NIAGARA PENINSULA CONSERVATION AUTHORITY

FINANCE COMMITTEE MEETING
ON-LINE TELECONFERENCE

Thursday, December 3, 2020
9:30 a.m.

A G E N D A

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1. APPROVAL OF AGENDA

2. DECLARATIONS OF CONFLICT OF INTEREST

3. APPROVAL OF THE MINUTES

a) Minutes of the NPCA Finance Committee meeting dated October 29, 2020
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4. CORRESPONDENCE

5. DELEGATIONS / PRESENTATIONS

6. CONSENT ITEMS

7. DISCUSSION ITEMS

a) Report No. A&BC-13-20 RE: Reserves Policy *(For Approval)*
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b) Report No. A&BC-14-20 RE: Tangible Capital Assets Policy *(For Approval)*
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8. NEW BUSINESS

9. ADJOURNMENT

FINANCE COMMITTEE
ON-LINE TELECONFERENCE
MEETING MINUTES
Thursday, October 29, 2020
9:30 a.m.

MEMBERS PRESENT: K. Kawall, Chair
S. Beattie
B. Johnson
B. Mackenzie
B. Steele (departed 10:00 a.m.)
M. Woodhouse

ABSENT: R. Foster
J. Metcalfe

STAFF PRESENT: C. Sharma, Chief Administrative Officer/Secretary–Treasurer
G. Bivol, Executive Co-Ordinator to the C.A.O/Board
A. Christie, Director, Operations and Strategic Initiatives
L. Gagnon, Director, Corporate Services
D. MacKenzie, Director, Watershed Management
G. Shaule, Administrative Assistant
G. Verkade, Senior Manager, Integrated Watershed Planning and Information Management

Chair Kawall called the meeting to order at 9:31 a.m.

1. APPROVAL OF AGENDA

Recommendation No. A&BC-28-2020
Moved by Member Steele
Seconded by Member Woodhouse

THAT the Audit and Budget Committee Meeting agenda dated Thursday, October 29, 2020 **BE APPROVED** as presented.

CARRIED

2. DECLARATIONS OF CONFLICT OF INTEREST

None declared.

3. APPROVAL OF THE MINUTES

a) Minutes of the NPCA Audit and Budget Committee meeting dated July 30, 2020

Recommendation No. A&BC-29-2020
Moved by Member Beattie
Seconded by Member Steele

THAT the minutes of the Audit and Budget Committee meeting dated July 30, 2020 **BE APPROVED**.

CARRIED

4. CORRESPONDENCE

None.

5. DELEGATIONS / PRESENTATIONS

None.

6. CONSENT ITEMS

a) Report No. A&BC-12-20 RE: Financial Report – Q3 – 2020 - L. Gagnon, Director, Corporate Services presented. D. Mackenzie, Director, Watershed Management offered additional comment.

Recommendation No. A&BC-30-2020
Moved by Member Steele
Seconded by Member Beattie

THAT Report A&BC-12-20 RE: Financial Report – Q3 – 2020 **BE RECEIVED** for information.

CARRIED

Recommendation No. A&BC-31-2020
Moved By: Member Beattie
Seconded By: Member Woodhouse

THAT staff **PROVIDE** a justification report to support the two additional FTE's included in the draft 2021 budget.

CARRIED

Recommendation No. A&BC-32-2020
Moved By: Member Woodhouse
Seconded By: Member Beatty

THAT the Committee **REQUESTS** staff include in 2021 budget presentations re-initiation of Niagara Region's contribution to a land acquisition reserve.

CARRIED

7. DISCUSSION ITEMS

a) Report No. A&BC-11-20 RE: 2021 Draft Operating and Capital Budgets – Member Beattie requested notation in the minutes that he was not in support of Recommendation No. A&BC-34-2020.

Recommendation No. A&BC-33-2020
Moved By: Member Beattie
Seconded By: Member Woodhouse

THAT Report No. A&BC-11-20 RE: 2021 Draft Operating and Capital Budgets **BE RECEIVED.**

CARRIED

Recommendation No. A&BC-34-2020
Moved By: Member Woodhouse
Seconded By: Chair Kawall

THAT the Finance Committee **RECOMMENDS** that the Board approve the 2021 Draft Operating and Capital Budgets for discussion with municipalities.

CARRIED

8. NEW BUSINESS

Chandra Sharma, Chief Administrative Officer / Secretary - Treasurer noted the need for another meeting to discuss reserve policy and a tangible capital assets policy. A meeting date for November 26, 2020 was determined.

Budget presentation dates for the City of Hamilton and Niagara Region were discussed. It was noted that the meeting with Niagara Region staff was slated for December 10, 2020. The Hamilton budget presentation was anticipated for January 19 or 21, 2021.

9. ADJOURNMENT

Recommendation No. A&BC-35-2020
Moved by Member Beattie
Seconded by Member Woodhouse

THAT the Finance Committee meeting of October 29, 2020 **BE** hereby **ADJOURNED** at 11:25 a.m.

CARRIED

Ken Kawall,
Committee Chair

Chandra Sharma, MCIP, RPP
Chief Administrative Officer / Secretary - Treasurer

Report To: **Finance Committee**

Subject: **Reserves Policy**

Report No: **A&BC-13-2020**

Date: **December 3, 2020**

Recommendation:

1. **THAT** Report No. A&BC-13-2020 RE: Reserves Policy **BE RECEIVED** for Finance Committee input and approval.
2. **THAT** the Reserves Policy **BE RECOMMENDED** to the Board of Directors for approval.

Purpose

The Niagara Peninsula Conservation Authority (NPCA) Board of Directors has established reserves to help ensure the long-term financial stability of the organization and position it to respond to varying economic conditions and changes affecting the organization's financial position and the ability of the organization to carry out its mandate.

