

Title: TANGIBLE CAPITAL ASSET POLICY

Resolution: 2021-0193, June 28/21

Special Notes/Cross Reference:

Revised:

Next Review Date:

POLICY STATEMENT :

The objective of the policy is to ensure that tangible capital assets (TCA) are identified, valued, recorded, and managed by the Town of Westlock (Town). Town Council agrees that all departments and organizations owned or controlled by the Town are responsible to manage the assets under their control in an efficient and effective manner.

PURPOSE :

The purpose of this policy is to establish guidelines for the proper recording of Tangible Capital Assets as required under the Public Service Accounting Board (PSAB) Section 3150.

GUIDELINES / PROCEDURES / RESPONSIBILITIES

DEFINITIONS

1. **"Amortization"** is the allocation to operating expense of an asset's cost less residual value, over the useful life of the asset in a systematic manner. Depreciation accounting is another commonly used term to describe the amortization of tangible capital assets.
2. **"Betterment"** is the cost incurred to enhance the service potential and increase the remaining useful life of a tangible capital asset. These expenditures would be included in the tangible capital asset's cost.
3. **"Buildings"** are 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.
4. **"Capitalization threshold"** is the value above which assets are capitalized and reported in the financial statements.
5. **"Construction work in progress (CWIP)"** investment in facilities under construction or completed, but not commissioned or required for service at year-end.
6. **"Cultural and Historical"** assets are works of art and historical treasures that have cultural 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.
7. **"Depreciation"** is the expense in an accounting period arising from the application of depreciation

accounting.

8. **'Engineered Structures'** are permanent structural works such as roads, bridges, canals, dams, water and sewer, and gas utility production, treatment, distribution and transmission systems, including plants and substations.
9. **"Expenses"** are decreases in economic resources, either by way of outflows or reductions of assets or incurrence of liabilities, resulting from the operations, transactions, and events of the accounting period.
10. **"Fair value"** is defined in accounting standards as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction who are under no compulsion to act.
11. **"Gains/Losses"** can arise from peripheral or incidental transactions and events affecting a local government. Such transactions and events include the disposition of assets purchased for use and not for resale.
12. **"Historical cost"** is the total original cost of the asset, usually the purchase price, regardless of funding, at which the tangible capital asset is initially recorded. This cost includes freight and delivery charges, insurance, and installation. This cost does not include GST and is net of any discounts or rebates.
13. **"Impairment"** occurs when conditions indicate that a tangible capital asset no longer contributes to a local 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.
14. **"Land"** includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (highways, dams, bridges, tunnels, etc.) and other program use, but not land held for resale.
15. **"Land Improvements"** are improvements of a permanent nature to land such as parking lots, landscaping, lighting, pathways, and fences.
16. **"Land Rights"** includes interests in Crown or private lands purchased or acquired for value for easements and rights-of-way, surface leases for placement of structures and other program use.
17. **"Machinery and Equipment"** includes heavy equipment for constructing infrastructure, medium equipment that perform or assist in performing some work, smaller equipment in buildings and offices, furnishings, computer hardware and software. This class does not include stationary equipment used in the engineered structures class.
18. **"Net book value"** of a tangible capital asset is its cost, less accumulated amortization and the amount of any write-downs for impairment or liability.
19. **"Plant held for future use (PHFFU)"** capital assets which are completed but are not required or deemed to be required for utility service in the immediate period.
20. **"Replacement cost"** is the cost required to replace a property with a new unit utilizing current technology and construction materials at current market process.

21. **"Residual or salvage value"** is the estimated net realizable value to a local government of a tangible capital asset at the end of its useful life.
22. **"Straight-line amortization"** allocates the cost less estimated residual value of a capital asset equally over each year of its estimated useful life.
23. **"Tangible capital assets"** are non-financial assets having physical substance that:
 - a. are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets,
 - b. have useful economic lives extending beyond an accounting period,
 - c. are to be used on a continuing basis, and
 - d. are not for sale in the ordinary course of operations.
24. **"Useful life"** is the estimate of either the period over which a local government expects to use a tangible capital asset, or the number of production or similar units that it can obtain from the tangible capital asset. The life of a tangible capital asset may extend beyond its expected useful life. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial, and legal lives.
25. **"Vehicles"** are rolling stock used primarily for transportation purposes.
26. **"Write-down"** is a reduction in the cost of a tangible capital asset to reflect the decline in the asset's value due to a permanent impairment.
27. **"Write-off"** is the removal of the cost and accumulated depreciation of the asset from the general ledger and sub-ledger that only occurs when the asset is sold, removed from service, salvage, lost, or stolen.

PROCEDURES/GUIDELINES

1. Recognizing a Tangible Capital Asset

- 1.1 Tangible capital assets that meet the definition criteria and capitalization threshold will be capitalized. Any exceptions will be expensed.
- 1.2 Tangible capital assets should be accounted for and reported as assets on the statement of financial position, at original cost to the Town.

