
Tangible Capital Assets

Date Approved by Council: January 23, 2017

Resolution: 2017-01-23-16

Review Date: May (Annually)

Related Bylaws: N/A

Amendments:

Purpose

The purpose of this policy is to promote sound corporate management of capital assets in compliance with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150.

Scope

All tangible property owned by the Village of Hussar, either through construction, purchase or donation and which qualify as capital assets are addressed in this policy. In accordance with PSAB 3150, *Tangible Capital Assets* are non-financial assets having physical substance that:

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

Subsequent expenditures on a recorded tangible capital asset that:

- increase output or service capacity;
- increase the service life;
- lower associated operating costs; or,
- improve the quality of the output

should be classified as betterments and capitalized accordingly. Any other expenditure should be considered a repair or maintenance and should be expenses in the period.

General Guidelines

EFFECTIVE DATE

This policy will take effect as of January 1, 2016.

EFFECT ON PRIOR YEAR FINANCIAL STATEMENTS

Prior year adjustments may be made to financial statements for any of the following reasons:

- Capital assets were excluded from previous years' financial statements for any reason;
- Capital assets were included in the previous years' financial statements that were previously disposed of;

- Capital assets were included in the incorrect asset class in previous years' financial statements;
- The value of capital assets included in previous years, financial statements were under or overstated;
- The estimated useful life of a capital asset utilized for the purposes of amortization in previous years' financial statements is not the same estimated useful life to be utilized as per this policy; and,
- The amortization method used in the previous years' financial statements is not the same as that utilized under this policy.

All prior year adjustments will be made as of December 31, 2015.

Any prior year adjustments regarding the purchase value or date of a capital asset must be accompanied by proof of purchase value and date, or must be approved by Council resolution.

Any prior year adjustments regarding the disposal date and sale value of a capital asset must be accompanied by proof of disposal date

ASSET CLASSIFICATION

Assets will be classified in Major, Minor and Subclasses as outlined in this section.

- *Major* – a group of TCAs that is significantly difference 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 TCA criteria, applications, methodologies and asset lives.

Assets recorded in the Major classification will include:

- *Land* includes land purchased or acquired for value for parks and recreation, building sites, infrastructure and other program use, but not land held for resale;
- *Land Improvements* includes all improvements of a permanent nature to land such as parking lots, landscaping, lighting, pathways and fences;
- *Buildings* includes permanent, temporary or portable building structures such as offices, garages, storage and recreation facilities intended to shelter persons and/or goods, machinery, equipment and working space;
- *Engineered Structures* include permanent structures such as roads, sidewalks, water and sewer and utility distribution and transmission systems including plants and substations. Minor classifications in the Engineered Structures major classification will be:
 - *Roadway System* includes assets intended for the direct purpose of vehicle or pedestrian travel or to aid in vehicle or pedestrian travel and includes roads, bridges, sidewalks and signage;
 - *Water System* includes systems for the provision of water through pipes or other constructed convey. It is normally comprised of assets for the intake, distribution, storage and treatment of safe potable water. It may also be comprised of assets required to distribute non-potable water. Includes mains, services, pumps and lift stations, plant and equipment, reservoirs and fire hydrants.

- *Wastewater System* is comprised of assets used for the collection and treatment of non-potable water intended for return to a natural water system or other originating water source or used for other environmentally approved purposes. Wastewater is defined as water that has been used for household, business and other purposes, which flows from private plumbing systems to public sanitary sewers and on to a treatment facility.
- *Storm System* includes assets used for the collection, storage and transfer of water as a result of rain, flood or other external source to a natural water system. Includes main, services, catch basins, pump and lift stations, outfalls, swales and retention ponds.
- *Machinery and Equipment* includes equipment that is heavy equipment that may be used for construction infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware and software. This class does not include stationary equipment used in the engineered structure class.
- *Vehicles* includes rolling stock that is used primarily for transportation purposes.
- *Cultural and Historical Assets* includes 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; however, the existence of such property should be disclosed. Buildings declared as heritage sites may be included in this asset classification.

ACQUISITION

Capital assets are recorded at a historical cost and are recognized as assets on the Village's Statement of Financial Position on date of receipt for capital goods or when the asset is put into use. Costs are defined as the gross amount of consideration given up to acquire, construct, develop or better a capital asset and includes all costs directly attributable to acquisition, construction, development or betterment of the asset, including installing the asset at the location and in the condition necessary for its intended use.

