COUNTY OF ST. PAUL NO. 19

Our Mission - To create desirable rural experiences

ADM-12 Tangible Capital Assets Policy

Department: Administration

POLICY OBJECTIVE:

The County of St. Paul will record its investment in property, plant and equipment and the cost of using these assets to deliver programs and provide services. The Canadian Institute of Chartered Accountants has prescribed in the Public Sector Accounting Handbook Section 3150 – Tangible Capital Assets the requirements local governments must follow to account for and report these assets during their useful life. The County will adhere to these requirements and the purpose of this policy is to provide information, processes and procedures for the recording, amortizing and tracking of tangible capital assets in a consistent manner in accordance with PS 3150. All departments and organizations that are reported in the financial statements of the County will be subject to this policy.

POLICY STATEMENTS:

1.0 Definitions

1.1 In this Policy, the listed words shall have the intended meaning as follows:

a) "Betterments" means the subsequent expenditures on a Tangible Capital Asset that:

i. increase the previously assessed physical output or service capacity;
ii. lower associated operating costs;
iii. are to be used on a continuing basis; and/or
iv. improve the quality of the output.

b) "Capitalization Threshold" means the minimum value of an expenditure that meets the criteria of a TCA and that will be recorded as a TCA;

c) "Capital Lease" means a lease with contractual terms that transfers substantially all the benefits and risks inherent in ownership of property to the County. To meet these terms, one or more of the following conditions must be met:

i. there is reasonable assurance that the County will obtain ownership of the leased property by the end of the lease term;
ii. the lessee can buy the asset from the lessor at the end of the lease term for a below-market price;
iii. the period of the lease encompasses at least 75% of the useful life of the asset (and the lease in non-cancellable); and/or
iv. the lessor will 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.

d) "Contributed Assets" means assets that have been transferred or donated to the County by another entity. These assets provide a future economic benefit controlled by the County;

e) "Fair Value" means 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;

f) "Grouped or Pooled Assets" means assets that are homogenous in terms of their physical characteristics, usage and useful lives and have an individual unit value below the capitalization threshold but as a group are material in value;

g) "Residual Value" means the estimated net realizable value of a Tangible Capital Asset at the end of its useful life;

h) **"**Tangible Capital Asset (TCA)" means non-financial assets having physical substance that:

i. 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 TCAs;
ii. have useful economic lives extending beyond an accounting period;
iii. are to be used on a continuing basis;
iv. are not for sale in the ordinary course of operations; and
v. roads and bridges regardless of whether that title to rural roads is vested in the Crown.

i) "Useful Life" shall mean the shortest of the asset's physical, technological, or legal life for a Tangible Capital Asset.

2.0 Responsibilities

2.1 It is the responsibility of the Chief Administrative Officer (CAO) to ensure that this policy is followed.

2.2 The Finance Officer shall be responsible for the development, implementation and ongoing maintenance of all aspects of the accounting treatment for TCAs.

2.3 The department head of each applicable department shall be responsible for the management of the condition, use and performance of County assets.

2.4 The purchase and disposal of TCAs will be the responsibility of each department head.

2.5 Each department having physical control of TCAs will be responsible to advise the Finance Officer of assets to be disposed and advising the Finance Officer of assets no longer in service.

2.6 The CAO shall have the authority to amend Appendix A – Useful Lives when changes as required.

2.7 The Finance Officer will be responsible to establish and monitor the processes to annually verify the actual existence of the TCAs recorded and, on a rotating basis, review the remaining useful life of the recorded assets.

3.0 Implementation

3.1 All of the TCAs of the County will be recorded and amortized in accordance with this policy and will be reported in the financial statements for the 2009 fiscal year. TCAs existing prior to January 1, 2009 will be inventoried and valued with the accumulated amortization calculated. An implementation plan will be developed for this process. Valuation decisions will be required that may reflect an estimated cost in the absence of historical cost information; these decisions will meet the transitional provisions stated in PS 3150. The valuation date for existing TCAs will be the later of the in-service date or April 1, 1945.

3.2 Effective January 1, 2009 the accounting treatment for TCAs will be incorporated into the County's normal business practices.

4.0 Classification

4.1 TCAs will be recorded in major, minor and subsidiary classes. The major asset classes and minor asset classes for Engineered Structures as prescribed by Alberta Municipal Affairs will be used and are defined as follows:

a) *Land*

Land includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (such as highways, dams, bridges, and tunnels), and other program use, but does not include land held for resale.

b) *Land Improvements*

All improvements of a permanent nature to land such as parking lots, landscaping, lighting, pathways, and fences.

c) *Buildings*

Permanent, temporary, or portable building structures such as offices, garages, warehouses, and recreation facilities intended to shelter persons, goods, machinery, equipment, and working space.

d) *Engineered Structures*

Permanent structural works such as roads, bridges, canals, dams, water and sewer, and utility distribution systems, including plants. Buildings and machinery and equipment used in conjunction with and unique to water systems, wastewater systems and storm water systems will be considered engineered structures and will be included in a subclass for the minor classes of water, wastewater and storm water.

i. *Roadway system*
Assets intended for the direct purpose of vehicle or pedestrian travel or to aid in vehicle or pedestrian travel. Includes roads, bridges, overpasses, ramps, parkades, lights, sidewalks and signage.

ii. *Water System*
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, pump and lift stations, plants and equipment, reservoirs and fire hydrants.

iii. *Wastewater System*
Wastewater is defined as water that has been used for residential, commercial, or other purposes, which flows from private plumbing systems to public sanitary sewers and on to a treatment plant. The system is comprised of assets used for the collection and treatment of non-potable water intended for return to a natural water source

or other originating water source or used for an environmentally approved purpose. Systems include mains, services, pump and lift stations, plants and equipment, and lagoons.

iv. *Storm Water System*
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 mains, services, catch basins, pump and lift stations, outfalls and retention ponds.

v. *Machinery and Equipment*
Equipment that is heavy equipment for constructing infrastructure, smaller equipment in buildings, offices, and furnishings; computer hardware and software is not capitalized as it is upgraded annually. This class does not include stationary equipment used in the Engineered Structures class.

vi. *Vehicles*
Rolling stock that is used primarily for transportation purposes.

vii. *Cultural and Historical*
Works of art and historical treasures that have cultural, aesthetic or historical value that are worth preserving perpetually. Buildings declared as heritage sites may be included in this asset classification if they are not used for providing an essential municipal service.

