

TANGIBLE CAPITAL ASSETS



Policy C110

1.0 POLICY

Guidelines and procedures for recording, tracking and accounting for tangible capital assets.

2.0 PURPOSE

The purpose of the Tangible Capital Assets Policy is to promote sound corporate management of capital assets and compliance with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150.

PSAB 3150 requires a change in accounting and reporting of tangible capital assets for the year starting January 1, 2009 and requires comparative figures for the fiscal year of 2008.

3.0 SCOPE

All tangible property owned by The Town of Banff (The Town), either through construction, purchase or donation and which qualify as capital assets are addressed in this policy. In accordance with PSAB 3150, tangible capital assets (TCA) are non-financial assets having physical substance that:

- a) are held for use in the production or supply of goods or services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- b) have useful economic lives extending beyond an accounting period;
- c) are to be used on a continuing basis; and
- d) are not for sale in the ordinary course of operations

Subsequent expenditures on a recorded TCA that:

- e) increase output or service capacity
- f) increase the service life
- g) lower associated operating costs
- h) improve the quality of the output

should be classified as betterments and capitalized accordingly. Any other expenditure should be considered a repair or maintenance and should be expensed in the period.

4.0 RESPONSIBILITIES

4.1 All employees are responsible for:

- a) Keeping accurate records when purchasing, acquiring, selling and maintaining capital assets owned by The Town.
- b) Providing valuation detail such as purchase price, fair market value, replacement value, useful life and scheduled maintenance of existing and future TCAs for which they are responsible.

- 4.2 The Finance Officer is responsible for:
- a) The development and maintenance of an asset registry to track all tangible capital assets.
 - b) Supporting all employees who are involved in the purchasing, acquisition, sale and maintenance of capital assets to ensure the upkeep of accurate records.
- 4.3 The Manager of Corporate Services is responsible for overall enforcement of the policy.

5.0 PROCEDURES

5.1 Asset Classification

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

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

TCA recorded in the Major classification will include:

a) Land

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

b) Land Improvements

All improvements of a permanent nature to land such as parking lots, landscaping, lighting, pathways and fences.

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, canals, dams, water and sewer and utility distribution and transmission systems including plants and substations.

Minor classifications in the Engineered Structures major classification will be:

i. Roadway system

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

ii. Water system

Systems for the provision of water through pipes or other constructed convey. 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. Includes mains, services, pump and lift stations, plants and equipment, reservoirs and fire hydrants.

iii. **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.

iv. **Storm system**

Assets 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**

Equipment that is heavy equipment for construction 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**

Rolling stock 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 are worth preserving perpetually. These assets are not recognized as tangible capital assets in the financial statements; however the existence of such property should be disclosed. Buildings declared as heritage sites may be included in this asset classification.

5.2 **TCA Inventory – Acquisition**

TCAs are recorded at historical cost and are recognized as assets on the Town's Statement of Financial Position on date of receipt for capital goods or when the asset is put into use for capital projects. Cost, as defined by PSAB 3150, is the gross amount of consideration given up to acquire, construct, develop or better a TCA and includes all costs directly attributable to acquisition, construction, development or betterment of the TCA, including installing the asset at the location and in the condition necessary for its intended use.

The cost of a contributed TCA, including a TCA in lieu of a developer charge is considered to be equal to its fair value at the date of contribution. Capital grants will not be netted against the cost of the related TCA. The cost of a leased TCA is determined in accordance with *Public Sector Guidelines PSG-2, Leased Tangible Capital Assets*.

5.3 Thresholds

Thresholds are determined for each major asset categorization and determine whether expenditures are to be capitalized as assets and depreciated or treated as a current year expense.

Expenditures that meet both the criteria of a TCA and exceed the following suggested capitalization thresholds are to be recorded as a TCA on the Statement of Financial Position and amortized:

Major Asset Category	Capitalization Threshold
Land	-
Land Improvements	\$5000
Buildings	\$25,000
Engineered Structures	\$25,000
Machinery & Equipment	\$5,000
Vehicles	\$5,000

5.4 Useful Life & Amortization Methods

Appendix A shows the maximum expected life for all major TCAs. The actual length of the useful life for an asset will depend on the asset quality and its intended use. In some situations, the useful life may be expected to be longer than the recommended life. In such instances, The Town will need to provide adequate documentation supporting the decision to extend the life beyond the recommended maximum.

The information sources used to determine the recommended maximum useful life are:

- Governmental Accounting Focus – Estimated Useful Lives for Capital Assets by Paul E. Gruenwald, American Appraisal Associates
- Alberta municipalities/GFOA technical working group
- OMBI Municipal Guide to Accounting for Tangible Capital Assets

For all TCAs we will use the straight-line method of amortization. The straight-line method assumes that the asset's economic usefulness is the same each year and the repair and maintenance expense is essentially the same each period. The amortization amount is determined by dividing the asset's original cost by its estimated life in years. In the year an asset is acquired or put into service and the year of disposal, an amount equal to 50% of the annual amortization will be expensed.

Land is not a depreciable asset as the expected useful life is infinite. Land will be inventoried and recorded on the Statement of Financial Position at historical cost until such time it is disposed of. There will be no annual amortization expense recognized.

The useful life of an asset may require revision during its life due to significant events such as physical damage, technological developments, a significant change in use, etc. The effect of this change will be recorded in the year of revision and future years.

