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## POL.COR.19.04 Tangible Capital Assets Policy

<b>Policy Type:</b>	Corporate Policy (Approved by Council)
<b>Date Approved:</b>	June 3, 2019
<b>Department:</b>	Finance and IT Services
<b>Staff Report:</b>	FAF.19.057
<b>By-Law No.:</b>	

### Policy Statement

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Tangible Capital Assets are the single largest investment made by the Town and need to be handled in accordance with Public Sector Accounting Board Section 3150 on the annual Financial Statements. This policy will outline the treatment of Tangible Capital Assets by the Finance Department and Town staff.

### Purpose

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The purpose of this policy is to establish the guidelines around the treatment of Tangible Capital Assets as it relates to PSAB 3150 and the Town's Financial Statements.

- a. Outline the accounting treatment of Tangible Capital Assets to assist users of the Town's Financial Statements as it pertains to the investment made in property, plant and equipment.
- b. Criteria as to the recognition of a Tangible Capital Asset, the carrying amount, annual Amortization, and any impairment losses as per PSAB 3150.
- c. As per the Canadian Institute of Chartered Accountants section 1508, establish criteria for accounting estimates when measurement uncertainty exists.
- d. Establish roles and responsibilities for Town staff.
- e. Ensure consistent and transparent treatment of all Tangible Capital Assets.

### Application

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This policy applies to all Town staff as well as all other staff or officials whose financial information is included in the Town's consolidated Financial Statements.

## Definitions

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**Accumulated Amortization** – represents the total to date of the annual amortization expense relating to the Tangible Capital Asset since it was placed in use.

**Acquisition Cost** – the amount of consideration given up to: acquire, construct, develop or better a Tangible Capital Asset. This includes but is not limited to installation costs, delivery and duty costs, and staffing costs.

**Amortization** – process of annually expensing the cost of the Tangible Capital Asset, less any Residual Value, over the Tangible Capital Asset's Estimated Useful Life.

**Betterment** – costs incurred to enhance the service potential of a Tangible Capital Asset. One of the following criteria must exist in order to capitalize these costs:

- Significant reduction in operating cost
- Estimated Useful Life is extended
- Quality of the output is improved

**Disposals** – this occurs when the Town releases ownership of the Tangible Capital Asset. This can happen through sale, destruction, loss or abandonment.

**Estimated Useful Life** – estimate of the period over which a Tangible Capital Asset is expected to be used. This can be in years or units (hours or kilometers). This period is the amount of time or units that the Tangible Capital Asset will be amortized over.

**Fair Market Value** - amount of consideration given for a Tangible Capital Asset between two unrelated parties in an arms-length transition where all parties are knowledgeable and willing.

**Gain on Disposal** – the amount of proceeds that exceed the Net Book Value of the Tangible Capital Asset when the Tangible Capital Asset is disposed of. Gains will be allocated to the department that was responsible for the Tangible Capital Asset and transferred to the appropriate reserve (fund). This is a cash transaction.

**Generally Accepted Accounting Principles** – generally referred to as GAAP. This is a combination of authoritative standards and the commonly accepted ways of recording and reporting accounting information.

**Loss on Disposal** – the amount that the Net Book Value exceeds the proceeds realized when the Tangible Capital Asset is disposed. The loss will be allocated to the department that was responsible for the Tangible Capital Asset. This is a non-cash transaction.

**Net Book Value** – difference between the Tangible Capital Asset Acquisition Cost and the Accumulated Amortization.

**Public Sector Accounting Board** – generally referred to as PSAB, this board was created to serve the public interest by establishing accounting standards for the public sector in addition to providing guidance for financial and other performance information.

**Repairs and Maintenance** – costs incurred to keep the Tangible Capital Asset in working condition. These costs are expensed annually and shown on the Town's Statement of Operations.

**Residual Value** – the estimated net realizable value of a Tangible Capital Asset at the end of the Tangible Capital Asset's useful life. The Town generally assumes a Residual Value of \$0.

**Tangible Capital Asset** – non-financial Tangible Capital Assets having physical substance that include all of the following criteria:

- Are held for use and intended to be used on a continuous basis by the Town in the delivery of the goods and services provided to the citizens, businesses and visitors of the Town
- Have useful life greater than one year
- Are not intended for sale
- The ownership and control clearly rest with the Town

## Procedures

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### Tangible Capital Assets PSAB 3150

This accounting standard outlines that all Tangible Capital Assets be held at historical cost and shown on the Town's Statement of Financial Position. In addition, the Town has a Tangible Capital Asset Note to the Financial Statement, which includes the following information:

- The Tangible Capital Assets recorded at cost
- The Net Book Value of all Tangible Capital Assets
- The Accumulated Amortization
- The annual Amortization that is expensed on the Statement of Operations
- The Disposals that occurred in the given year

This note allows the reader of the Financial Statements the ability to see what changed during the year in the Tangible Capital Assets owned by the Town.

### Capital Leases

The Town may enter into an agreement with a third party to lease a Tangible Capital Asset. The lease is deemed a capital lease and will be treated as all other Tangible Capital Assets, if the Town receives substantially all the benefits and risks associated with the Tangible Capital Asset. At least one of the following criteria must exist for a lease to be capitalized:

- There is a reasonable chance that the Town will assume ownership of the Tangible Capital Asset at the end of the lease. This can be achieved if there is bargain purchasing (75% of the Fair Market Value of the Tangible Capital Asset) option for the Town.
- The lease term is for more than 75% of the Estimated Useful Life of the Tangible Capital Asset.
- The present value of the minimum lease payments is equal to 90% or more of the Fair Market Value of the Tangible Capital Asset at the inception of the lease.

