will be no prorating of monthly amortization based on the specific date the asset is available for use.

11.5. No amortization will be recorded for the month in which the asset has been disposed of.

11.6. Fusion calculates the monthly amortization expense at the end of each month which is reviewed by the operations accountant for accuracy, completeness and reasonability before it is posted to the GL.

12. Dispositions

12.1. Asset owners identify assets that are no longer needed, no longer useful to the College or no longer are in the College's control (for example, stolen). They prepare a Tangible Capital Asset Removal form (KiSSFLOW) in the workflow management system, which is required to be reviewed by the applicable dean or department manager before being submitted to Business Services.

12.2. The asset owner will consider if the surplus asset could be used by another department.

12.3. If another department is able to use the asset then the operations accountant will coordinate the transfer to the new department and also update the location and department responsible for the asset details within Fusion.

12.4. Transfers to/from related parties (that are consolidated on the financial statements) are done so at the carrying value so there is no recorded gain or loss on disposition.

12.5. If still considered surplus, the operations accountant and the asset owner will determine the best way to dispose of the asset, which will be documented on the Tangible Capital Asset Removal form (KiSSFLOW)in the workflow management system. Assets with little to no value can be disposed of in a way that is efficient and ethical. Assets that have significant value (i.e the capitalization threshold amount, $5,000 or higher) should be sold in an open and fair way that is accessible in a method that will yield a fair market value.

12.6. Disposition methods for assets with significant value need to be well advertised for a sufficient period of time (minimum one week) to avoid any perceived or actual benefit to employees (including families and friends). Acceptable methods of disposals include but are not limited to:

12.6.1. Disposal newsletter or site posted on the portal for college staff and students;

12.6.2. Online auction included on the Olds College website; and

12.6.3. Tender

12.7. The results of the disposition of the asset are handled by the Business Services group. The gain or loss on sale of the asset is calculated and the entry to record the disposition is prepared and reviewed before being entered into the GL.

12.8. Any gain or loss on the sale of the asset will be included in the operating budget of the department who had stewardship over the asset.

12.9. All computers and information storage equipment are sent to IT for proper information removal.

12.10. Donations of assets are only allowed to third parties and with the approval of the Capital Committee.

13. Donated tangible capital assets from the college to third parties

13.1. If the tangible capital assets are donated from the college to a third party (not related), and have a net book value of $5,000 (capitalization threshold) or greater, then the net book value of the asset is recorded as a grant expense.

14. Write downs and write offs

14.1. Should be considered annually as part of the financial statement preparation process. Write downs should be recorded when there is a permanent impairment in the asset's value beyond that already recorded in accumulated amortization.

14.2. The information used to determine write down or write offs is obtained from the annual inspection of each asset that is described in section 9.

14.3. A write down is used when the value of the asset is impaired, but there is still value. In the event that there is a complete impairment of the asset a write off should be recorded.

14.4. Assets that are written off should be indicated as such on the Tangible Capital Asset Removal form (KiSSFLOW) in the workflow management system to have the asset removed from the GL.

14.5. Write downs and write offs should be recorded as expenses in the period which they occurred. Write downs and write offs will not be reversed. These entries will be prepared by and reviewed in accordance with journal entry controls.

15. Externally funded capital

15.1. Funding sources can come from either internal or external sources, or a mix of both. If external funding is used to get the tangible capital asset in a condition that is available for use then the portion of external funding needs to be recorded during the capitalization process. This process is identified on the Deferred Revenue Procedure.

15.2. External funding spent on tangible capital assets is considered spent deferred capital contributions (and are reported as such on the financial statements). These amounts are recognized as revenue in the periods in which the related capital assets are amortized. If the asset is fully funded externally then the annual amortization expense and transfer from spent deferred capital contributions to revenue will equal.

15.3. Unamortized deferred capital contributions relating to capital assets that are disposed of, are recognized as revenue in the period of disposal, provided that compliance with all restrictions has been met.

16. Lost, stolen or damaged tangible capital assets

16.1. If the asset was lost, stolen or damaged then the applicable department prepares a Tangible Capital Asset Removal form (KiSSFLOW) in the workflow management system (as noted

above).
16.2. Contact security, police and insurance as necessary.
16.3. Business Services records the disposition and insurance proceeds, if any, as a journal entry.