5.0 Recording Tangible Capital Assets

5.1 The following costs will be considered in determining the amount to be recorded for a Tangible Capital Asset:

a) Actual cash outlay, net of discounts or rebates. Direct costs for personnel and materials to be included. General administrative overhead shall not be included as part of the TCA cost;

b) Interest costs;

c) Non-refundable taxes and duties;

d) Freight and delivery charges;

e) Installation and site preparation costs;

f) Related legal fees;

g) Land registration fees and transfer taxes;

h) Pollution mitigation;

i) Demolition costs for assets required to be removed;

j) Land improvements;

k) Construction management, architectural, and other professional fees necessary for the acquisition or construction of the asset;

l) Internal costs related to design, inspection, and administration; and

m) Internal costs related to computer software development.

5.2 *Interest Capitalization*

Interest capitalization will occur under the following circumstances:

a) Where there is a substantial period between when costs are incurred and assets are put into service, interest related thereto will be included as part of the TCA cost;

b) Interest capitalization will cease once the asset is placed into service; and

c) Internal borrowings will be treated in the same manner as external borrowings for the purpose of determining related interest costs and corresponding capitalization amounts.

5.3 *Ancillary Costs*

Planning and design expenditures will be capitalized as part of the cost of a TCA if the project otherwise qualifies and the project is constructed. Costs related to abandoned projects will be recorded as operating expenses in the period when the decision to abandon is made. Initial testing costs will be included as part of the TCA cost in the period incurred.

5.4 *Capital Leases*

Assuming the net present value of the lease is equal to or exceeds the respective capitalization threshold for the specific TCA, the lease will be recorded in accordance with current accounting standards subject to the criteria stated in the Definitions Section.

5.5 *Contributed Tangible Capital Assets*

Contributed assets shall be treated as follows:

a) Contributed assets will be recorded when the County is responsible to control and manage the assets;

b) Contributed assets shall be recorded at the fair value of the entire asset;

c) Fair value may be estimated using market or appraisal value. Replacement cost may also be used recognizing that if any of the Useful Life has been used, this will need to be considered when calculating the fair value;

d) Municipal reserve lands will be valued at the time of the subdivision approval; and

e) The time of acquisition in the case of subdivision developments will be at the time when the final acceptance certificate is issued.

5.6 *Capitalization Threshold*

Expenditures that meet both the definition of a TCA and are equal to or exceed the following capitalization threshold will be recorded:

Land	No threshold
Land Improvements	$5,000
Buildings	$50,000
Engineered Structures	$50,000
Machinery and Equipment	$5,000
Vehicles	$5,000
Cultural and Historical	No threshold

5.7 *Grouping and Pooling*

Assets to be considered for grouping are items individually below the capitalization threshold but material as a group and shall be addressed as follows:

a) To qualify for capitalization consideration, the items must be homogenous in terms of their physical characteristics, usage and Useful Lives.

b) Assets which will be grouped are:
   i. Waste bins by size;
   ii. Streetlights;
   iii. Undeveloped road allowances by township;
   iv. Sidewalks by hamlet

c) Additional items to consider for possible capitalization may include one-time bulk purchases and portable or attractive items. In some instances, it may be appropriate to record these assets in the asset register for management or control purposes. Capitalizing one-time bulk purchases will be considered where furnishings are acquired for a newly constructed or purchased building.

5.8 *Communication Towers*

All communication towers will be recorded individually regardless of their unit cost.

5.9 *Residual Value*

The Residual Value will only be recorded if it is estimated to be $500.00 or greater. Residual Value shall be as follows:

a) Permanent Buildings: 20% of value
b) Portable Buildings: 10% of value
c) Machinery & Equipment: 20% of value

5.10 *Incomplete Projects*

TCA construction projects not completed at the end of the fiscal year shall be classified as “construction in progress” under their respective asset classifications and shall not be amortized until they have been completed and put into service.

5.11 *Networks, Segments, and Components*

Linear infrastructure may be recorded in large or small segments depending on the similarities of the infrastructure. Engineered structures and buildings may include components with Useful Lives considerably different from the main structure. Appendix B provides information on how buildings and engineered structure minor asset classifications will be recorded.

5.12 *Betterment and Maintenance*

Expenditures which do not meet the definition of betterment will be treated as maintenance expenses and expensed in the period incurred. Replacement of a component of an asset that is recorded separately as the component being replaced will be treated as a betterment with a life cycle and residual that corresponds to the remaining life of the asset.

6.0 Amortizing Tangible Capital Assets

6.1 The maximum Useful Lives to be used are provided for each type of Tangible Capital Asset in Appendix A.

6.2 The municipal Useful Life will be used even if it is deemed to be considerably less than the maximum Useful Life in Appendix A.

6.3 The straight-line method of recording amortization shall be used for most Tangible Capital Assets.

6.4 Other methods of amortization may be used to better reflect the cost of using the asset by the County.

6.5 Amortization shall be recorded at 50% of the annual amortization in the year of acquisition or in the year that the asset is put into service and no depreciation in the year of disposal.

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