

## VILLAGE OF EMPRESS

Title: Tangible Capital Assets Policy	Policy Number:11-06 Replacing 1-2011
Effective Date: December 15, 2016	Reviewed Date: January 18, 2018

### Tangible Capital Assets – Classification/ Capitalization Threshold/ Amortization

#### **PURPOSE:**

This policy provides for the accounting of all tangible capital assets held and controlled by the Village of Empress. The purpose of the policy is to provide direction for recognizing and recording Tangible Capital Assets (TCA) on a consistent basis and in accordance with Public Sector Accounting Board (PSAB) 3150.

A number of recommendations for TCA have been established by Alberta Municipal Affairs. These recommendations will be adopted by the Village of Empress in principal. The Village of Empress Council may modify specific recommendations to suit situations specific to the Village of Empress.

#### **SCOPE:**

This policy applies to all Village departments, boards, agencies and other organizations falling within the reporting entity of the Village.

#### **DEFINITIONS:**

##### **Tangible Capital Assets:**

Tangible capital assets are non-financial assets having physical substance that:

- a) Are held for use in the production or supply of goods and 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 one year.
- c) Are to be used on a continuing basis; and
- d) Are not for sale in the ordinary course of operations.

### **Betterments:**

Betterment is a cost incurred to enhance the service potential of a tangible capital asset.

- a) Increase output or service capacity
- b) Increase the service life
- c) Lower associated operating costs
- d) Improve the quality of the output

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

### **Group Assets:**

Group assets are assets that have a unit value below the capitalization threshold but have a material value as a group. They are homogenous in terms of their physical characteristics, use and expected useful life. Group assets in the Village of Empress include:

- Computers and peripherals
- Utility meters
- Fire Hydrants
- Furniture/Equipment
- Fire Equipment
- Tools

### **Fair Value:**

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.

### **Capital Lease:**

A capital lease is a lease that substantially transfers all the benefits and risks of property ownership to the municipality. This would normally occur when one or more of the following conditions are present at the inception of the lease:

- i. There is reasonable assurance that the municipality will obtain ownership of the leased property by the end of the lease term.
- ii. The lease term is of such duration that the municipality will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its lifespan.
- iii. The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.

## **Cost**

Cost is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset. The cost of a leased tangible capital asset is determined in accordance with PUBLIC SECTOR GUIDELINE PSG-2, Leased Tangible Capital Assets.

## **Capital Projects**

A capital project represents the construction or acquisition over time, of a capital asset. Capital projects will be accounted for, on a project basis. At the fiscal year end, the total cost of work completed in the fiscal year will be capitalized to the appropriate capital asset category. Amortization is not calculated until the asset is either functional or being partially used or completed.

## **Maintenance and Repair Costs**

Costs related to maintenance, repair or replacement of part of an asset will be treated as an expense of operations.

Costs that are incurred to improve the efficiency or capacity of an asset will be capitalized and added to the cost of the asset if significant.

## **POLICY STATEMENTS:**

### **Accounting:**

Tangible capital assets shall be accounted for and reported as assets on the statement of financial position.

### **Classification of Assets:**

Major, minor and subclasses of tangible capital assets are defined as:

- *Major*            A group of tangible capital assets 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 tangible capital asset criteria, applications, methodologies and asset lives.

The Major classifications of tangible capital assets include:

- Land
- Land improvements
- Buildings
- Engineered structures
- Machinery and equipment
- Vehicles
- Cultural and historical assets

Definitions of major asset classifications:

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.
- Related legal and title fees, surveying costs, appraisal fees and site preparation costs are capitalized if significant.
- If land is acquired or purchased for gravel extraction (pits). A separate value for land and gravel will be established with the value of gravel being amortized as the gravel is crushed.
- Land acquired for, or held for resale should be treated as inventory.

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.

- Including all permanently attached fixtures installed during construction.
- Architect fees, legal fees, survey costs, site preparation costs and any related costs to put the building into its intended state of operation are capitalized, if significant.
- Items such as fences and landscaping acquired as part of the construction project, which cannot be separated and identified in absolute terms, should be capitalized. Fences and landscaping acquired separately or subsequent the completion of the project should be expensed.

d. **Engineered structures**

- Permanent structural works will include bridges, canals, culverts and dams. As well, water, sewer, and utility distribution, also disposal and transmission systems, including plants and substations.
- Buildings which form part of a water distribution system of sewage treatment and disposal system are to be included as part of Engineering Structures.