The Reserve Policy will set goals for the Board Designated Reserves and the terms and conditions for their use.

Discussion

Reserve Funds

Reserve funds are the accumulation of unrestricted surpluses that are available for use at the discretion of the Board of Directors. The presence of reserves increases NPCA's ability to absorb or respond to temporary changes in circumstances, such as the unanticipated event of significant unbudgeted increases in operating expenses and/or losses in operating revenues. Reserves could also sustain NPCA during times of delayed payments or cutbacks in government funding. Building and maintaining reserves help to ensure that sufficient funds are available to manage cash flow on a day-to-day basis and maintain financial flexibility. Funding of a reserve may come from an operational surplus or raised through specific funding or other revenues.

Reserves may be considered discretionary or non-discretionary. The primary funding source for discretionary reserves is derived from annual year-end operating surpluses or recommendations included in the annual budget.

Non-discretionary reserves are segregated funds to meet statutory and contract requirements and funding agreements. This would include reserves that have commitments dictating that the funds be used for future costs for specific projects or work that is similar in nature or for the same area, for example National Disaster Mitigation Program matched funding.

NPCA's reserves are an essential part of NPCA's long-term financial plan. Reserves are an appropriate way for Conservation Authorities to maintain a stable financial position and sustainably manage significant events to:

- Mitigate current and future risks
- Reduce exposure to unpredictable revenues
- Multi-year financing of capital projects
- Replacement value of tangible capital assets
- Asset Management Plan
- Unanticipated opportunities (i.e. matched funding agreements)

<u>Deferred Funds</u>

Deferred Funds are restricted unspent funds with a pre-determined specific use. Deferred balances in any fund will be carried forward to subsequent budgets to complete projects or fund planned long-term projects or maintenance. Funds that were funded by sole-benefitting levy will be maintained for the intended use only and will not be directed for any other use without the permission of the funder.

<u>NPCA Reserves</u>

1. General Stabilization Reserve
2. Land Securement Reserve
3. Program Designated Reserve
4. Vehicle and Equipment Reserve
5. Capital and State of Good Repair Reserve

Financial Implications

There are no financial implications in adopting the policy.

Links to Policy

The Board has been clear in their desire to be transparent, accountable and fiscally responsible. This policy will aid in meeting these objectives.

Related Reports and Appendices

Appendix 1: (Draft) Reserves Policy

Authored by:

Original Signed by:

Lise Gagnon, CPA, CGA
Director, Corporate Services

Submitted by:

Original Signed by:

Chandra Sharma, MCIP, RPP
Chief Administrative Officer/Secretary-Treasurer

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RESERVES POLICY			#
Developed by:	Corporate Services		
Policy Applies To:	All Employees/Board Members/Volunteers		
Date Created:	24-NOV-2020	Approved By:	
Version #: 1	2020-01	Last Review Date:	NOV-2020

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Purpose and Objectives

Purpose

The Niagara Peninsula Conservation Authority (NPCA) Board of Directors has established reserves to help ensure the long-term financial stability of the organization and position it to respond to varying economic conditions and changes affecting the organization's financial position and the ability of the organization to carry out its mandate.

The Reserve Policy will set goals for the Board Designated Reserves and the terms and conditions for their use.

Application

The Board of Directors and Niagara Peninsula Conservation Authority Staff are responsible for the establishment, management and administration of NPCA Reserves.

Applicable Legislation

1. Conservation Authorities Act (RSO 1990)
2. Public Sector Accounting Board (PSAB) accounting standards for Canadian public sector organizations, including Conservation Authorities.

The Municipal Act, 2001 includes requirements for the establishment of and use of reserve funds for municipalities. Our funding municipalities will also be consulted to ensure NPCA's Reserve Policy is consistent with their reserve funding practices.

Definitions

<u>Appropriations from Reserve</u>

Funds withdrawn from a Reserve Category for a defined use.

<u>Appropriations to Reserve</u>

Funds allocated to a Reserve Category.

<u>Deferred Funds</u>

Deferred Funds are restricted unspent funds with a pre-determined and specifically defined use.

<u>Financial Stability</u>

Financial Stability of a non-profit organization includes maintaining operating reserve ratios at levels adequate for preserving the capacity of non-profit organizations to deliver on their mandate for a reasonable period of time in the event of unforeseen financial shortages, extraordinary events, disaster recovery, etc.

<u>Fund Accounting</u>
A method of accounting and presentation whereby assets and liabilities are grouped according to the purpose for which they are to be used.

Reserve Funds

Reserve funds are the accumulation of unrestricted surpluses that are available for use for a defined purpose.

Reserve Limit

A specified maximum level for a Reserve Category.

Target Reserve Level

The desired level of reserve for a given Reserve Category.

Reserve Funds

Reserve funds are the accumulation of unrestricted surpluses that are available for use at the discretion of the Board of Directors. The presence of reserves increases NPCA's ability to absorb or respond to temporary changes in circumstances, such as the unanticipated event of significant unbudgeted increases in operating expenses and/or losses in operating revenues. Reserves could also sustain NPCA during times of delayed payments or cutbacks in government funding. Building and maintaining reserves help to ensure that sufficient funds are available to manage cash flow on a day- to-day basis and maintain financial flexibility. Funding of a reserve may come from an operational surplus or raised through specific funding or other revenues.

NPCA's reserves are an essential part of NPCA's long-term financial plan. Reserves are an appropriate way for Conservation Authorities to maintain a stable financial position and sustainably manage significant events to:

- Mitigate current and future risks
- Reduce exposure to unpredictable revenues
- Multi-year financing of capital projects
- Replacement value of tangible capital assets
- Asset Management Plan
- Unanticipated opportunities (i.e. matched funding agreements)

Reserves may be considered discretionary or non-discretionary. The primary funding source for discretionary reserves is derived from annual year-end operating surpluses or recommendations included in the annual budget.

