



POLICY MANUAL

Legal References:	Policy Department: Finance
Cross References:	Policy Number: F5
Adoption Date: December 15, 2008	Policy Title: Tangible Capital Assets
Revision Date: September 25, 2017	Review Date:

PURPOSE:

To comply with new accounting standards as recommended by the Public Sector Accounting Board (PS3150) and approved by The Canadian Institute of Chartered Accountants to record, report and amortize Tangible Capital Assets over their expected useful life for the Town of Wembley

DEFINITIONS:

Tangible Capital Assets:

Assets having physical substance that;

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

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Betterments:

Subsequent expenditures on tangible capital assets that:

- increase previously assessed physical output or service capacity;
- lower associated operating costs;
- extend the useful life of the asset; or
- improve the quality of the output.

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

Group Assets:

Assets that have a unit value below the capitalization threshold but have a material value as a group, normally recorded as single asset with on combined value. Examples could include data processing equipment, furniture and fixtures, small moveable equipment, etc.

Fair Value:

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Capital Lease:

A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the County. It is accounted for as acquiring a capital asset and incurring a liability.

Asset Classification:

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

Major Assets:**a. Land**

Land includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (highways, dams, bridges, tunnels, etc.), but not land held for resale.

b. Land Improvements

Included are all improvements of a permanent nature to land such as parking lots, landscaping, lighting, pathways and fencing.

c. Buildings

Permanent, temporary or portable building structures, such as offices, garages, warehouses, and recreation facilities intended to shelter persons and/or goods, machinery, equipment and working space.

d. Engineered Structures

Permanent structural works such as roads, bridges, drainage ditches, dams, water and sewer and transmission systems, including plants and substations. The Major classifications for tangible

capital assets, and the minor classifications under Engineered Structures, should be consistently used by all Alberta municipalities for financial reporting.

Minor Assets Under Engineered Structures:

a. Roadway system

Assets intended for the direct purpose of vehicle or pedestrian travel or to aid in vehicle or pedestrian travel. Includes roads, bridges, lights, sidewalks and signage.

b. Water system

Systems for the provision of water through pipes or other constructed conveyance. It is normally comprised of assets for the intake, distribution, storage and treatment of safe potable water. It may also be comprised of assets required to distribute non-potable water, examples are mains, services, pump and lift stations, plants and equipment, reservoirs and fire hydrants.

c. Wastewater system

Wastewater is defined as water that has been used for household, business and other purposes, which flows from private plumbing systems to public sanitary sewers and on to a treatment plant. This system is comprised of assets used for the collection and treatment of non-potable water intended for return to a natural water system or other originating water source or used for other environmentally approved purposes, includes mains, services, pump and lift stations, plants and equipment and lagoons.

d. Storm system

Used for the collection, storage and transfer of water as a result of rain, flood or other external source to a natural water system, includes mains, services, catch basins, pump and lift stations, outfalls and retention ponds.

e. Machinery and equipment

Heavy equipment for constructing infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware and software. This class does not include stationary equipment used in the engineered structures class.

f. Vehicles

Motorized equipment that is used primarily for transportation purposes.

g. Cultural and historical assets

Works of art and historical treasures that have cultural, aesthetic or historical value that is worth preserving. These assets are not recognized as tangible capital assets in the financial statements, but the existence of such property should be disclosed. Buildings declared as heritage sites may be included in this asset classification.

POLICY:

Capitalization Threshold:

The value at which assets are capitalized and reported in the financial statements. Thresholds can vary from one group asset to another.

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According to the Public Sector Handbook the following should apply.

- a) all land
- b) all buildings
- c) civil infrastructure systems (build assets such as roads, bridges, sewers and water) with unit costs of \$25,000 or greater
- d) all others with unit costs of \$5,000 or greater

Capitalize betterments to existing assets when unit costs exceed the threshold.

Recording:

Sufficient detail shall be kept to provide the necessary information for an asset management system.