The cost of a contributed capital asset, including a capital asset in lieu of a developer charge is considered to be equal to its fair market value at the date of contribution. Fair Market Value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Capital grants will not 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*. A capital lease is a lease with contractual terms that transfer substantially all the benefits and risk inherent in ownership of the property. 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:

- There is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term,
- The lease term is of such duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span,
- 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,
- There is a bargain purchase option (a low buyout) at the end of the lease.

THRESHOLDS

Thresholds are determined for each major asset categorization and determine whether expenditures are to be capitalized as assets and depreciated or treated as a current year expense.

Expenditures that meet both the criteria of a tangible capital asset and exceed the following thresholds are to be recorded as a TCA on the Statement of Financial position and amortized:

Asset Description	Threshold
Land	-
Land Improvements	2,000
Buildings	10,000
Engineered Structures	10,000
Machinery and Equipment	2,000
Vehicles	2,000
Cultural and Historical	-

All tangible capital assets that do not exceed these thresholds will be expensed in the period in which they are acquired.

USEFUL LIFE AND AMORTIZATION METHODS

Appendix A shows the maximum expected life for all major TCAs. The actual length of the useful life for an asset will depend on the asset quality and its intended use. In some situations, the useful life may be expected to be longer than the recommended life. In such instances the Village will need to provide adequate documentation supporting the decision to extend the life beyond the recommended maximum.

In the event that an asset does not fit into the above classes, reference will be made to the recommended maximum useful life guidelines in Appendix A of the Tangible Capital Asset Implementation Toolkit published by Alberta Municipal Affairs and other local jurisdiction policies.

All capital assets will be amortized using the straight-line method of amortization. The straight-line method assumes that the asset's economic usefulness is the same each year and the repair and maintenance expense is essentially the same in each period. The amortization amount is determined by dividing the asset's original cost by its estimated useful life in years. In the year an asset is acquired or put into service and the year of disposal, an amount equal to 50% of the annual amortization will be expenses.

The useful life of an asset may require revision during its life due to significant events such as physical damage, technological developments, a significant change in use, etc. The effect of this change will be recorded in the year of revision and future years.

VALUATION OF ASSETS

When available, the actual historical cost will be used to determine the current value of an asset. However, when the actual cost is not available, current value will be determined by discounting the

replacement cost using an appropriate Price Index for the asset. The calculated historical cost will then be reduced by the accumulated amortization in order to calculate the net book value of the asset.

This valuation will only apply to the implementation of the asset recording system (or corrections to the previous years' financial statements based on the implementation date of this Policy). All future assets will be recorded at actual cost. Contributed or donated assets will be valued at fair market value.

DIVISION OF ASSETS

For the purposes of capitalization and amortization, the two methods of defining a capital asset are whole asset approach and component approach. The Village may choose which approach to utilize based on the needs of the Village for the asset(s) in question. The Village may also choose to record assets as group assets.

- The whole asset approach considers an asset to be an assembly of connected parts. Costs of all parts would be capitalized and amortized as a single asset by year of acquisition;
- Under the component approach different components are individually capitalized and amortized. This should be used when the component assets have different useful lives or provide economic benefits or service potential to the entity in a different pattern, thus necessitating use of different amortization rates.

GROUP/POOLED ASSETS

Group/Pooled assets are those similar assets that have a unit value below the capitalization threshold (on their own) but have a material value as a group. Such assets shall be pooled as a single asset with one combined value. Although recorded in the asset module as a single asset, each unit of the pool may be recorded in an asset sub-ledger for monitoring and control of their use and maintenance.

SCHEDULE A: MAXIMUM USEFUL LIFE

Major Class	Minor Class	Sub-Class	Estimated Useful Life (Years)
Land			-
Land Improvements	Parking Lot	Gravel Parking	15
		Asphalt Parking	25
	Fences		20
	Playgrounds		15
	Landscaping		25
Buildings	Permanent		50
	Portable/Temporary		25
Engineered Structures	Roadway Systems	Asphalt Roads	20
		Gravel Roads	25
		Gravel Alleys	15
		Curb & Gutter	30
		Sidewalks	30
	Water Systems	Distribution System	75
		Treatment Plants	45
		Pumping Stations	45
		Reservoir	45
		Wells	45
		Hydrants	75
	Wastewater Systems	Collection System	75
		Pumping Stations	45
		Lagoons	45
Storm Systems		75	
Machinery & Equipment	Administration	Computers	10
		Office Furniture	20
	Heavy Equipment		10
	Small Equipment		10
	Communications		10
Vehicles	Trucks		10
	Trailers		10
Cultural/Historical			-