Non-discretionary reserves are segregated funds to meet statutory and contract requirements and funding agreements. This would include reserves that have commitments dictating that the funds be used for future costs for specific projects or work that is similar in nature or for the same area, for example National Disaster Mitigation Program matched funding.

Deferred Funds

Deferred Funds are restricted unspent funds with a pre-determined specific use. Deferred balances in any fund will be carried forward to subsequent budgets to complete projects or fund planned long-term projects or maintenance. Funds that were funded by sole-benefitting levy will be maintained for the intended use only and will not be directed for any other use without the permission of the funder.

Reserve Requirements

Governance

The board has the ultimate responsibility for the accuracy of financial reporting and prudent management of resources. An effective system of governance is critical in carrying out this responsibility, which includes board-approved by-laws, policies and procedures, as well as regular receipt and approval of reports regarding financial and other matters.

Each year, a financial audit is conducted by an external accounting firm. The board appoints members to a Finance Committee. The Finance Committee is responsible for reviewing the audited financial statements and recommending their approval to the Board. The Finance Committee is also responsible for reviewing internal controls, accounting practices/policies and significant accruals, provisions and estimates included in the financial statements and making recommendations to the Board.

Management Responsibilities

The CAO/Secretary-Treasurer is responsible for implementing the board's direction regarding reserves. The CAO/Secretary-Treasurer and/or Director, Corporate Services will review and make recommendations to the Board on an annual basis or more frequently as necessary regarding the need for new reserves, the financial adequacy of existing reserves and funding sources for reserves.

All contributions to and/or withdrawals from reserve and reserve funds will be clearly identified and segregated within the Corporation's accounting system.

Creation of Reserves

A Board Resolution is required to create a new reserve, other than a reserve that falls under one of the exceptions outlined below. The Resolution is typically recommended by staff in the annual year-end report though may also be recommended in a separate report when a specific transaction takes place.

For non-discretionary reserves that are required under legislation or a contract with others such as land sale reserves and funds provided by others for future expenses, staff are authorized to create the reserves, with the details to be included in future Board reports.

A staff recommendation to the Board for the creation of a new reserve will include:

1. Rationale for creating and purpose of the reserve
2. Funding source
3. Target balance for reserve if applicable
4. Amount and timing of projected disbursements (if known)

Appropriations to/from Reserves

Transfers to reserves must be approved by a Board Resolution, unless the transfer relates to one of the non-discretionary reserve exceptions outlined above and is required by legislation or contract. A resolution to transfer funds to a reserve can be a one-time lump sum amount or can be a protocol for staff to follow (i.e. annual owned-vehicle amortization as a charge to operations to support equipment reserve). Revenue sources with specific requirements, contractual obligations or designated purposes should be classified as restricted to ensure related limitations and conditions are adhered to.

All transfers from reserves for the use of reserve funds must be approved by a Board resolution. When funds are to be transferred out of a non-discretionary reserve, staff will confirm that the use of the funds is consistent with the legislated or contracted requirement when presenting the recommended Resolution to the Board for consideration.

When approving appropriations from reserves, the Board should consider any additional provisions that may be required for replenishment if applicable, in addition to Board approved funding sources for each reserve.

Reserve Shortfalls

If any reserve category is less than 50% of the targeted reserve, the Board of Directors, in the absence of any extraordinary circumstances, should consider adopting an annual budget that includes a projected surplus sufficient to rebuild the reserve category over a defined period back to its targeted reserve level.

Investment Income and Reserves

NPCA's cash balances are pooled or combined for investment purposes. Investment income will be allocated to a reserve if it is:

a) required by resolution of the Board, for discretionary reserve or,
b) required by a provincial policy or contract, for a non-discretionary reserve.

Any investment income allocated to reserves will be initially allocated as earnings of the general operating fund, then credited annually to each reserve fund according to its proportionate share of the total investment portfolio, based on the weighted average return for all investment income (including the interest-bearing current account) during the year. Investments shall be made in accordance with the NPCA Banking and Investment Policy.

If a discretionary reserve is considered to have reached a level that is sufficient to meet the future needs that it was established for, the Board may direct staff to suspend the allocation of investment income to that reserve and redistribute to remaining reserves.

Reporting

The annual budget process will include detailed information on projected reserve balances and changes.

The audited financial statements will indicate the total reserve amounts and the financial statement note disclosure will provide reserve details, compared to prior year.

Policy Review Schedule

The Reserve Policy will be reviewed and updated every four years or sooner if conditions dictate. Any changes thereto will be at the discretion of the Board of Directors and approved by resolution.

NPCA Reserves

General Stabilization Reserve

Stabilization Reserves are established to address in-year uncontrollable or unanticipated changes in revenues or costs that are operational in nature.

Purpose	To provide financial resources to respond to unforeseen events. This reserve will be used to accommodate fluctuations in operating revenue and expenses and to protect against unexpected expenditures that are typically one-time in nature, or unanticipated deficits that may occur in the fiscal year. This reserve also serves as a long-term financing tool to smooth impacts of municipal funding changes due to growth in programs and services. To provide working capital during the year, if required.
Target Balance	As best practice, the Government Finance Officers Association recommends that stabilization should be 5% to 15% of operational revenues or one to two months of operational expenditures, based on the previous 3-year actual average.
Funding Source	Contributions from the operating budget. Contributions from the year-end operating surplus. Board designated revenue source(s).

