



Tangible Capital Asset Accounting Policy

POLICY NUMBER: 124-AD-10

Approval Date: June 25, 2010

Revise Date: December 9, 2014

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Repeal Date:

Supersedes: New

Review Date:

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.

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.
- 2.3.** 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.

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.

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.

4.2. 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 one year following issuance of 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.

5.0 References

- 5.1. Public Sector Accounting Board (PSAB) Handbook Section 3150;
- 5.2. Alberta Municipal Affairs TCA Implementation Toolkit, Recommendations & Requirements

6.0 Persons Affected

Council, All Departments

7.0 Revision/Review History

- December 9, 2014

Dec 16, 2014

Date



Chief Administrative Officer

December 16, 2014

Date



Mayor

SCHEDULE A

City of Cold Lake
Threshold Schedule

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		
Water/Wastewater System	Sanitary Forcemain Sewerline (Storm) Sewerline (Waste Water) Waterline	100,000.00 100,000.00 100,000.00 100,000.00
Roadway System		
Roads	Surface Gravel Lanes Sidewalk Curb_Gutter	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 10,000.00
Vehicles	Cars, Light Trucks, and Heavy Duty Fire Trucks	10,000.00 10,000.00
IT Infrastructure	Hardware and software Telephone systems	5,000.00 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		40 years Over term of the lease
Wastewater System	Sanitary Forcemain Sewerline (Storm) Sewerline (Waste Water) Waterline	50 years 50 years 50 years 50 years
Roadway System Roads Lights Signs	Surface Gravel Lanes Sidewalk Curb_Gutter Decorative Street (Marina) Traffic Crosswalk All	25 years 40 years 20 years 30 years 30 years 30 years 30 years 30 years 30 years 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