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## **Tangible Capital Asset Accounting Policy**

**POLICY NUMBER: 124-AD-10**

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Approval Date: June 25, 2010

Revise Date:

Motion Number: CM 20100622.1009

Repeal Date:

Supersedes: New

Review Date:

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### **1.0 Policy Intent**

The intent of this policy is to provide guidance for recognizing, recording, and reporting Tangible Capital Assets (TCA) on a consistent basis and in accordance with Public Sector Accounting Board (PSAB) 3150 and the recommendations of Alberta Municipal Affairs. **This policy will also provide guidance on Asset Retirement Obligations (ARO) in accordance with PSAB 3280 and the recommendations of Alberta Municipal Affairs.**

### **2.0 Purpose**

The purpose of this Policy is to:

- 2.1. Provide information on basic TCA concepts, and how to account for the City of Cold Lake's TCAs.
- 2.2. Address the following:
  - 2.2.1. Asset classification (major & minor);
  - 2.2.2. Capitalization threshold for each asset classification;
  - 2.2.3. Amortization method to be used;
  - 2.2.4. Asset retirement obligations valuations and periods.**
- 2.3. Effective January 1, 2009, accounting for City of Cold Lake tangible capital assets must be in accordance with this policy. Opening balances are to be estimated by completing inventories, estimating original costs, and calculating net book values of assets acquired prior to January 1, 2009.
- 2.4. Effective for the fiscal year beginning on April 1, 2022, asset retirement obligations must be in accordance with this policy. The City of Cold Lake will determine the present value of the retirement obligations and assess the ongoing re-evaluation and calculation of costs.**

### 3.0 Policy Statement

Tangible Capital Assets should be capitalized (recorded in the fixed asset sub-ledger) according to the threshold schedule in Schedule A. Capitalize betterments to existing assets when unit costs exceed the threshold. The TCAs of the City of Cold Lake will be amortized on a straight-line basis as per the Amortization Schedule in Schedule B. **The scope of applicability of asset retirement obligations will be assessed in accordance with Schedule C with the value being amortized on a straight-line basis based on the useful life of the asset.**

### 4.0 Managerial Guidelines

#### 4.1. Definitions

- 4.1.1. **Accumulated amortization** is the cumulative use of a recorded TCA.
- 4.1.2. **Amortization** is a non-cash charge to operations representing a portion of the useful life of a recorded TCA.
- 4.1.3. **Betterments** are subsequent expenditures on a recorded TCA that meet any one of the following criteria to enhance the service potential:
  - 4.1.3.1. increase output or service capacity;
  - 4.1.3.2. increase the useful life;
  - 4.1.3.3. lower associated operating costs
  - 4.1.3.4. improve the quality of the output.
- 4.1.4. **Capital Lease** is a lease with contractual terms that transfers substantially all of the benefits and risks of ownership in an asset to the City of Cold Lake.
- 4.1.5. **Capitalization** is recording a tangible capital asset on the City's balance sheet as a long- term asset.
- 4.1.6. **Leasehold improvements** are additions, alterations, or renovations performed on a leased property.
- 4.1.7. **Net Book Value (NBV)** is original cost of a TCA less accumulated amortization and asset write-downs.
- 4.1.8. **Residual value** is the estimated net realizable value of a tangible capital asset at the end of its useful life to a government.
- 4.1.9. **Straight-line method of amortization** assumes that the TCA's economic usefulness is the same each year. The amortization amount is determined by dividing the asset's original cost, less any residual values, by its estimated useful life in years.
- 4.1.10. **Tangible Capital Assets** are non-financial assets having physical substance that:
  - 4.1.10.1. are used on a continuous basis by the City;

- 4.1.10.2. have useful economic lives extending beyond one year;
- 4.1.10.3. are held for use in the production or supply of goods and services, for rentals to others, for administrative purposes or for the development, construction, maintenance, or repair of other tangible capital assets;
- 4.1.10.4. are not for resale in the ordinary course of operations;

4.1.11. **Useful Life** is the asset's expected physical, technological, municipal, or legal life.

4.1.12. **Accretion Expense** is an increase in the liability of an asset because of time passing.

4.1.13. **Asset Retirement Obligations** or ARO are the legal obligations associated with the retirement of a tangible capital asset including obligations created by "Promissory Estoppel".

4.1.14. **Promissory Estoppel** is the legal principle that when a promise is made, even without formal consideration, it can be enforceable by law. It can only be enforced if a party relied on the promise in good faith to their own detriment.

4.1.15. **Retirement of Tangible Capital Assets** is the removal of a Tangible Capital asset from service permanently. This includes the sale, disposal of the asset, or some other manner that removes it completely from the service of the entity.