/continued

Land Securement Reserve

Purpose	Niagara: to fund the acquisition of property in Niagara Region to meet NPCA's goals as determined through the Land Acquisition Strategy. Hamilton: to fund the acquisition of property in the City of Hamilton to meet NPCA's goals as determined through the Land Acquisition Strategy implementation plan. Other: to fund the acquisition of various properties to meet NPCA's goals as determined through the Land Acquisition Strategy.
Target Balance	The target balance will be based on amounts to be determined through the Land Acquisition Strategy implementation plan.
Funding Source	Municipal reserve funding in the operating budget. Contribution(s) from the operating budget. Contribution(s) from the year-end operating surplus. Proceeds from the sale of property, except provincially funded/owned land sale proceeds that must be restricted. Support from Niagara Peninsula Conservation Foundation as appropriate Investment revenue allocation. Board designated revenue source(s).

/continued

Program Designated Reserves

<u>Flood Protection Reserve</u>

Purpose	To provide a funding source for flood protection initiatives, related ongoing monitoring and operating expenses and to finance project disbursements where tenders exceed approved budgets. Additionally, this reserve supports matched funding projects.
Target Balance	The target balance will be based on Flood Protection budget amount, incorporating any external matched funding agreements.
Funding Source	Contribution(s) from the operating budget. Contribution(s) from the year-end operating surplus. Project funding received in excess of related expenses. Investment revenue allocation. Board designated revenue source(s).

/continued

Vehicle and Equipment Reserve

Purpose	To fund the replacement of vehicles and equipment at the end of their useful life, in accordance with life cycle replacement protocols in the Asset Management Program.
Target Balance	The target balance will be based on the average annual requirement for the replacement of vehicles and equipment in the Capital Budget, based on lifecycle costing information. A minimum reserve balance of 25% of the estimated total vehicle and equipment replacement value will be maintained.
Funding Source	Contribution(s) from the operating budget funded from general municipal levy as a departmental charge to operating departments equivalent to the amortization of owned assets. Surplus financing from completed equipment capital projects. Proceeds from sale or disposal of used equipment. Investment revenue allocation. Board designated revenue source(s).

/continued

Capital and State of Good Repair (SOGR) Reserve

Purpose	To fund the replacement, expansion or rehabilitation of NPCA capital assets. This reserve can also be used to fund unforeseen infrastructure renewal activities that may arise as assets deteriorate over their useful life. To maintain NPCA capital assets in a state of good repair. This reserve will minimize the impact on municipal funding or need for debt financing by ensuring funds are available to renew assets and extend their useful life, thereby reducing or delaying the replacement of assets.
Target Balance	The target balance will be based on the average annual requirement for NPCA's capital assets based on lifecycle costing information as determined by NPCA's Asset Management Plan.
Funding Source	State of Good Repair Levy Contribution(s) from the operating budget. Surplus financing from completed equipment capital projects. Proceeds from sale or disposal of used equipment. Investment revenue allocation. Board designated revenue source(s).

Report To: **Finance Committee**

Subject: **Tangible Capital Assets Policy**

Report No: **A&BC-14-2020**

Date: **December 3, 2020**

Recommendation:

1. **THAT** Report No. A&BC-14-2020 RE: Draft Tangible Capital Assets Policy **BE RECEIVED** for Finance Committee input and approval.

2. **THAT** the Final Tangible Capital Assets Policy **BE RECOMMENDED** to the Board of Directors for approval.

3. **AND FURTHER THAT** staff continue to develop best practices and guidance regarding consideration of green infrastructure and climate change in future updates to NPCA's Tangible Capital Assets Policy and Asset Management Plans.

Purpose

The purpose of this policy is to prescribe the accounting treatment for tangible capital assets (TCA) so that the investments in property and equipment are reflected on the Niagara Peninsula Conservation Authority's (NPCA) financial statements in accordance with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150. The principle issues are the recognition of the assets and the determination of amortization charges. Also addressed are policies and procedures to protect and control the use of all tangible assets, provide accountability over tangible capital assets, and gather and maintain information needed to prepare financial statements.

Discussion

The Canadian Institute of Chartered Accountants has approved Public Sector Accounting Board (PSAB) Handbook Section 3150 relating to the accounting treatment of a public sector organization's tangible capital assets. Beginning on January 1, 2009 all public sector organizations in Canada must record and report their tangible capital assets on their financial statements. These assets must be valued at historical cost and amortized over their expected useful life. This policy has been developed to provide a framework for the implementation and subsequent maintenance of NPCA's Tangible Capital Asset Reporting System.

Asset Classifications

1. Land
2. Land Improvements
3. Buildings and Building Improvements
4. Machinery and Equipment
5. Infrastructure
6. Vehicles

Capitalization Thresholds

Asset Classification	Minimum Threshold	
Land		No threshold
Land Improvements	$	20,000
Buildings and Building Improvements	$	20,000
Machinery and Equipment	$	5,000
Infrastructure	$	20,000
Vehicles	$	5,000

Amortization and Estimated Useful Life

Asset Classification	Amortization Method	Useful Life
Land	Not applicable	Unlimited
Land Improvements	Straight Line	20 years
- Dams and Water Control Structures	Straight Line	15 to 100 years
Buildings and Building Improvements	Straight Line	30 years
Machinery and Equipment	Straight Line	5 to 10 years
- Gauge Stations	Straight Line	15 to 30 years
Infrastructure	Straight Line	20 years
Vehicles	Straight Line	5 years
Work in Progress	Not applicable	Not applicable

Governance

The Board has the ultimate responsibility for the accuracy of financial reporting and prudent management of resources. An effective system of governance is critical in carrying out this responsibility, which includes board-approved by-laws, policies and procedures, as well as regular receipt and approval of reports regarding financial and other matters.

Each year, a financial audit is conducted by an external accounting firm. The board appoints members to a Finance Committee, who is responsible for reviewing the audited financial statements and recommending their approval to the Board. The Finance Committee is also responsible for reviewing internal controls, accounting practices/policies and significant accruals, provisions and estimates included in the financial statements.

