TOWN OF HIGH RIVER POLICY

Policy Number: **POL-16-106-01**
Policy Name: Tangible Capital Assets Policy

Related Procedure Number: N/A
Related Procedure Name: N/A

Approval Date: July 19, 2010
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Policy Category: Finance
Responsible Department: Corporate Services

PURPOSE

This Tangible Capital Asset Policy promotes sound corporate management of tangible capital assets and complies with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150.

SCOPE

All tangible property owned by the Town, either through donation or purchase and which qualifies 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:

i. 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;
ii. have useful economic lives extending beyond an accounting period;
iii. are to be used on a continuing basis; and
iv. are not for sale in the ordinary course of operations.

PRINCIPLES

Principles in this policy provide guidance for policy development and assist with interpretation of the policy once applied.

1. The purpose of this policy is for the benefit of the Town as a whole; for the users of the Town's financial statements and managers of the Town's tangible capital assets.

2. The cost associated with data collection and storage is balanced with the benefits achieved by users of the data and reports.
3. Budgeting follows PSAB 3150. Only tangible capital items meeting the tangible capital asset criteria in this policy will be budgeted as capital.
4. Compliance is with all legislation applicable to municipalities.
5. Financial, operational and information technology system limitations are considered.
6. Materiality is considered to match capitalization thresholds when annual purchase volume meet capitalization thresholds, even if individual transactions do not.
7. Reporting deadlines are met.

RELATED DOCUMENTS

Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150

RESPONSIBILITIES

The CAO, or his designate will be responsible to ensure that:

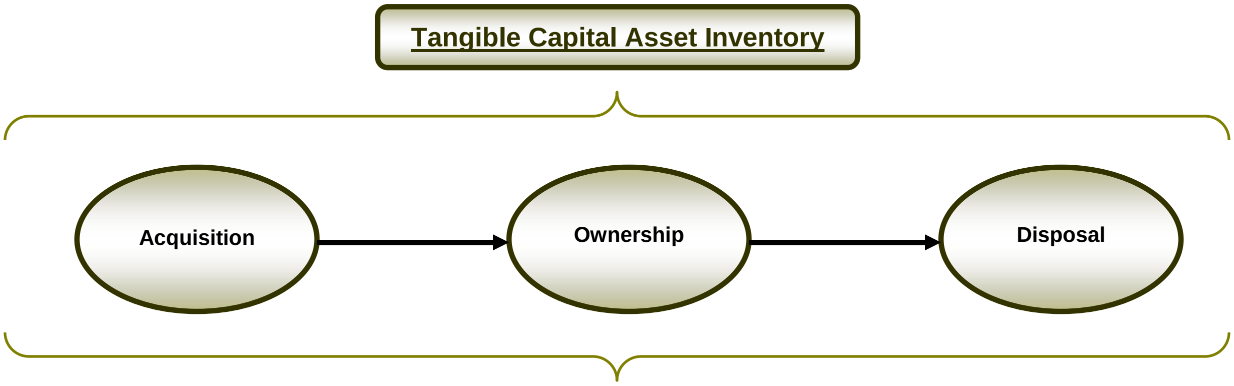
a. an asset register is maintained;
b. a regular periodic review of the assets is conducted;
c. recommend additional policy to Council as required; and
d. establish appropriate accounting procedures.

General accounting procedures for tangible capital assets will require the following reconciliations and reviews:

- regular reconciliation of the asset register to general ledger balances;
- annual management checks for existence, continuing use, remaining life and obsolescence;
- annual reviews for impairment;
- regular reviews of useful lives;
- regular review to ensure that all asset additions have been identified and recorded;
- regular review to ensure that asset sales, write-offs and disposals are managed and recorded.

POLICY

A framework is established for the management and control of the Town's tangible capital assets. Included in this framework is proper recognition, measurement, thresholds, aggregation, segregation, amortization, reporting, safeguarding and disposal. Additional guidelines relating to the purchase of assets are found in the Town's policies and procedures.



Tangible Capital Asset (TCA) Inventory - Acquisition

Tangible Capital Assets (TCA) are recorded at historical cost. TCA's are recognized as assets on the Town's Statement of Financial Position on date of receipt for tangible 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. Generally these costs include:

- installing the asset at the location and in the condition necessary for its intended use
- hard costs associated with the constructuion, as an example materials, professional fees and contractor invoices,
- staff costs directly attributable to the construction.
- carrying costs (interest) incurred during the project and prior to the asset's in service date.

Capital grants are **not** to 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.

For assets owned by the Town but not paid by the Town including contributions, gifts, and donations, valuation may be assessed by fair value. **FAIR VALUE** is the amount of the consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act.