2. Asset Classification Guidelines

- 2.1 Tangible capital assets will be recorded under the following major categories, subject to reporting requirements and codes of accounts as recommended for capital investments in utility assets:

- a) Land
- b) Land Improvements
- c) Buildings
- d) Engineered Structures
- e) Machinery and Equipment
- f) Vehicles
- g) Cultural and Historical

2.2 Within the Engineered Structures major classifications, there will be further breakdown into minor and sub classes, as follows:

- a) Roadways
- b) Storm Water
- c) Fibre Optics
- d) Electrical Systems
- e) Water Utility System, per the Uniform System of Accounts for Class A water Utilities, National Association of Regulatory Utility Commissioners (NARUC)
- f) Wastewater Utility System, per the Uniform System of Accounts for Class A Wastewater Utilities, NARUC

3. Asset Valuation

Generally Accepted Accounting Principles (GAAP) and PSAB identify historical cost as the most appropriate value to apply to an asset. In all cases where historical cost is readily available, the Town will use historical cost when capitalizing the asset. In situations where the historical cost is difficult to ascertain due to lack of records, the Town will estimate the historical cost based on deflating the current replacement cost to the acquisition year or estimated acquisition year if the actual years is unknown.

4. Useful Life Guidelines

4.1 The Town shall use the recommended maximum life guidelines as provided by the Alberta Government Finance Officers Association (GFOA) Implementation Toolkit (Appendix A). The Director of the department acquiring the asset may set a useful life for the asset that is more appropriate, if necessary, based on actual experience, commonly accepted industry usage, or as recommended or required by competent authority.

4.2 PSAB 3150 identifies the following significant events that may indicate a need to revise the amortization method or the estimate of the remaining useful life of a tangible capital asset:

- 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) removal of the tangible capital asset from service for an extended period of time,
- d) physical damage,
- e) significant technological developments,
- f) a change in the demand for the services provided through use of the tangible capital asset,
- g) a change in the law or environment affecting the period of time over which the tangible capital asset can be used, or
- h) a change in the asset's amortization rate as a result of a revision of its estimated life is treated as a change in accounting estimates rather than a change in accounting policy and the impact on amortization expense will be allocated in the period of revision and to applicable future periods.

5. Amortization Method

- 5.1** The Town will adopt the straight-line method of amortization. The straight-line amortization method is the most common and, in most cases, the easiest to manage. This method assumes that the asset's economic usefulness is the same in each year of its life. The amortization amount is determined by dividing the asset's original cost by its estimated life in years. If the residual value of a tangible capital asset is expected to be significant, it will be factored into the calculation of the amortization.
- 5.2** Land is the only asset that is not amortized.
- 5.3** In the year of acquisition and disposal, the annual amortization to be recorded will be prorated based on the date the asset is commissioned or first placed in use or removal from use.

6. Fully Amortized Assets

The original cost and related accumulated amortization of fully amortized assets shall remain in the general ledger and the fixed assets sub-ledger until the assets are retired from service.

7. Asset Retirements

Assets may only be sold, borrowed, salvaged or taken off site with the written approval of the department director. Lost or stolen assets must be written off and therefore reported immediately to the Director of Finance so that the insurance provider can be notified.

The following events qualify as Asset Retirements:

- 7.1** asset is retired or removed from service,
- 7.2** asset is retired and salvaged for parts,
- 7.3** asset is disposed of or sent to auction to be sold, or



7.4 asset is lost or stolen.

8. Capitalization Thresholds

The Town will utilize the following capitalization threshold:

Land Improvements	\$10,000
Buildings	\$25,000
Engineered Structures	\$25,000
Machinery and Equipment	\$ 10,000
Vehicles	\$ 10,000

Any purchase in these categories that fall under the threshold amount shall be expensed in full in the year purchased.

Expenditures that are similar in type and cost but whose single unit value is below the capitalization threshold may still be capitalized as part of a pool of assets.

9. Capital Leases

Property that meets the definition of a leased tangible capital asset in accordance with *Public Sector Guideline PSG-2 Leased Tangible Capital Assets* is accounted for as both a tangible capital asset and a liability. The value of the leased tangible capital asset and the amount of the lease liability, recorded at the beginning of the lease term, would be the **lower** of the asset's fair market value or the present value of the minimum lease payments. If the lease contains a bargain purchase option that allows the transfer of ownership at the end of the lease term, the period of amortization would be the economic life of the property. Otherwise, the property would be amortized over the lease term.

To be considered a capital lease, the lease must meet one or more of the following four criteria:

- 9.1 the lease transfers ownership of the property to the lessee at the end of the lease term,
- 9.2 the lease contains a bargain purchase option,
- 9.3 the lease term is equal to 75 percent or more of the estimated useful life of the asset, or
- 9.4 the net present value of the minimum lease payments (excluding executory costs such as insurance, maintenance, and taxes) must be 90 percent or more of the fair value of the asset.

