



TOWN POLICY

ADMINISTRATION POLICY:

Tangible Capital Assets Capitalization Policy

DEPARTMENT: Financial Administration

POLICY NUMBER: FA-060

APPROVAL:  APPROVED BY CAO
Jeff Shaw

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SUPERSEDES: Policy #T-6-2

UP FOR REVIEW: December 19, 2021

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1) Tangible Capital Assets

The recording and accounting for Tangible Capital Assets will change effective January 1, 2009. This policy will set forth guidelines to be followed in recording the acquisition, amortization and disposal of tangible capital assets.

2) Purpose and Scope

Tangible capital assets are a significant economic resource managed by municipalities and a key component in the delivery of many municipal programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water systems, aircraft, computer hardware and software, dams, canals, bridges, electrical lines, sewer systems etc. The purpose and reason for this change in accounting for tangible capital assets is to provide better budgeting, replacement, and control over recording of assets and to provide information to management regarding the status and condition of the municipality's tangible capital assets.

3) Definitions

For the purposes of this Section:

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

- i. Are held for use in the production or supply of goods and service;
- ii. Have useful economic lives extending beyond an accounting period (usually one year); and
- iii. Have been acquired to be used on a continuing basis.





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- (b) Cost** is the amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and include 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 is considered to be equal to its fair value at the date of contribution.
- (c) 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.
- (d) Net book value** of a tangible capital asset is its cost, less both accumulated amortization and the amount of any write-downs.
- (e) Residual value** is the estimated net realizable value of a tangible capital asset at the end of its useful life to a municipality.
- (f) Service potential** is the output or service capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.
- (g) Useful life** is the estimate of either the period over which a tangible capital asset is expected to be used by a municipality, or the number of production or similar units that can be obtained from the tangible capital asset, by a municipality. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a municipality. The life of a tangible capital asset, other than land is finite, and is normally the shortest of the physical technological, commercial, and legal life.

4) Definitions of Major Asset Classifications

(a) Land

Land includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (roads, 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, fences, etc. Land Improvements would also include costs for legal fees, planning, engineering, subdivision, area structure plans, etc. for Town-use lands.

(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.

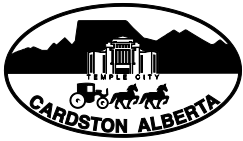
(d) Engineered structures

Permanent structural works such as roads, bridges, canals, dams, water and sewer, utility distribution and transmission systems, including plants and substations.

(e) Machinery, Equipment & Information Tech Systems

Equipment that is heavy equipment for constructing infrastructure, smaller equipment & information tech systems used in buildings and offices, furnishings, computer hardware and





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software. This class does not include stationary equipment used in the engineered structures class.

(f) Vehicles

New vehicles are recorded at cost and amortized in accordance with guideline. Used vehicles are recorded at cost and the remaining life will be determined by management based on remaining useful life.

(g) Cultural & historical

Works of art and historical treasures that have cultural, aesthetic or historical value that is 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.

5) Capitalization Policy and Thresholds (See Appendix B)

There may be some expenditures that meet the definition of a tangible capital asset; however such expenditures should be treated as an operating expenditure. The reason for this is that the expenditure is below the capitalization threshold and the cost of recording and keeping track of the assets is greater than the resulting benefit. The capitalization thresholds are as follows:

(a) All land purchased (except land bought for resale) will be recorded as a tangible capital asset.

(b) Land improvements - amounts expended on a project exceeding \$5,000

(c) Buildings costing in excess of \$25,000

(d) Engineering structures costing in excess of \$25,000 will be recorded by components in a separate schedule for each type of infrastructure asset

(e) Machinery, equipment and information tech systems costing in excess of \$5,000

(f) Vehicles costing in excess of \$5,000

(g) Capital Leases

A capital lease is a lease that substantially transfers all the benefits and risks or property ownership to the municipality. This would 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 at 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.

(h) Lease equipment and vehicles. Leases are of two types:

i. Capital lease

If the intent is to purchase the equipment or vehicle for a nominal purchase price at the end





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of the lease, this is called a capital lease, and the asset will be recorded as a tangible capital asset and amortized and the lease liability will be recorded as a defined finance contract.

ii. Operating lease

If the equipment will be returned to the lessor at the end of the lease, this is called an operating lease and the payments are recorded as an expense.