#### 4.2. Major Asset Types

Major Asset Types are a grouping of assets of a similar nature or function in the City's operations. The following list of categories shall be used:

- 4.2.1. Land;
- 4.2.2. Land Improvements;
- 4.2.3. Buildings;
- 4.2.4. Machinery & Equipment;
- 4.2.5. Vehicles;
- 4.2.6. IT Infrastructure (hardware and software);
- 4.2.7. Engineering Structures including:
  - 4.2.7.1. Roadway System
  - 4.2.7.2. Water/Wastewater Systems
- 4.2.8. Cultural and Historical Assets

These asset type categories may be further divided into Minor types or Subclasses.

#### 4.3. Recording of Capital Assets

Capital Projects completed by the City will be capitalized one year following the issuance of Construction Completion Certificates.

#### 4.4. Recording of betterments

Expenditures that are betterments should be capitalized accordingly. Any other expenditure should be considered repair or maintenance and should be expensed in the period.

#### **4.5. Major Asset Types**

The cost of a tangible capital asset (Public Sector Accounting Board PSAB 3150.05b) is the gross amount of consideration directly attributable to the acquisition, construction, development, or betterment of a tangible capital asset.

#### **4.6. Donated or Contributed Assets**

Governments may receive contributions of TCA's. The cost of a contributed TCA is considered equal to its fair value at the date of contribution. For subdivision developments, the date of contribution is to be when the City issues the Construction Completion Certificates. Prior to this date, the asset is assumed to be in progress by the developer with no useful life consumed. Fair value of a contributed TCA may be estimated using engineering replacement cost estimates, assessment values, or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the TCA would be recognized at a nominal value.

#### **4.7. Capitalization Thresholds**

Capitalization thresholds have been established for each major asset class, which will determine whether expenditures should be capitalized or expensed in the current year. Expenditures that meet both the criteria of a TCA and exceed the thresholds outlined in Schedule A of this policy, are to be recorded as a TCA and will be financially reported as such.

There is no capitalization threshold for Land. All land, excluding land held for resale, will be capitalized because of its' permanent nature.

#### **4.8. Disposals**

Disposals of TCA's in the accounting period may occur by sale, trade-in, destruction, loss or abandonment. Such disposals represent a reduction in the City's investment in TCA's, regardless of how that investment is reported. When TCA's are disposed of, employees must notify the Finance Department of the asset description and effective date. The Finance Department is responsible for adjusting the asset registers and accounting records. The difference between the net proceeds on disposal of a TCA and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations in accordance with PSAB Section 3150.

#### **4.9. Cultural and Historical Assets**

Works of art, historical treasures, and cultural assets will not be recognized as TCA's in the financial statements because a reasonable estimate of future benefits

associated with such property cannot be made. However, the existence of such property will be disclosed in the audited financial statements.

#### 4.10. **Amortization Method**

The cost of a TCA less any residual value should be amortized over its useful life in a rational and systematic manner. Schedule B shows the maximum expected life for all major TCA's.

For all TCA's, except land, art, cultural and historic assets, the City will use straight- line amortization, which assumes that the asset's economic usefulness is the same each year.

Annual amortization expense will be expensed in the first full year after an asset is acquired or put into service.

Capital projects not completed at fiscal yearend will be recorded as work in progress until completed and will not be amortized until they have been put in service.

Residual value will only be included in calculating amortization if residual value exceeds \$10,000.

*Pooled assets - Long term assets that are homogeneous in terms of their physical characteristics, usage, and useful lives and have an individual unit value below the capitalization threshold will be pooled, capitalized, and amortized, if the value of assets acquired in the fiscal year exceeds \$25,000.*

#### 4.11. **Tangible Capital Asset Review**

The existence of recorded assets in the TCA register will be verified annually on a test basis by the Finance Manager. The TCA register forms an integral part of the City's financial system and must capture additions, deletions, and amortization or write-down of assets in a timely manner.

#### 4.12. **Asset Retirement Obligations**

##### **4.12.1. Recognition**

The City will recognize the cost and account for the liability of retiring/disposal of a Tangible Capital Assets as required by PS 3280. For the liability of an asset retirement to be recognized it must meet the following at the financial reporting date:

- 4.12.1.1.** There must be a legal obligation to incur retirement cost of the tangible capital asset;
- 4.12.1.2.** A past event or transaction to the legal obligation, a transaction or new law passed;
- 4.12.1.3.** The Tangible Capital Asset must have future economic benefits that are given up;

- 4.12.1.4.** A reasonable estimate of the cost to be incurred by the legal obligation. Uncertainty does not remove the obligation.

Contaminated sites do not have to be recognized as a liability under PS3280 because it is an unexpected event that exceeds environmental standards.