<u>Green Infrastructure and Climate Change Consideration</u>

Ontario Regulation 588/17, sets out requirements for Ontario municipalities to develop asset management plans, formally recognizes green infrastructure for the first time as a type of asset that should be included in municipal asset management planning. This creates a number of opportunities for green infrastructure owners like NPCA and our partner area municipalities to increase investment in and improve management of green infrastructure.

The regulation indicates a need for municipal asset management to consider both the effects of climate change on infrastructure as well as opportunities to reduce greenhouse gas emissions through infrastructure planning and management, both of which can often be supported by green infrastructure. O. Reg 588/17 Defines Green Infrastructure as “an infrastructure asset consisting of natural or human-made elements that provide ecological and hydrological functions and processes, and includes natural heritage features and systems, parklands, stormwater management systems, street trees, urban forests, natural channels, permeable surfaces and green roofs” .

The inclusion of green infrastructure in the regulation as well as its acknowledgement throughout federal and provincial infrastructure funding programs means that green infrastructure is eligible for much of the infrastructure funding that is now available and that will be available in the future. The community of practice and guidance on this aspect of asset management is still evolving.

Through NPCA’s new Strategic Plan and climate change commitment, we have an opportunity to develop technical knowledge and expertise in this area to ensure that green infrastructure assets are incorporated accurately and consistently not only into NPCA’s asset management program but we can convene a regional community of practice and support our local partners in this emerging area of new science and practice.

Financial Implications

There are no financial implications in the development of this policy. The Board should consider the allocation of resources for successful implementation of this policy in the annual budget process.

Links to Policy

The Board has been clear in their desire to be transparent, accountable and fiscally responsible. This policy will aid in meeting these objectives.

Related Reports and Appendices

Appendix 1: (Draft) Tangible Capital Assets Policy

Appendix 1(a): (Draft) Asset Disposal and Transfer Form

Authored by:

Original Signed by:

Lise Gagnon, CPA, CGA
Director, Corporate Services

Submitted by:

Original Signed by:

Chandra Sharma, MCIP, RPP
Chief Administrative Officer/Secretary-Treasurer

TANGIBLE CAPITAL ASSETS			#
Developed by:	Corporate Services		
Policy Applies To:	All Employees/Board Members/Volunteers		
Date Created:	25-NOV-2020	Approved By:	
Version #: 1	2020-01	Last Review Date:	NOV-2020

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Purpose and Objectives

Purpose

The purpose of this policy is to prescribe the accounting treatment for tangible capital assets (TCA) so that the investments in property and equipment are reflected on the Niagara Peninsula Conservation Authority's (NPCA) financial statements in accordance with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150. The principle issues are the recognition of the assets and the determination of amortization charges. Also addressed are policies and procedures to protect and control the use of all tangible assets, provide accountability over tangible capital assets, and gather and maintain information needed to prepare financial statements.

Policy Statement

The Canadian Institute of Chartered Accountants has approved Public Sector Accounting Board (PSAB) Handbook Section 3150 relating to the accounting treatment of a public sector organization's tangible capital assets. Beginning on January 1, 2009 all public sector organizations in Canada must record and report their tangible capital assets on their financial statements. These assets must be valued at historical cost and amortized over their expected useful life. This policy has been developed to provide a framework for the implementation and subsequent maintenance of NPCA's Tangible Capital Asset Reporting System.

Definitions

Amortization is the accounting process of allocating the cost less the residual value of a tangible capital asset to operating periods as an expense over its useful life (also referred to as depreciation).

Betterments are subsequent expenditures on tangible capital assets that:

- Increase service capacity
- Lower associated operating costs
- Extend the useful life of the asset
- Improve the quality of the asset

These costs are included in the tangible capital asset's cost. Any other expenditure would be considered a repair or maintenance and expensed in the period in which the expense was incurred. The asset category "Building Improvements" falls under this category.

Capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the NPCA.

Capitalization threshold is the minimum amount that expenditures must exceed before they are capitalized and are reported on the balance sheet of the financial statements. Items not meeting the threshold would be recorded as an expense in the period in which the item was purchased.

Contributed / Donated Assets is a TCA received at no or nominal cost. The value of a contributed TCA is its fair value at the date of contribution.

Disposal is the reduction in the investment in TCAs by way of sale, demolition, loss or abandonment.

Fair Value is 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.

Group Assets (pooling) TCA that have an individual value below the capitalization threshold but have a material value as a group.

Historical Cost is the gross amount of consideration originally given up to acquire, construct, develop or better a tangible capital asset and includes all costs directly attributable to the asset's acquisition, construction, development or betterment, including installing the asset at the location and in the condition necessary for its intended use.

Impairment is a condition whereby an asset's market value falls below its book value and the value reduction is expected to be permanent (e.g. damage), resulting in a write-down of the asset's value and recording of a loss.

Net Book Value is the asset value minus the accumulated amortization of the asset.

Replacement Cost is the current cost of similar new property having the nearest equivalent utility as the property being appraised as of a specific date.

Residual Value is the estimated net realizable value of a TCA at the end of its useful life, also referred to as salvage value.

Tangible Capital Assets are non-financial assets having physical substance that:

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

Tangible capital assets do not include:

i. Assets inherited by right of the Crown, such as Crown lands, forests, water and mineral resources
ii. Works of art or historical treasures
iii. Intangible assets such as goodwill, copyrights and patents

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

Work-In-Progress is the cost of a TCA under construction or in an uncompleted process of acquisition and that are not yet in service. Amortization is not applied to work-in-progress.

Write-Down is a reduction in the cost of a tangible capital asset to reflect the decline in the asset's value due to a permanent impairment.

/continued

Policy – Tangible Capital Assets

Asset Classifications

NPCA records tangible capital assets to which it has legal title in one of the classifications noted below.