6) Recording and Classifying Assets

(a) The Asset Record System

- i.** The asset record system must be manageable and provide sufficient information to facilitate good business decisions. The municipality should maintain an asset register that provides a complete description of the asset including legal description, make, model, serial number, cost, etc.

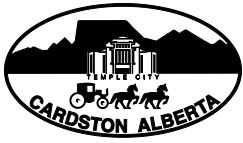
(b) Betterment or Maintenance

- i.** A betterment will occur when the physical output or service capacity is increased, the operating costs are decreased, the useful life is extended or quality of output is improved.
- ii.** Other expenditures would be considered a repair or maintenance and recorded as an expense.
- iii.** Whether a betterment or maintenance is to be recorded as a tangible capital asset or a repair is based on the capitalization policy set forth in section 5, Capitalization Policy and Thresholds.

(c) When Assets Should be Recorded

- i.** Most assets will be purchased as a single item i.e. a piece of equipment, vehicle, computers, etc. other purchases may be part of a major facility such as a building, a new plant, etc. If purchased as a single item, then the cost will be recorded as an asset at the time of purchase. If a major facility and the cost to complete will be over a year then the cost will be recorded in a work in process account and transferred to an asset account when the project is complete and the asset put into service.
- ii.** Network or component.
Existing engineered structure i.e. sewer plant, water plant will be recorded as a network and new structures as components. This will facilitate the recording of existing assets and provide for better management and control for purchases of tangible capital assets.
- iii.** Groups
When a group of assets are purchased such as water meters, golf carts, etc. and the cost of each individual item is less than the threshold, the accounting department in conjunction with the appropriate foreman will make the decision whether or not to capitalize the assets. The decision will be based on cost and guidelines. This decision will need to be made keeping in mind that if the assets are capitalized, what will be the end benefit to the town of keeping track of these items.
Recommendations for making the decision are:





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- If the cost for each item is below the threshold amount, then record the purchase as an expense or record as a capital expenditure by group (i.e. cost of similar items).
- Water meters, etc. - when items of this type are purchased, record the purchase in an inventory account. Then when required for use, transfer the cost from the inventory account to an expense account. When an item is purchased as part of a group (i.e. golf carts), a property control record of this type of asset will be maintained for insurance, control and replacement purposes.

(d) Roads and Street cost will be recorded as follows:

- i.** Road base at cost and no depreciation will be recorded.
- ii.** Top coat (asphalt) depreciated at rates described in Appendix A.
- iii.** The cost between road base and top coat must be provided by the contractor.

7) Valuing the Asset

- (a)** Purchased assets will be recorded at cost. Cost will include purchase price, duties, freight, delivery charge, installation, site preparation cost and non-refundable taxes. Discounts and rebates will reduce cost.
- (b)** Contributed or donated assets will be recorded at fair value. Fair value will be determined by a qualified person i.e. an appraisal, engineer, auctioneer, etc.
- (c)** If two assets are purchased for a single purchase price, request that the seller allocate the appropriate cost to each asset.
- (d)** Cost for constructed or developed assets will include all expenditures (including, materials, wages, machinery time, and overhead costs) attributable to the project. If there are interest costs included as the result of borrowed money being used to pay for the project then the interest cost will be recorded as an expense.
- (e)** Betterments will be recorded at cost and whether to be recorded as a tangible capital asset or a repair will be determined by the accounting department and the foreman responsible for the project.

8) Amortization

- (a)** Amortization will be calculated using the straight line method over the useful life of the asset. Amortization will commence the month of purchase or when an asset is put into service.
- (b)** Amortization will be recorded in the month that the asset is purchased and will be prorated in the first and last year, based on the number of months of use.
- (c)** Since the town usually keeps their assets longer than usual and the determination of salvage is not realistic, no salvage value will be considered when calculating amortization.
- (d)** Reviews and write downs:





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- i.** Department heads should perform an annual review of the assets under their control to determine condition and usefulness and advise administration and accounting department of the results of the review and then it can be determined what action is necessary.
- ii.** If the asset's condition is suspect, then the asset should be disposed of, or the value written down to its future estimated useful life. If it is determined by the department head that a piece of equipment is no longer useful the administration and accounting departments will be advised and the decision confirmed. The equipment and related amortization will be written off and the equipment disposed of either by sale or scrap.
- iii.** When equipment is sold, traded, or scrapped the transaction will be recorded as follows:
 - Proceeds of disposal will be recorded as cash or accounts receivable.
 - The equipment and related amortization will be removed from the accounting records.
 - Any gain or loss on disposal will be recorded in the appropriate account in the statement of operation.