5.5 Valuation of Assets

When available, the actual historical cost will be used to determine the current value of an asset. However, when the actual cost is not available, current value will be determined by discounting the replacement cost using an appropriate Price Index for the asset. For example, constructed assets such as buildings and roadway systems will be discounted using the Calgary or Canadian Non-Residential Building Construction Price Index. Purchased assets such as vehicles and equipment will be discounted using the Canadian or Alberta Consumer Price Index. The calculated historical cost will then be reduced by the accumulated amortization in order to calculate the net book value of the asset.

This valuation will only apply to the implementation of the asset recording system. All future assets will be recorded at actual cost. Contributed or donated assets will be valued at fair market value.

5.6 Division of Assets

For purposes of capitalization and amortization, the two methods of defining a capital asset are whole asset approach and component approach. The whole asset approach considers an asset to be an assembly of connected parts. Costs of all parts would be capitalized and amortized as a single asset by year of acquisition. For example a computer network, signage or a building may be considered as single assets. Under the component approach different components are individually capitalized and amortized. For computers, the servers, routers, lines, software may be listed as individual assets. For buildings, the roof, foundation, HVAC and framing may be components. Either approach is equally acceptable. Operating department personnel shall review with the Manager of Corporate Services and Senior Accountant, the preferred method that best serves the departmental needs. In certain circumstances, it is appropriate to allocate the total disbursement of an asset to its component parts and account for each component separately. This is the case when the component assets have different useful lives or provide economic benefits or service potential to the entity in a different pattern, thus necessitating use of different amortization rates. Additional factors that may influence the choice of method include:

- Significance of amounts;
- Quantity of individual asset components (volume);
- Availability of information with respect to specific components;
- Specific information needs of management for decision-making and asset control purposes.

5.7 Group/Pooled Assets:

Similar assets that have a unit value below the capitalization threshold (on their own) but have a material value as a group. Such assets shall be pooled as a single asset with one combined value. Although recorded in the asset module as a single asset, each unit of the pool may be recorded in an asset sub-ledger for monitoring and control of their use and maintenance. Examples would include the following:

- Computer hardware & software
- Streetlights
- Furniture and fixtures
- Small machinery
- Signage

As similar items are purchased, they will be added to the pool. An inventory will be taken on a periodic basis.

5.8 Presentation and Disclosure

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

- a. Cost at the beginning and end of the period;
- b. Additions in the period;
- c. Disposals in the period;
- d. The amount of any write-downs in the period;
- e. The amount of depreciation for the period;
- f. Accumulated amortization at the beginning and end of the period;
- g. Net carrying amount at the beginning and end of the period;
- h. The method used to determine the cost of each major category of TCA;
- i. The amortization method used, including amortization period or rate for each major capital category of TCA;
- j. The net book value of TCAs not being amortized because they are under construction or development or have been removed from service;
- k. The nature and amount of contributed TCAs received in the period;
- l. The nature and use of tangible capital assets disclosed at nominal value;
- m. The nature of the works of art and historical treasures held by the government ; and
- n. The amount of interest included in the cost in the period.

6.0 ATTACHMENTS

Appendix A: Recommended Maximum Useful Life

This policy shall be in effect on the date it is approved by resolution of Council.

John Stutz
Mayor

Robert Earl
Town Manager

APPROVAL HISTORY

Approved:	2008.06.09	COU08-137
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Major <i>Minor</i>	Asset Classes Sub-class One <i>Sub-class Two</i> Sub-class Three	Maximum Useful Life
Engineered Structures		
	Roadway system	
	Bridges	Variable
	<i>Vehicle</i>	
	<i>Pedestrian</i>	30
	Overpass/interchange	60
	Curb & gutter	30
	Parkades	40
	Roads & streets	
	<i>Lanes/alleys</i>	
	ACP - hot mix	20*
	Gravel	15*
	Nonconforming	20*
	<i>Local/Collector/Arterial/Major</i>	
	<i>Arterial</i>	
	<i>Surface</i>	
	Concrete	30*
	ACP - hot mix	20*
	ACP - cold mix	10*
	Chip seal	10*
	Oil	5*
	Gravel	20*
	<i>Subsurface</i>	40*
	Road signs	
	<i>Traffic control</i>	20
	<i>Information</i>	20
	Lights	
	<i>Decorative</i>	20
	<i>Street</i>	20
	<i>Traffic</i>	30
	Guard rails	20
	Ramps	30
	Sidewalks & para-ramps	30
(* subject to weather conditions)		

Asset Classes Major <i>Minor</i> Sub-class One <i>Sub-class Two</i> Sub-class Three	Maximum Useful Life
Machinery and Equipment <i>Heavy construction equipment</i> <i>Stores</i> <i>Food services</i> <i>Fire equipment</i> <i>Police special equipment</i> <i>Fitness and wellness</i> <i>Control systems</i> Communication links SCADA system <i>Fuelling stations</i> <i>Laboratory</i> <i>Communications</i> Radios Telephone systems <i>Tools, shop and garage equipment</i> <i>Scales</i> <i>Bins</i> <i>Meters</i> Electrical Cumulative Interval Gas Water <i>Turf equipment</i> <i>Ice re-surfacer</i> <i>Office Furniture & Equipment</i> Furniture Office equipment Audiovisual Photocopiers <i>Computer Systems</i> Hardware Software	Variable 25 10 12 10 10 5 15 10 15 10 10 10 15 15 15 20 20 20 20 40 10 10 15 10 10 5 5 10
Vehicles <i>Light duty</i> <i>Medium duty</i> <i>Heavy duty</i> <i>Transit buses</i> <i>Fire trucks</i>	10 10 10 20 25