Thresholds

Thresholds are established for a minimum dollar value and number of years of useful life. Thresholds help to determine whether expenditures are to be capitalized as assets and depreciated or treated as a current year expense.

The Town's threshold levels are set with consideration to:

a) the limits recommended by Alberta Municipal Affairs for Towns and Cities, taking into account the Town's population, which exceeds the legislated population level for cities and the Town's budgetary spending patterns; and
b) the Government Finance Officer Association Recommended Practice for Establishing Appropriate Capitalization Thresholds For Tangible Capital Assets.

Thresholds will be adjusted for inflation as deemed necessary by Council.

Asset Category	Threshold
Land	Capitalize Only
Land Improvements	$10,000
Buildings	$50,000
Building Improvements	$10,000
Engineered Structures	$50,000
Machinery and Equipment	$10,000
Vehicles	$10,000

Thresholds apply to tangible capital goods purchased and capital projects constructed with the total cost of the good or project meeting the threshold criteria. Long-term assets not individually meeting threshold limits but when purchased volumes meet the limit are to be capitalized. Improvements are capitalized when they extend the useful life of the asset. The useful life threshold is set at two years.

Further refinement to threshold levels will occur as the Town develops an understanding of its asset and reporting needs and as such amendments may be considered to this policy. Amendments will be made pursuant to the Town's current Procedure on Developing Policy and Procedure No. PRO-08-100.

Classification, Aggregation & Segmentation

The level of detail required in the tangible capital asset inventory is a balance between cost of data collection, tracking and analysis and the beneficial use of the information gathered. Classification is at the categories shown above for PSAB 3150 with infrastructure further segmented by utility type. These utility types include water, sewer, drainage, and roads.

The full cost of preparing a TCA for its intended use is considered the aggregate cost of the tangible capital asset. The aggregate cost is further segmented into elemental components based on useful life.

LAND

Land owned by the Town includes parkland, land for Town owned facilities and land under roads and sidewalks, land held for resale is not included. All land owned by the Town is segmented by each parcel held. Town parkland and the land for Town facilities and facilities leased to third parties is quantified and included in the Town's land database.

IMPROVEMENTS TO LAND

Improvements to land of a permanent nature such as fencing, and artificial fields will be capitalized. Each asset when capitalized is separately recorded with an attached useful life.

BUILDINGS

Buildings owned by the Town include the Town Hall, Town facilities including pools, arenas and community centers; and facilities leased to third parties. A building is segmented by envelope, roof and equipment and other significant component parts based on useful life. This treatment provides for tangible capital replacement of each component over the years of ownership.

BUILDING IMPROVEMENTS

Building improvements include furniture, fixtures and equipment along with interior fit-outs required to make the building ready for use. Furniture, fixtures, equipment, and fit-outs are capitalized if purchased in volume and the volume exceeds the threshold limit or if the individual cost of individual items exceed the threshold.

CONSTRUCTION IN PROGRESS

Construction in progress contains capital projects underway but not complete or put to use. These projects are individually segmented and are capitalized if costs exceed threshold limits.

VEHICLES, MACHINERY AND EQUIPMENT

Vehicles, machinery and equipment are pooled, segmented at unit level for threshold purposes.

IT INFRASTRUCTURE

IT infrastructure includes software, hardware, infrastructure, computers, printers, scanners, photocopiers, and the telephone network. This IT infrastructure is capitalized if each purchase or project meets threshold limits. Segmentation for the network is by each hub and each software application. Computers and printers, scanners, photocopiers, etc. are capitalized if purchased in volume and the volume exceeds the threshold limit.

INFRASTRUCTURE

WATER

The water system components include and are segmented by water mains, valves, hydrants and services. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

SEWER AND DRAINAGE

The sewer system components include and are segmented by sewer mains, pump stations, manholes, catch basins, and services. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

TRANSPORTATION

Transportation assets include the subsurface, base and surface and are segmented by roads, lanes, sidewalks, traffic intersections, street lights, signage, and structures. Structures include bridges and tunnels, retaining walls and parkades. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

LEASED ASSETS

A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the Town. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met;

a) There is reasonable assurance that the Town will obtain ownership of the leased property by the end of the lease term.

b) The lease term is of such a duration that the Town will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.

c) 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.

A leased tangible capital asset would be amortized over the period of its expected use, on a basis consistent with the amortization policy for similar tangible capital assets. If the lease contains terms that allow ownership to pass to the Town, or a bargain purchase option, the period of amortization would be the economic life of the property. Otherwise, the property would be amortized over the lease term. Lease payments would be allocated between repayments of the liability, interest expense and any related executory costs. The total minimum lease payments, less the initial liability recorded, represents the total interest cost of the lease. The interest expenditure/expense would be calculated based on the same discount rate used in computing the present value of the minimum lease payments applied to the outstanding lease liability at the beginning of the lease payment period.