9) Maintaining Records

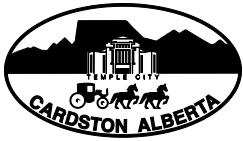
It is important that tangible capital asset records be completed on a timely and accurate basis. I.e. when an asset is acquired. Communication between the operating departments and the accounting department must be on a regular basis so that the capital asset ledger is always current. The following matters should be addressed:

- (a)** The accounting department is responsible for ensuring that the capital asset register is current, complete and accurate.
- (b)** Operating department heads are to report to the accounting department when there are any changes to capital assets (i.e. sold, scrapped, or no longer in use).
- (c)** Inventory of assets will be conducted annually by department heads and will report to the accounting department as to any changes to the capital asset register.
- (d)** When assets are acquired or disposed of, the accounting department is to be provided with a complete description of the asset purchased or disposed of, thus ensuring that records are complete and accurate.

10) Useful Lives

Attached is a schedule of recommended useful lives and capitalization thresholds (Appendix A). Any change from these guidelines must be approved by the Chief Administrative Officer. Such recommendations will be presented to the Town Council with reason. Once approved by Council the guidelines will be amended accordingly.





APPENDIX “A”

Appendix A: Recommended Maximum Useful Life

Asset Classes	Maximum Useful Life
Major	
Minor	
Sub-class one	
Sub-class two	
Sub-class three	

Land

- Right of way
- Undeveloped right of way
- Parks
- General

Cultural & Historical

- Public art
- Historical
- Heritage site

Land Improvements

Parking Lot	
Gravel	15
Asphalt	25
Playground Structures	10
Landscaping	25
Fences	10
Sprinkler System	25
Golf courses	25
Tennis Courts	20
Fountains	20
Lakes/Ponds	25
Retaining Walls	20
Running Tracks	15
Outdoor lighting	20
Airport Runways	10
Soccer Pitch-Outdoor	20
Bike/Jogging Paths	
Gravel	15
Asphalt	20
Landfill	
Pits	Volume





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Pads	Volume
Transfer Stations	25
Construction in progress	
Swimming pool	30

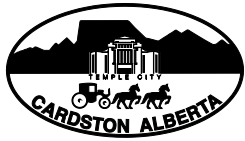
Buildings

Permanent Structures	
Frame	50
Metal	50
Concrete	50
Portable Structures	
Metal	25
Frame	25
Leasehold Improvements	Variable
Construction in progress	

Engineered Structures

Roadway system	
Bridges	Variable
Overpass/Interchange	60
Curb and gutter	30
Parkades	50
Roads and streets	
(*subject to weather conditions)	
Lanes/Alleys	
ACP-Hot mix	20*
Gravel	15*
Non-conforming	20*
Local/Collector/Arterial/Major Arterial	
Concrete	30*
ACP- Hot mix	20*
ACP-Cold mix	10*
Chip Seal	10*
Oil	5*
Gravel	15*
Canals	xxx
Road Signs	
Traffic Control	30
Information	30
Lights	
Decorative	30
Street	30





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Traffic	30
Guard Rails	30
Ramps	20
Sidewalks & para ramps	30
Rail System	40
Construction in Progress	
Water System	
Distribution System	
Mains	60
Services	60
Pump, lift and transfer stations	35
Plants and facilities	
Structures	40
Treatment equipment	
Mechanical	40
Electrical	40
General	40
Pumping Equipment	40
Hydrants/Fire Protection	40
Reservoirs	40
Construction in progress	
Miscellaneous	20 (rate set by MGMT.)
Wastewater System	
Collection System	
Mains	60
Services	60
Pump, lift and transfer stations	20
Plants and Facilities	
Structures	60
Treatment Equipment	
Mechanical	40
Electrical	40
General	25
Pumping Equipment – Emergency and Other	35
Lagoons	40
Construction in Progress	
Storm System	
Collection System	
Mains	60
Services	60
Pump, lift and transfer stations	20
Catch Basins	60
Outfalls	75