10. Construction Work in Progress (CWIP)

Constructed or developed assets will be recorded in the general ledger and the fixed asset sub-ledger in the year that the asset is substantially complete and ready for use.

11. Donated or Contributed Assets

- 11.1 The Town may receive contributions of tangible capital assets; for example, development agreements frequently require developers to provide tangible capital assets such as roads, sidewalks, street lighting, and walking trails.

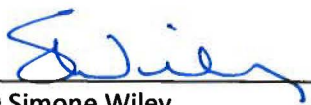
- 11.2** The cost of a donated or contributed asset is considered equal to its fair value at the date of contribution. Developers will be required to provide the Town with the fair value of the contributed asset at the date of contribution.

12. Carrying Costs

The cost of a tangible capital asset that is acquired, constructed, or developed over time can include carrying costs such as interest costs directly attributable to the acquisition, construction, or development of the capital asset. It has been the Town's practice not to capitalize interest costs; instead, interest costs are treated as a typical cost of doing business and therefore accounted for as an operating expense.



Mayor Ralph Leriger



CAO Simone Wiley

Appendix A

Recommended Estimated Service Useful Life in Years, Unless Otherwise Noted

Asset Classes – Guide	
Major	
Minor	
Sub-Class One	
Sub-Class Two	
Sub-Class Three	

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

Cultural and Historical Assets	
Heritage site	
Historical	
Public art	

Land Improvements	
Parking lot	
Gravel	25
Asphalt	30 – 45
Playground structures	15
Landscaping	25
Fences	20
Sprinkler systems	25
Golf courses	45
Tennis courts	20
Fountains	20
Lakes/ponds	75
Retaining walls	30
Running tracks	15
Outdoor lighting	20
Airport runways	10
Soccer pitch – outdoor	20
Bike/jogging Paths	
Gravel	25
Asphalt	20
Landfill	
Pits	Volume
Pads	Volume
Transfer stations	30

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Construction work in progress	
Buildings	
Permanent Structures	
Frame	50 – 75
Metal	50 – 75
Concrete	75
Portable Structures	
Metal	25
Frame	25
Leasehold improvements	Variable
Construction work in progress	

Building Improvements	
Roof	25 - 30

Engineered Structures	
Roadway System	
Bridges	Variable
Curb and Gutter	35
Parkades	50
Roads and Streets	
Lanes/ Alleys	
ACP-Hot Mix	30 *
Gravel	25 *
Non-conforming	20 *

Local/Collector/Arterial/Major Arterial	
Surface	
Concrete	35 *
ACP – Hot Mix	30 *
ACP – Cold Mix	15 *
Chip Seal	10 *
Oil	5 *
Gravel	25 *
Subsurface	45 *
Road signs	
Traffic control	25
Information	25
Lights	
Decorative	30
Street	30
Traffic	30
Guard rails	30
Ramps	30
Sidewalks and para-ramps	35

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Construction work in progress	
(* subject to weather conditions)	

Water System	
Distribution System	
Mains	75
Services	75
Pump, lift, and transfer stations	20
Plants and Facilities	
Structures	75
Treatment Equipment	
Mechanical	25
Electrical	25
General	25
Pumping Equipment	20
Hydrants / Fire Protection	50
Meters	40
Reservoirs	75
Construction work in Progress	

Wastewater System	
Collection System	
Mains	75
Services	75
Pump, lift, and transfer stations	20
Plants and facilities	
Structures	75
Treatment Equipment	
Mechanical	20
Electrical	20
General	20
Pumping Equipment	20
Lagoons	75
Construction work in progress	

Storm System	
Collection System	
Mains	75
Services	75
Pump, lift, and transfer stations	20
Catch Basins	75
Outfalls	75
Wetlands	50
Retention Ponds	50

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Treatment facility	75
Construction work in Progress	

Fibre Optics	30
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Electrical System	
Electrical Generation	
Photo Voltaic Solar Panels	30
Electrical Charging Stations	15
Installation, Construction Work in Progress	

Machinery and Equipment	
Heavy construction equipment	Variable
Light construction equipment	15
Generators – Light	15
Generators – Heavy	50
Stores	25
Food Services	10
Fire equipment – light	15
Fire equipment – heavy	20
Police special equipment	10
Boats	20
Fitness and Wellness	10
Control Systems	10
Communication links	20
SCADA system	10
Fuelling Stations	15
HVAC	15 – 20
Laboratory	10
Communications	
Radios	5
Telephone Systems	15
Tools, shop, and garage equipment	15
Shoring for trenches	75
Scales	15
Bins	15
Turf equipment	10
Ice re-surfacing machine	20
Office Furniture and Equipment	
Furniture	10 – 20
Office equipment	10 – 15
Audio-visual	
Photocopiers	
Computer Systems	
Hardware	5

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Software	5
Construction work in process	

Vehicles	
Light duty	10
Medium duty	10
Heavy duty	10
Transit buses	10
Fire trucks	25
Construction work in progress	