Methods for recording Assets:

1. Single Asset Approach:

This approach views an asset as one unit even if the respective asset is comprised of a number of significant components.

2. Component Approach:

This approach identifies major, significant components of an asset. Each component with a unique historical cost, useful life or amortization method is recorded separately.

Different approaches may be taken for each category. Advantages and disadvantages for each approach is outlined in Appendix "B"

Valuation:

Tangible capital assets will be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use.

- Purchased assets

Cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc. It is net of any trade discounts or rebates

Cost of land includes purchase price plus legal fees, land registration fees, transfer taxes, etc.

Costs would include any costs to make the land suitable for intended use, such as pollution mitigation, demolition and site improvements that become part of the land.

When two or more assets are acquired for a single purchase price, it is necessary to allocate the purchase price to the various assets acquired. Allocation should be based on the fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

- Acquired, Constructed or Developed assets

Cost includes all costs directly attributable (e.g., construction, architectural and other professional fees) to the acquisition, construction or development of the asset.

Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized.

Capitalization of general administrative overheads is not allowed.

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

- **Capitalization of Interest Costs**

Borrowing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use should be capitalized as part of the cost of that asset. Capitalization of interest costs should commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization should be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

- **Donated or Contributed Assets**

The cost of donated or contributed assets that meet the criteria for recognition is equal to the fair value at the date of construction or contribution. Fair value may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost. Ancillary costs should be capitalized.

Componentization:

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

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

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

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

Amortization:

The cost, less any residual value (salvage), of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use. The amortization method and estimate of useful life of the remaining unamortized portion should be reviewed on a regular basis by department heads and revised when the need of a change can be demonstrated. Examples of need for change would be extended and manner of use, removal of an asset from use, physical damage, technological developments, and change in demand for services. Useful life is normally the shortest of the asset's physical, technological, commercial or legal life. A straight-line method will be used for calculating the annual amortization. In the acquisition and disposal year 50% of the annual amortization amount is recorded.

A comprehensive list of estimated useful lives of assets and amortization rates is attached (Appendix "A"). The CAO or designate will have the authority to amend "useful life" at their discretion.

Disposal

Identification of tangible capital assets to be disposed of, will be determined by the Chief Administrative Officer or designate. The CAO will advise Council when assets become surplus to operations and of the need to dispose of these assets. Disposal of real property will be the responsibility of the CAO or designate, with approval of Council.

When other constructed tangible capital assets are taken out of service, destroyed or replaced, the Department Head or designate must notify the Chief Administrative Officer of the asset description and effective date. The Chief Administrative Officer or designate is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

APPENDIX A:

RECOMMENDED MAXIMUM USEFUL LIFE

ASSET CLASSES		Maximum Useful Life (in years)
Major		
	Minor	
	Sub-class one	
LAND		
	Right-of-Way	
	Undeveloped right-of-way	
	Parks	
	General	
CULTURAL & HISTORICAL ASSETS		
	Public art	
	Historical	
	Heritage Site	
LAND IMPROVEMENTS		
	Parking lot	
	Gravel	15
	Asphalt	25
	Playground Structures	15
	Landscaping	25
	Fences	20
	Lakes/ponds	25
	Retaining Walls	20
	Outdoor lighting	20
	Landfill	
	Pits	Volume
	Pads	Volume
	Transfer stations	25
	Construction in progress	25
BUILDINGS		
	Permanent Structures	
	Frame	50
	Metal	50
	Concrete	50
	Portable Structures	
	Metal	25
	Frame	25
	Leasehold Improvements	Variable
	Construction in progress	
ELECTRICAL SYSTEMS		
	Electrical generation	
	Boilers	30
	Towers and fixtures	38
	Poles and fixtures	38

WASTEWATER SYSTEMS

Collection system	
Mains	75
Services	75
Pump, lift and transfer stations	45
Plants and facilities structures	45
Treatment equipment	
Mechanical	45
Electrical	45
General	45
Pumping equipment	45
Lagoons	45
Construction in progress	