#### **4.12.2. Measurement**

To best estimate the asset retirement cost, all costs directly attributed to retiring the Tangible Capital Asset must be included. Estimates are to be based on requirements in existing agreements, contracts, legislation or legally enforceable obligations, and technology expected to be used

After the initial measurement, subsequent measurements will allocate the liability to accretion expense over the useful life of the asset and will be assessed annually on the financial reports. In addition, any new obligation will be assessed to determine the cost in accordance with PS 3280.

Assets will be assessed annually for significant changes in value. Full reassessment of asset retirement obligations will be done on a five (5) year basis.

## **5.0 References**

- 5.1. Public Sector Accounting Board (PSAB) Handbook Section 3150;
- 5.2. Alberta Municipal Affairs TCA Implementation Toolkit, Recommendations & Requirements
- 5.3. Public Sector Accounting Board (PSAB) Section 3280;
- 5.4. BDO Canada LLP Article, Assurance and Accounting Asset Retirement Obligation (ARO): A Practical Approach to Section 3280 (published July 2020)

## **6.0 Persons Affected**

Council, All Departments

## **7.0 Revision/Review History**

- December 9, 2014
- September 12, 2023 – Additions Sections 4.1.12, 4.1.13, 4.1.14, 4.1.15, 4.12, 4.12.1, 4.12.1.1, 4.12.1.2, 4.12.1.3, 4.12.1.4, 4.12.2, 5.3, and 5.4
- September 12, 2023 – Amendments to Schedule A & Schedule B
- September 12, 2023 – Addition Schedule C

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Date

\_\_\_\_\_  
Chief Administrative Officer

\_\_\_\_\_  
Date

\_\_\_\_\_  
Mayor

## SCHEDULE A

## City of Cold Lake

Threshold Schedule – Recommendation of a new  
schedule to better match current assets

ASSET TYPE	Subclass	Threshold
Land		Capitalize only
Construction in Progress		Capitalize only
Historical/Cultural Assets		Disclosure only
Land Improvements	Parking lots, playfields, ponds, retaining walls Playfields, skatepark, tennis courts, outdoor arena Pathways, fences, outdoor lighting, and landscaping Playground structures	10,000.00
Buildings		100,000.00
Leasehold Improvements		100,000.00
Non-Permanent Buildings	Temporary Shelters Transit Station	10,000.00
Water/Wastewater System	Sanitary Forcemain Sewerline (Storm) Sewerline (Waste Water) Waterline Reservoir (includes Transfer Station) Lift Station	100,000.00
Roadway System		100,000.00
Roads	Surface Gravel Lanes Sidewalk Curb_Gutter Bridges	100,000.00
Lights	Decorative Street (Marina) Traffic Crosswalk	10,000.00
Signs	All	Cumulative over 10,000
Machinery & Equipment	General Equipment, furniture and fixtures Heavy Construction Equipment	10,000.00
Vehicles	Cars, Light Trucks, and Heavy Duty Fire Trucks	10,000.00
IT Infrastructure	Hardware and software Telephone systems	5,000.00



## SCHEDULE B

**City of Cold Lake**  
**Maximum Useful Life of Assets**

ASSET TYPE	Subclass	USEFUL LIFE
Land Construction in Progress		Capitalize only Capitalize only
Historical/Cultural Assets		Disclosure only
Land Improvements	Parking lots, playfields, ponds, retaining walls Playfields, skatepark, tennis courts, outdoor arena Pathways, fences, outdoor lighting, and landscaping Playground structures	20 years 20 years 20 years 15 years
Buildings Leasehold Improvements Non-Permanent Buildings		40 years Over term of the lease
	Temporary Shelters Transit Station	10 years 25 years
Water/Wastewater System	Sanitary Forcemain Sewerline (Storm) Sewerline (Waste Water) Waterline Reservoir (includes Transfer Station) Lift Station	50 years 50 years 50 years 50 years 40 years 40 years
Roadway System Roads	Surface Airport Runway, Taxiway, Apron Gravel Lanes Sidewalk Curb_Gutter Bridges	25 years 25 years 10 years 20 years 30 years 30 years 40 years
Lights	Decorative Street (Marina) Traffic Crosswalk	30 years 30 years 30 years 30 years
Signs	All	30 years
Machinery & Equipment	General Equipment, furniture and fixtures Heavy Construction Equipment	10 years 10 years
Vehicles	Cars, Light Trucks, and Heavy Duty Fire Trucks	10 years 25 years
IT Infrastructure	Hardware and software Telephone systems Fibre optic cable	5 years 10 years 30 years

## Schedule C

## Decision Tree – Scope of Applicability