17. **Executive Limitations**
17.1. Reporting to the board will be in line with Executive Limitations policy 5 - Asset Protection, specifically with the following items noted on it:
17.1.1. 1 - Permit the college to be without adequate insurance against theft and damage losses;
17.1.2. 4.1 - Receive, process or disburse the organization's assets under internal controls insufficient to detect , deter and prevent fraud or insufficient to prevent and detect significant deficiencies or material weaknesses;
17.1.3. 6 - Cause or allow plant and equipment to be subjected to misuse or inadequate maintenance;
17.1.4. 8 - Make purchases that do not result in appropriate level of quality, after-purchase service and value for dollar, or do not provide opportunity for fair competition; and
17.1.5. 9 - Acquire, encumber or dispose of land or buildings.

Definitions:

Acquisition: The process of determining that an asset is needed, budgeting for it, appropriately obtaining it and bringing the asset into service.

Amortization: The expense recorded on a monthly basis that spreads the cost of the tangible capital asset over the estimated useful life of the asset.

Asset Owner: The individual, or group of individuals, who has accountability for acquiring, maintaining, tracking and disposing of the tangible capital asset.

Betterments: Enhancements to the service potential of a tangible capital asset. These enhancements could extend the expected useful life of the asset, improve the quality or quantity of the output or reduce the associated operating costs

Capitalization: The process followed to set up an acquired tangible capital asset within Fusion to allow for it to be tracked, amortized and reported upon.

Cost: The value of the asset as measured by the costs incurred from the acquisition, design, construction, development, improvement or betterment. Items that can be added to the cost include actual payments made, all costs and fees incurred for delivery, installation and any other costs required to have the asset operable and available for use. These costs can include the related payroll costs if employees were involved in the construction or installation. The cost will not include GST that is recoverable or any amounts paid for training, warrantees, or services such as consulting or product support that may come with the acquisition (for example, costs related to product support for new software should not be included in the cost of the asset).

Disposal: The process of retiring a TCA from Olds College once it is identified as surplus or is no longer available for use by the college.reaches the end of its service period.

Identification: The process of giving each capital asset a unique identifier so that it can be properly managed, both physically and financially, throughout its life cycle.

In service date: The date when the asset is available for use. This could be as simple as the date of acquisition for something like a vehicle, or could be the date that the asset has completed construction like a building. This is the date that amortization will start being recorded.

Repairs and maintenance: Ongoing activities and costs that allow the tangible capital asset to remain operable as intended for the duration of its estimated useful life. Costs for repairs and maintenance are expensed in the period in which the service is provided.

Residual value: The estimated value of the tangible capital asset once it is at the end of its estimated useful life.

Retirement obligations: Obligations associated with the retirement of the tangible capital asset, or a component thereof.

Straight-line method: An amortization method which allocates the cost of a tangible capital asset equally of each year of its estimated useful life.

Tangible Capital Asset (TCA)

- A tangible and identifiable item, valued at over $5,000 (calculated based on the total costs of a functioning unit including labour, materials, transportation and installation costs, taxes and duty. $1,500 for computer hardware)
- It has a useful life of more than one year
- The item is not bought or sold in the normal course of operations (e.g. inventory)
- Capital lease

Refer to **Tangible Capital Asset Definition Procedure** for more details.

Transfer: The process of moving a TCA between Olds College departments or between entities that are consolidated in the Olds College consolidated financial statements.

Work in progress (WIP): Term used for assets which are in a state of partial completion or installation whereas they are not yet available for use. These assets are recorded in the accounting system and financial statements, but they do not yet have amortization being expensed. Example is a building that is partially constructed, where costs have been incurred, but it is not yet available for use.

Write Down: The process that occurs to reduce the value of a tangible capital asset when the fair market value has fallen below the net book value, thus becoming an impaired asset. Examples include assets that are damaged, significant reductions of value in the open market or the asset's usefulness is reduced.

Write-off: The process that occurs when an asset no longer has value and the net book value is reduced to nil to reflect this. Typical examples of write-offs would occur if an asset was destroyed, obsolete or no longer in use and there is no resale market for it.

Related Information:	A28 Fraud and Irregularities Policy B100 Signing Authority for Contracts and Obligations Policy B200 – 3FORM Budget Variance Approval Form B300 -Supply of Goods and Services Policy B31 PR2 Tangible Capital Asset Definition Procedure B300 5PR Competitive Purchasing Procedure B300 2PR Fleet Purchase Card Procedure B300 1PR Purchase Card System B300 6PR Competitive Purchasing Exception Procedure Capital Budget Procedure Tangible Capital Asset Removal Form
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