BETTERMENTS

Betterments are subsequent expenditures on tangible capital assets that:

- increase previously assessed physical output or service capacity;
- lower associated operating costs;
- extend the useful life of the asset; or
- improve the quality of the output.

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

Tangible Capital Asset (TCA) Inventory – Ownership

Ownership of assets requires safeguarding, maintenance, amortization for replacement and possibly write-downs. These requirements are addressed in this section.

It is the responsibility of the director, area manager, and staff member to ensure tangible capital assets assigned to his or her custody are maintained and safeguarded.

Amortization is an annual charge to expenditures for the use of a tangible capital asset. The Town sets amortization rates on a straight line basis based on the number of years in service less salvage value. Salvage value means the estimated realizable value of an asset at the end of its useful life. The asset categories are amortized as follows:

Asset Category	**Amortization of Cost less Savage Value**
Land	Not amortized
Land Improvements	Straight line over useful life of each asset unit
Buildings	Straight line over useful life of each asset unit
Building Improvements	Straight line over useful life of each asset unit
Construction in Progress	Not amortized
Machinery and Equipment	Straight line over useful life of each asset unit
Vehicles	Straight line over useful life of each asset unit
Infrastructure (e.g. water, electrical wastewater, roads etc.)	Straight line over average useful life of each segment for cost less salvage value

Amortization is calculated on a pro-rata basis based on the month of acquisition in the first year the asset is put into service. Economic useful life is used for amortization rather than physical useful life. Attachment I provides a general guide for useful life.

Write-Downs

A write-down of assets occurs when reduction in future economic benefit is expected to be permanent and the value of future economic benefit is less than the TCA's net book value. A write-down should not be reversed.

A write-down is an adjustment to the cost of an asset. A corresponding adjustment is made to the accumulated depreciation and the net adjustment is reported as an expense in the statement of operations. This new cost should be amortized over the remaining useful life of the asset.

When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. (PS 3150.31)

The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations. (PS 3150.32)

A write-down should not be reversed. (PS 3150.33)

A government would write-down the cost of a tangible capital asset when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:

(a) a change in the extent to which the tangible capital asset is used;

(b) a change in the manner in which the tangible capital asset is used;

(c) significant technological developments;

(d) physical damage;

(e) removal of the tangible capital asset from service;

(f) a decline in, or cessation of, the need for the services provided by the tangible capital asset;

(g) a decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition; and

(h) a change in the law or environment affecting the extent to which the tangible capital asset can be used. (PS 3150.34)

TCA Inventory - Disposal

Disposal procedures for tangible capital assets are in accordance with the Town's policies and procedures. All disposals of TCA's are recorded in the Town's financial statements in accordance with PSAB 3150.

The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations. Disposals of tangible capital assets in the accounting period may occur by sale, trade-in, destruction, loss or abandonment. Such disposals represent a reduction in a local government's investment in tangible capital assets.

When a tangible capital asset is disposed of, the cost and accumulated amortization are removed from the accounts. Any difference between net proceeds and the carrying amount of the asset is accounted for as a revenue or expense in the statement of operations. The value given for a trade-in is the net proceeds on disposal.

When a component of a complex network is replaced, the removal from service of the old asset is treated as a disposal. For example, if a section of a road is resurfaced, the cost and accumulated amortization of the old pavement is removed from the accounts. The difference between the salvage value and the carrying amount, if any, is reported as revenue or expense.

PRESENTATION AND DISCLOSURE

In total and for each major category of tangible 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;

Also in accordance with PSG-7 disclosure will include:

a. The method used to determine the cost of each major category of TCA;
b. The amortization method used, including amortization period or rate for each major tangible capital category of TCA;
c. The net book value of TCA's not being amortized because they are under construction or development or have been removed from service;
d. The nature and amount of contributed TCA's received in the period;

e. The nature and use of tangible capital assets disclosed at nominal value;

f. The nature of the works of art and historical treasures held by the government; and

g. The amount of interest included in cost in the period.

End of Policy

Approval
This policy shall come into force and effect upon adoption by Council at a Regular or Special Meeting.

July 19, 2010 regular meeting of Council
Resolution #437/2010

February 13, 2012 regular meeting of Council
Resolution #070/2012

MAYOR/DEPUTY MAYOR

CHIEF ADMINISTRATIVE OFFICER/
DIRECTOR OF
LEGISLATIVE AND ADMINISTRATIVE SERVICES

DATE