Land

Real property in the form of a plot, lot or area. Includes all expenditures made to acquire land and to ready it for use where the improvements are considered permanent in nature and includes purchase price, closing costs, grading, filling, draining, and clearing, removal of old buildings (net of salvage), assumption of liens or mortgages, and any additional land improvements that have an indefinite life. The costs associated with improvements to land are added to the cost of the land if those improvements can be considered permanent (such as re-grading or filling of the land). Excludes: forests, water and other mineral resources and land held for resale. Includes land for administrative buildings, parks, playground fields and open space.

Land Improvements

Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use, which generally decay or break down over time. Land improvements that are removable and can degrade or deplete over the course of time through use or due to the elements, should be separately capitalized and their value amortized over the useful life of the improvement. Examples include construction of driveways, landfill site development, bike paths in parks, drop off locations, sidewalks, fencing, patios, water fountains, outdoor swimming or wading pools, ball diamonds, soccer fields, irrigation systems, water control structures (damns, weirs), tennis courts etc.

Buildings and Building Improvements

Buildings include all structures that provide shelter from the elements which function independent of an infrastructure network. This category includes capital and betterments to general capital buildings that are owned by the authority. Examples include sport and recreation facilities, office buildings, pavilions, change rooms, park washrooms, concession buildings, ticket kiosks etc.

Machinery and Equipment

An apparatus, tool, device, implement or instrument that likely uses energy to facilitate a process, function or completion of a task. It may be installed within a building but is generally capable of being moved and reinstalled at a different location. It can include furniture, computers, office equipment, gauge stations.

Infrastructure

Are linear assets that are generally constructed or arranged in a continuous and connected network. Examples include surface systems such as roads, sidewalks, bridges, drainage ditches, streetlights, and underground systems.

Vehicles

A means of transportation, usually having wheels for transporting persons or things or designed to be towed behind such an apparatus. Often require a license. Includes automobiles, trucks, motorcycles, boats etc.

Capitalization Thresholds

NPCA will record a tangible capital asset in the accounting ledgers if it meets or exceeds the dollar threshold noted below.

Regardless of the foregoing, assets purchased individually that have a value below the threshold may be material when pooled and considered as a group. Similarly, portable assets may also be tracked for better control or security. These assets are capitalized as part of the group and may be tracked separately in a sub-ledger.

Asset Classification	Minimum Threshold	
Land		No threshold
Land Improvements	$	20,000
Buildings and Building Improvements	$	20,000
Machinery and Equipment	$	5,000
Infrastructure	$	20,000
Vehicles	$	5,000

Valuation

<u>Purchased Assets</u>

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use. These costs may include, but are not limited to:

1. direct material and labour costs incurred during construction of a tangible capital asset;
2. professional fees charged by an outside third party for services rendered such as appraisal, application, survey, inspection, design, engineering, architectural, environmental assessments and other similar types of activities;
3. an appropriate share of overhead and indirect costs such as salaries and wages that can be directly attributable to the acquisition, development and construction of a tangible capital asset;
4. the costs of an improvement that is incurred subsequent to the initial acquisition or construction of a tangible capital asset, such as an addition of a lane to an existing road;
5. land acquisition costs, such as purchase price, appraisal fees, brokerage fees, survey fees and legal fees;
6. interest costs incurred by borrowing during the acquisition, construction or production of the asset to get the asset ready for its intended use. Once the asset is operational, the interest costs are no longer to be capitalized;
7. miscellaneous costs such as handling, freight and transportation insurance charges to the point of initial use, non-refundable taxes and duties; and
8. net of any discounts or rebates.

The administrative costs to put an asset into operation are to be capitalized, but general administrative overhead not directly attributable to the asset is not to be capitalized.

Estimating

When the historical cost cannot be accessed or identified, the following methods may be used to determine a reasonable estimate for the historical cost.

1. discounted reproduction cost (measures the current cost of reproducing the same asset into the same physical form and discounted to the year of acquisition using an index);
2. discounted replacement cost (measures the current cost of replacing the asset in a different physical form but with the same productive capacity and then discounted to the year of acquisition using an index);
3. professional appraisal (a professional assessment of what an asset is worth based on its current age and condition. This value is then discounted to the cost at the time of acquisition using an index).

For audit purposes, a consistent method will be applied across an asset category when applying cost estimation.

The indices applied to discount to estimate value will be an index such as the Consumer Price Index or an industry specific index such as the Public Work Index and applied across the asset category.

Capital Leases

Tangible Capital Asset leases are either operating or capital in nature. Capital leases exist where substantially all of the benefits and risk incident to ownership are transferred to the NPCA, and one or more of the following conditions must be met:

1. there is reasonable assurance that property ownership will be transferred at the end of the lease term;
2. the lease term covers 75% or more of asset's economic life; or
3. the present value of minimum lease payments less executory costs equals 90% or more of the asset's fair market value.

Capital leases are recorded as both a Tangible Capital Asset and liability on the balance sheet. Operating leases are recorded as operating expenses in the year incurred.

Donated or Contributed Assets

Donated or contributed assets meet the criteria for recognition as tangible capital assets as these assets embody an expected future economic benefit that the NPCA will control. 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. Ancillary costs should be capitalized. In unusual circumstances, where it is impossible to estimate its fair value, the tangible capital asset would be recognized at nominal value.

Grants or Donations

Any grants or donations received towards the acquisition cost of an asset cannot be netted against the gross cost of the TCA.

Grants received are recognized as Capital Revenue, by type.

Assets that are contributed, donated or assumed by the NPCA are recorded at fair market value at the date of acquisition. Fair market value is the consideration that would be agreed on in an arm's length transaction between parties who are under no compulsion to act. PSAB 3150 requires the disclosure of the nature and amount of contributed TCA received in the year.