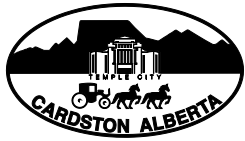
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Wetlands	75
Retention ponds	75
Treatment Facility	40
Construction in Progress	
Fiber Optics	30
Electrical System	
Electrical generation	
Boilers	30
Turbo Generators	30
Combustion Turbines	20
Condensate Lakes	10
Gas Compressors	20
Other	10
Generation Wind/ Turbine	30
Construction in Progress	
Electrical Transmission	
Structures & Improvements	35
Station & Line Equipment	
Transformers	40
Switchgear	35
Protection Systems	20
Insulators	60
Other Structures & Equipment	35
Towers and fixtures	38
Poles and fixtures	38
O/H Conductors & Devices	35
U/G Conductors & Devices	40
U/G Conduit	40
U/G cable	40
Construction in progress	
Electrical Distribution	
Site development	35
Station & line equipment	
Transformers	40
Switchgear	35
Protection systems	20
Insulators	60
Towers and fixtures	38
Poles and fixtures	38
O/H conductors & devices	35
U/G conductors & devices	40
U/G conduit	40





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Construction in progress	
General Plant-Electrical	
Site Development	80
Electrical Substations	
Site Development	35
Station & Line Equipment	
Transformers	40
Switchgear	35
Protection Systems	20
Other structures & equipment	35
Towers and fixtures	38
Poles and Fixtures	38
O/H Conductors & Devices	35
U/G Conductors & Devices	40
U/G Conduit	40
U/G Cable	40
Construction in Progress	
Gas distribution system	
Structures	75
Transmission	75
Services	75
Medium pressure	36
High pressure	36
Measurement	35
Construction in progress	
Machinery and Equipment	
Heavy construction equipment	Variable – (set by MGMT)
Stores	20
Food services	10
Fire Equipment	20
Police special equipment	10
Aircraft	Variable
Boats	25
Fitness and wellness	10
Control systems	5
Communication links	20
SCADA system	10
Fueling stations	15
Laboratory	10
Communications	
Radios	10
Telephone systems	10





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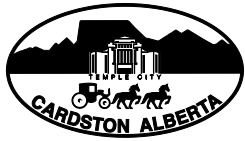
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Tools, shop and garage equipment	15
Scales	15
Bins	15
General Equipment	20
Meters	20
Electrical	20
Cumulative	20
Interval	20
Water	40
Parking Meters and splitters	20
Turf Equipment	10
Ice resurfacer	10
Office Furniture & Equipment	
Furniture	20
Office Equipment	5
Audio/Visual	10
Photocopiers	5
Computer Systems	
Hardware	5
Software	10
Construction in Progress	
Information/Tech Systems (i.e. MIMS, IMP - Infrastructure Master Plan)	5

Vehicles

Light Duty	10
Medium Duty	10
Heavy Duty	10
Transit Buses	20
Fire Trucks	20
Light rail transit cars	40
Used vehicles	Determined by MGMT based on remaining useful life.
Construction in progress	





APPENDIX “B”

Amortization

The cost, less any residual value of a TCA with a limited life should be amortized over its useful life in a rational systematic manner. The amortization method and estimate of useful life of the remaining unamortized portion should be reviewed when the appropriateness of a change can be clearly demonstrated.

Scope:

This Policy addresses the following:

- Asset classifications (major & minor)
- Capitalization threshold for each asset classification
- Amortization method to be used
- Review schedule

The following table shows the classes, capitalization thresholds and amortization method to be used.

Major Asset Class	Minor Asset Class	Capitalization Threshold	Amortization Method	Review Schedule
Land		All land will be recorded	N/A	N/A
Land Improvements		\$5,000.00	Straight Line	Every 3 years
Engineered Structures	Roadway Systems	\$25,000.00	Straight Line	Every 5 years
	Water System	\$25,000.00	Straight Line	Every 5 years
	Wastewater System	\$25,000.00	Straight Line	Every 5 years
	Storm System	\$25,000.00	Straight Line	Every 5 years
	Sidewalk, Curb & Gutter	\$25,000.00	Straight Line	Every 5 years
	Bridges	\$25,000.00	Straight Line	Every 5 years
	Electrical	\$25,000.00	Straight Line	Every 5 years
Machinery and Equipment		\$5,000.00	Straight Line	Every 3 years
Vehicles		\$5,000.00	Straight Line	Every 3 years
Information Tech and Systems		\$5,000.00	Straight Line	Every 3 years
Cultural & Historical		N/A	N/A	N/A