STORM SYSTEMS

Collection systems	
Mains	75
Services	75
Pump, lift and transfer stations	45
Catch basins	75
Outfalls	75
Wetlands	75
Retention ponds	75
Treatment facilities	45
Construction in progress	

WATER SYSTEM

Distribution system	
Mains	75
Services	75
Pump, lift and transfer stations	45
Plants and facilities	
Structures	45
Treatment Equipment	
Mechanical	45
Electrical	45
General	45
Pumping Equipment	45
Hydrants/fire protection	75
Reservoirs	45
Construction in progress	

VEHICLES

Light duty	10
Medium duty	10
Fire trucks	25

MACHINERY AND EQUIPMENT

Heavy construction equipment	Variable
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Fire equipment	12
Control systems	5
Communication links	20
SCADA system	10
Communications	
Radios	10
Telephone systems	10
Tools and Shop equipment	15
Bins	15
Office furniture and equipment	
Furniture	20
Office equipment	10
Audiovisual	10
Photocopiers	5
GPS	
AVL equipment	10
Hand held	6
Computer Systems	
Hardware	3
Software	10
Construction in Progress	

ENGINEERED STRUCTURES

Roadway system	
Bridges	Variable
Roads and Streets	
Lanes/Alleys	
ACP-hot mix	20*
Gravel	15*
Nonconforming	20*
Local/collector/arterial Surface	
Concrete	30*
ACP-hot mix	20*
ACP-cold mix	10*
Chip seal	10*
Oil	5*
Gravel	25*
Subsurface	40*
(*subject to weather conditions)	
Road signs	
Traffic control	30
Information	30
Lights	
Street	30
Traffic control	30
Guard rails	30
Sidewalks	30

APPENDIX B

SINGLE ASSET APPROACH

Advantages:

Less expensive and simpler to maintain because it does not require detailed records and estimates of useful lives of the components of assets.

Disadvantages:

There is no control over the stock and no information about its cost, location or physical attributes.

It provides only summarized information for asset management plans and financial planning.

It can skew the cost information of programs and services. For example, if an entire water system were to be amortized over its average expected life of, say 75 years, the costs of components having expected lives of less than 75 years may well be understated in period costs and overstated in periods where major replacements are required. Estimating the useful life of an asset is more difficult and, for long-lived infrastructure assets, is likely to be arbitrary. For example, pipes in water systems could last 100 years or more based on physical attributes. Other factors, such as capacity, actual usage, deferred repair and maintenance, effects of idle time, geological conditions, technical obsolescence and changes in demand must be factored into the estimate of useful life. The influences of these factors are easier to estimate on a component basis than over an entire system.

COMPONENT APPROACH

Advantages:

Complex network systems have major components with significantly different expected useful lives and that require replacement at different intervals throughout the life of the system. Accounting for components provides better information on asset condition, location and physical attributes.

Information required for asset management plans and financial planning is readily available and can be compiled on local government-wide basis.

The information about the cost of providing programs and services is more accurate since the costs of major components are amortized and expensed over their individual lives.

This may improve pricing decisions.

It improves comparability of period cost information and removes “lumpiness” in period costs since each component is accounted for individually and amortized over its estimated useful life. Each replacement is capitalized.

This approach also improves accuracy of estimates of useful lives and costs. It is easier factor in effects of physical attributes, capacity, actual usage, deferred repair and maintenance, idle time, geological conditions, technical obsolescence, and changes in demand for individual components.

Disadvantages:

It requires the creation and maintenance of detailed records and estimates of useful lives of individual components. Accounting for components does not, however, require recording each individual item. Components having similar useful lives and consumption patterns can be grouped. For example, a water system could be broken down into treatment facilities, pumping stations, water mains and distribution lines. Further, pumping stations could be broken down into pumps, pipes, facilities, etc.