<u>Works of Art and Historical Treasures</u>

The cost of items of historical significance or works of art are not consumed in the normal operations nor is it possible to estimate the future economic benefit associate with these items. These items will not be recognized as tangible capital assets, but the existence of these units should be disclosed in the notes to the financial statements, in accordance with PSAB 3150. Buildings declared as heritage sites may be included in this asset classification. Therefore, the NPCA will specifically exclude all artifacts, antiques, works of art and buildings of historical significance such as those at the Ball's Falls Heritage Parks.

Expenditures for preservation, cleaning and restoration related to such property is expensed in the period incurred.

<u>Asset Segmentation</u>

Many TCA, especially complex network systems and buildings, consist of a number of components. PSAB 3150 provides the option of accounting for such assets as a single asset or treating each component as an individual asset.

Component Approach

Can be adopted where the individual component:

1. can be valued separately and is of a material value;
2. is expected to have a useful life materially different than the useful life of the entire asset; and
3. can be replaced and will increase the useful life of the entire asset; NPCA will record the cost of each individual component as a separate TCA. This will enable the replacement of the individual component to be capitalized and amortized over its useful life versus being expensed in the year incurred. Components of an asset will be individually recorded as separate records in the subsidiary ledger.

If a capital project is allocated using the component approach and results in any component asset that is less than the capitalization threshold, the component will be permitted as an exception to the threshold so that the full project cost may be accounted for in the subsidiary ledger.

Single Asset Approach

The tangible capital asset will be accounted for as a single asset where the component approach is not used or when the costs of the individual components cannot reasonably be determined.

Exception

In all cases, the value of any land included in the acquisition of a tangible capital asset must be separately identified, valued, and recorded as it is not subject to amortization.

<u>Acquisition Date</u>

The acquisition date of a tangible capital asset is the earliest of:

1. the date on which the tangible capital asset being constructed is complete and ready or use; or,
2. the date the legal ownership of the tangible capital asset is transferred to the NPCA.

Amortization and Estimated Useful Life

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. (PS 3150.22). Land and Capital Works in Progress are not amortized.

Amortization should be accounted for as an expense in the statement of operations. A record is still required for assets still in use, but already fully amortized. Amortization does not commence until the asset is available for use. In the year an asset is put into service, amortization will be expensed for a full year.

Generally, a straight-line method for calculating the annual amortization is applied. Under this method, the cost of the asset is written off and expensed evenly over the useful life of the asset. Annual amortization is equal to the cost of the tangible capital asset minus residual value, divided by useful life.

Once a method for a particular asset is chosen, it must generally be used for the life of the asset.

Estimated Useful Life

A tangible capital asset must have an estimated useful life greater than one reporting period to be considered for capitalization and amortization. All tangible capital assets except land will be assigned a useful life appropriate to that asset. Land has an unlimited useful life and is not subject to amortization.

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased or constructed. The physical life of a tangible capital asset may extend beyond its useful life.

Estimating useful life of tangible capital assets is a matter of judgment based upon experience and should be applied on a consistent basis.

The service potential of a tangible capital asset is normally consumed through usage. However, factors such as obsolescence, excessive wear and tear, deferral of regular maintenance or other events could significantly diminish the service potential that was originally anticipated.

The estimated useful life of a tangible capital asset category and remaining useful life of individual tangible capital assets should be reviewed on a regular basis and revised when appropriate.

Tangible capital assets are amortized based on their estimated useful lives, using the following methods:

Asset Classification	Amortization Method	Useful Life
Land	Not applicable	Unlimited
Land Improvements	Straight Line	20 years
- Dams and Water Control Structures	Straight Line	15 to 100 years
Buildings and Building Improvements	Straight Line	30 years
Machinery and Equipment	Straight Line	5 to 10 years
- Gauge Stations	Straight Line	15 to 30 years
Infrastructure	Straight Line	20 years
Vehicles	Straight Line	5 years
Work in Progress	Not applicable	Not applicable

Surplus Assets and Disposals

Tangible capital assets, in their entirety or partially, may be disposed of by sale, trade-in, destruction, loss or abandonment. The difference between the net proceeds on the disposal of a tangible capital asset and the net book value of the asset is accounted for in the Consolidated Statement of Change in Net Financial Assets as a Gain or Loss on the Sale of Tangible Capital Assets.

In unusual circumstances, surplus assets may be removed from service or reinstated at a later date or for sale consideration. PSAB 3150 requires disclosure of the net book value of surplus assets removed from service.

All tangible capital asset redeployments, disposals and removals from service must be approved in accordance with Asset Disposal Section C of the Delegation of Authority policy prior to disposition or as soon as known. An Asset & Disposal Form has been developed to facilitate this approval – see Appendix 1. Disposals and removals should be done in compliance with all relevant legislation, NPCA's Procurement Policy and health & safety protocols to minimize risk.

Impairment and Write Down

The amortization method and estimate of the remaining useful life of the tangible capital asset should be reviewed annually.

The change and rationale for any impairment in the value of the asset must be clearly demonstrated and documented for audit purposes. Possible events that may result in asset impairment include:

- change in extent or manner of usage;
- removal from service for an extended period of time;
- physical damage, significant technological developments;
- change in demand for related services; or
- change in law or environment.

PSAB 3150 requires that the net write down of a tangible capital asset is accounted for as an operating expense and cannot be reversed. PSAB 3150 requires the disclosure of the net book value of assets that have been removed from service.

Repairs & Maintenance

Repair or Maintenance expenses are incurred to repair or maintain the pre-determined service potential of a tangible capital asset to the end of its current useful life. These expenses do not enhance the functionality, capacity, usability, quality or efficiency of the tangible capital asset. Such costs should be recorded as an expense in the fiscal year in which they were incurred.