**Excluded from this group are items such as the following:**

- Roads
- Curbs, sidewalks and street lights
- Flood control structures
- Ditches
- Fences for road construction

e. **Machinery and equipment**

Equipment that will include heavy equipment for constructing infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware and software. (Fixed or moveable) This class does not include stationary equipment used in the engineered structures class.

f. **Vehicles**

- Included all rolling stock that is used primarily for transportation purposes.
- All licensed vehicles, equipment or highway trailers.
- All construction and farm equipment that is self-powered and mobile
- Freight, transportation installation costs are capitalized if significant.

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, but the existence of such property should be disclosed. Buildings declared as heritage sites may be included in this asset classification.

## **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 asset.
- 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 of Tangible Capital Assets:**

The cost, less any residual value, of a tangible capital asset shall be amortized over its useful life using the straight-line method of amortization for all assets.

Amortization shall be calculated based on the year of acquisition and the year of purchase.

Amortization shall be calculated on the basis of the Useful Life table in Appendix A or as may be determined by the Municipal Administrator.

### **Thresholds for Capitalization:**

The thresholds for capitalization and amortization purposes are on the basis established in Appendix A.

### **Residual Values:**

Residual values will be established for each asset having in mind its classification through consultation amongst those department heads responsible for the asset, our auditor and our consulting engineer.

### **Joint Ownership**

Where a capital is purchased for a total cost greater than \$2,500 and in joint ownership with another municipality or organization the party responsible for maintenance and custody shall record the asset at its full cost. Funds contributed by other municipalities or organizations towards the asset, or its debt repayment, are classified as transfers. A note should be made to the financial statements if amount is substantial.

### **Conditional Grants**

Where a conditional grant is given by another municipality or organization for the acquisition of an asset, the asset will only be recorded if the Village retains custody and maintenance.

### **Reviews and Write-downs:**

The Municipal Administrator will ensure that a review of values for each asset is carried out every three years. When adjustments to values are required based on the best available information, those adjustments, in consultation with the auditor, shall be made at the time of the preparation of the financial statements for the year.

### **Maintaining Records:**

The Municipal Administrator shall ensure on an annual basis that the asset records are current, accurate and complete.

### **Asset Disposal:**

When tangible assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the Municipal Administrator is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

### **Asset Records:**

All tangible capital assets records may be maintained as a part of the integrated accounting system of the Village of Empress.

### **Budgeting:**

Annual amortization expense shall be estimated and included in the annual budget of each respective department and shall be financed. The actual amortization expense shall be a charge against the operating unit, and the funding provided to cover amortization shall be credited to a capital replacement account for the operating unit. This account shall be available to finance future replacements and betterments of tangible capital assets by the operating unit.

### **Valuation Transition Provisions**

For purposes of establishing transitional values for Road Infrastructure, Road Related Drainage, Water Systems and Waste Water Systems, the Village of Empress shall adopt the Guidelines on Valuations of Tangible Capital Assets for PSAB 3150 prepared by Alberta Municipal Affairs dated May 1, 2008.

### **Validation of Asset Registers**

The Municipal Administrator shall ensure that all assets have been recorded in the Asset Register and provide to the auditor a written statement confirming the accuracy of the Asset Register including any adjustments and dates upon which parts or all of the Asset Register data is validated.

## APPENDIX A

The following table shows:

- Asset Classes (Major & Minor)
- Capitalization threshold for each asset classification
- Amortization method to be used
- Review Schedule

Major Asset Class	Minor Asset Class	Capitalization Threshold	Useful Life	Salvage Value	Review Schedule
Land		All land will be recorded	N/A		N/A
Land Improvements		\$ 2,000.	20	5%	Every 3 years
Buildings		\$5,000.	40	2.5%	Every 5 years
Engineered Structures	Roadway System	\$5,000.	25	4%	Every 5 years
	Water System	\$5,000.	75	2.5%	Every 5 years
	Wastewater System	\$5,000.	75	2.5%	Every 5 years
	Parks Infrastructure	\$5,000.	40	2.5%	Every 5 years
Machinery & Equipment	machinery	\$ 2,000.	15	6 2/3%	Every 3 years
	Office Furniture	\$2,000.	10	10%	
	EDP Hardware	\$1.	4	0%	Annually
	EDP Software	\$1.	4	0%	Annually
Vehicles		\$ 2,000.	10	10%	Every 3 years
Cultural & Historical		N/A	N/A		N/A

**Note: All Assets to be depreciated using the straight line method of amortization.**

- Where the above table cannot be used, the auditor for the Village of Empress will be consulted to assist in establishing the correct accounting procedures for a TCA.