Repair and Maintenance expenses include:

1. Replacement of individual units or parts of a tangible capital asset due to age, wear and tear and damage in order to maintain the tangible capital asset in the operating condition without significantly enhancing the functionality, capacity, usability and efficiency of the tangible capital asset;
2. Costs incurred to service or maintain the tangible capital asset until the end of its estimated useful life, where the estimated useful life is expected not to extend beyond a fiscal year;
3. Repairs, to restore tangible capital assets to prior condition;
4. Routine cleaning and servicing of equipment; and
5. Costs that must be incurred in order to realize the benefits previously projected from the tangible capital asset.

Costs that maintain the existing service level of an asset should be expensed in the fiscal year incurred and not recorded as a cost of the asset.

Betterments

The cost of an asset will also include subsequent improvements or betterments. These are costs incurred to enhance the service potential of an existing tangible capital asset when:

1. there is an increase in the previously assessed physical output or service capacity;
2. associated operating costs are lowered;
3. the useful life of the property is extended; or
4. the quality of the output is improved.

Costs for improvements or betterments should be recorded as a capital asset. Recording of improvements or betterments as part of an existing asset will be added to the existing tangible capital asset. When the betterment replaces an existing component of a tangible capital asset recorded using the single asset approach, the betterment is treated as a disposal of the individual component.

All other expenditures beyond the description of improvements/betterments are considered a repair or maintenance and expensed in the current year.

Work in Progress

Work-in-process represents the costs of a project or tangible capital asset that is not substantially complete, or not ready for its intended purpose. Work-in-process is reported as a component of tangible capital assets on the balance sheet. Work-in-process is formally transferred to capital assets and amortization begins when substantially complete - In Service Date. All costs incurred as work-in-process that is subsequently abandoned or put on hold indefinitely will be written off when such a decision is made.

Governance

The Board has the ultimate responsibility for the accuracy of financial reporting and prudent management of resources. An effective system of governance is critical in carrying out this responsibility, which includes board-approved by-laws, policies and procedures, as well as regular receipt and approval of reports regarding financial and other matters.

Each year, a financial audit is conducted by an external accounting firm. The board appoints members to a Finance Committee, who is responsible for reviewing the audited financial statements and recommending their approval to the Board. The Finance Committee is also responsible for reviewing internal controls, accounting practices/policies and significant accruals, provisions and estimates included in the financial statements.

The Board should consider the allocation of resources for successful implementation of this policy in the annual budget process.

Management Responsibilities

The CAO/Secretary-Treasurer is responsible for implementing the board’s direction regarding tangible capital assets. The CAO/Secretary-Treasurer and/or Director, Corporate Services will review and make recommendations to the Board on an annual basis or more frequently as necessary regarding the need for amendments to the policy and procedures for tangible capital assets.

Disclosure Requirements

Financial Statements

The financial statements should disclose the following items for each major tangible capital asset classification:

1. Cost at the beginning of the fiscal year;
2. Additions during the fiscal year;
3. Disposals during the fiscal year;
4. Amount of any write-down in the fiscal year;
5. Amount of amortization of the costs of tangible capital assets for the fiscal year;
6. Accumulated amortization at the beginning and end of the fiscal year; and
7. Net carrying amount at the beginning and end of the fiscal year.

The financial statements should also disclose the following information:

1. Amortization method used, including the amortization period or rate for each major category of tangible capital assets;
2. Net book value of tangible capital assets not being amortized because they are work in progress or have been removed from service;
3. Nature and amount of contributed tangible capital assets received in the fiscal year and recognized in the financial statements;
4. Nature and use of tangible capital assets recognized at nominal value;
5. Nature of the works of art and historical treasures held by the NPCA; and
6. Amount of interest capitalized in the fiscal year.

Asset Management

Inventory Records

An inventory record of capital assets is required. The asset register maintained in the Asset Management Program (City-Wide). At minimum, each inventory record must include:

1. identification number;
2. description;
3. asset category;
4. cost or estimated cost;
5. estimated useful life;
6. salvage value;
7. year of acquisition;
8. method of acquisition

The inventory should be continuously updated for activity and an inventory count should be performed annually, at minimum.

Review Schedule

Threshold, amortization methods and all estimates related to tangible capital assets are to be reviewed by NPCA Staff with the external auditors:

Asset Category	*Frequency*
Land	Not applicable
Land Improvements	Every 5 years
Buildings	Every 5 years
Machinery and Equipment	Every 3 years
Infrastructure	Every 5 years
Vehicles	Every 5 years

NIAGARA PENINSULA CONSERVATION AUTHORITY

Appendix 1(a) – Report No. A&BC-14-2020

Asset Disposal and Transfer

EQUIPMENT DETAILS	
DATE:	
EQUIPMENT NUMBER:	
DEPARTMENT:	
DESCRIPTION:	
SERIAL NUMBER:	
DISPOSAL INFORMATION	
REASON FOR DISPOSAL:	
METHOD OF DISPOSAL:	
TRANSFER INFORMATION	
TRANSFER FROM:	
TRANSFER TO:	
REASON FOR TRANSFER:	
APPROVALS	
FOR DISPOSALS:	
EQUIPMENT DISPOSED OF BY	
CAO/SECRETARY-TREASURER	
FOR TRANSFERS:	
EQUIPMENT RECEIVED BY	
DIRECTOR, CORPORATE SERVICES	
FOR FINANCE USE ONLY	
COST:	
ACCUMULATED DEP'N:	
NET BOOK VALUE:	
PURCHASE DATE:	
NEW EQUIPMENT NO (AS REQ'D):	

DISPOSAL APPROVAL: ______________________________

Signature - CAO/Secretary-Treasurer

NOTES:

1. Record all transfers and disposal of equipment as they occur.
2. Approval from the CAO/Secretary-Treasurer must be obtained before the physical disposal of the equipment is made.