If the thresholds are met, then a Tangible Capital Asset will be recorded with an offsetting capital lease liability for the present value of the minimum lease payment.

### **Tangible Capital Asset Classification**

For the purpose of reporting, Tangible Capital Assets need to be classified. Tangible Capital Assets will be classified in the following groups for the Financial Statements:

- Land
- Land Improvements
- Buildings
- Machinery, Equipment and Vehicles
- Linear
  - Water System
  - Sewer System
  - Roads
- Work In Progress

In addition, each Tangible Capital Asset will be assigned to the department to which is responsible for the Tangible Capital Asset. This will allow annual amortization to be expensed to the correct department as well as it ties the Tangible Capital Assets in the annual Financial Information Return.

### **Recording and Valuing Tangible Capital Assets**

When recording Tangible Capital Assets, the Town has two approaches that are both accepted under GAAP, Whole Tangible Capital Asset and component.

Whole Tangible Capital Asset – this approach would see the entire Tangible Capital Assets and all components recorded and amortized as one Tangible Capital Asset. An example would be a snow plow truck.

Component Approach – under this approach, major components of a Tangible Capital Asset are recorded and amortized as separate pieces. An example of this would be a building that would be recorded as structure, roof, electrical, plumbing, and HVAC.

The Component approach is more appropriate for large scale Tangible Capital Assets that can easily be broken down into smaller Tangible Capital Assets, which can have different values and estimated useful lives.

Additional factors to consider when choosing an approach:

- Significance of the amounts
- Quantity of individual Tangible Capital Assets
- Availability/reliability of the information with respect to the specific components
- Information needs to make future decisions

### **Segments**

Linear Tangible Capital Assets (roads, water, wastewater and stormwater pipes) will be broken down into logical segments as determined by the department responsible for the Tangible Capital Asset.

### **Pooled Tangible Capital Assets**

In certain situations the Town makes a large purchase of several smaller items. For example, books or computers. In this situation, the individual Tangible Capital Asset is below the threshold, however the combined total is well over the threshold. If this is the case, the Tangible Capital Assets will be capitalized as a pooled Tangible Capital Asset and recorded; and amortized over the useful life.

### **Recording a Tangible Capital Asset**

A Tangible Capital Asset should be recorded and recognized on the Financial Statements when both of the following criteria exist:

- It is probable that a future benefit to the Town will be obtained from the Tangible Capital Asset
- There is a reliable/appropriate base of measurement

The acquisition date of the Tangible Capital Asset is the earlier of:

- The date that the legal ownership of the Tangible Capital Asset is transferred to the Town
- The date that the construction of the Tangible Capital Asset is completed and ready for use

Determining when a Tangible Capital Asset is complete and ready for use requires situation specific considerations. These considerations will be made with the responsible department in conjunction with the Finance Department.

### Capitalization Threshold

The threshold represents the minimum cost that an individual (or pooled) Tangible Capital Asset must have before being capitalized and shown on the Statement of Financial Position.

Costs must meet the criteria to be considered a Tangible Capital Asset and meets or exceeds the following capitalization threshold.

<b>Tangible Capital Asset</b>	<b>Threshold</b>
Land	All Land purchases are capitalized
Land Improvements	\$5,000
Buildings	\$5,000
Vehicles, Machinery and Equipment	\$5,000
Pooled Tangible Capital Assets	\$5,000
Linear (Water, Wastewater, Roads)	\$10,000

### Betterment versus Maintenance

Costs of Betterment are considered to be part of the Tangible Capital Asset and therefore capitalized whereas maintenance costs are expensed annually on the Statement of Operations. Major Betterments should be included in the annual Capital Budgets whereas repairs and maintenance should be included in the annual Operating Budgets of the respective department.

To be considered a Betterment, the cost must be equal to or greater than 20% of the historical cost for both individual and pooled Tangible Capital Assets. In addition to criterion, one of the following must also exist:

- The Estimated Useful Life is extended by 25%
- The costs result in an increased capacity of at least 25%
- The efficiency of the Tangible Capital Asset is increased by 15%
- The operational costs decreased by 15%

When a cost cannot be differentiated between a Betterment and maintenance, the cost will be considered an expense and shown on the annual Statement of Operations.

### Valuing Tangible Capital Assets

Tangible Capital Assets are considered non-financial Tangible Capital Assets and are included on the Statement of Financial Position. In accordance with GAAP, the historical cost of the Tangible Capital Asset must be used when capitalizing the expenditures.

Costs can include:

- Purchase price of the Tangible Capital Asset
- Direct construction costs including labour (external) and materials
- Installation costs
- Design and engineering fees
- Legal and surveying fees
- Site preparation
- Freight and duty costs
- Insurance costs related to the transportation of the Tangible Capital Asset

For projects that result in multiple Tangible Capital Assets, for example a building, the general costs will be distributed based on the percentage of the individual Tangible Capital Assets.

Town staffing costs (salaries and benefits) can be allocated to the capital project, however the staff member's time must be clearly attributable to the project and not include hours working on other items. Whether staffing costs can be capitalized is at the sole discretion of the Director of Finance and IT Services.

Interest costs related to the financing of a Tangible Capital Asset will not be capitalized, rather expensed through the annual Statement of Operations.

### **Contributed or Donated Tangible Capital Assets**

The Town can have Tangible Capital Assets either donated or contributed for the delivery of the services provided by the Town. A donated Tangible Capital Asset could be a piece of land given for the purposes of a park and a contributed Tangible Capital Asset could be linear works received during the assumption of a subdivision.

These Tangible Capital Assets need to be capitalized at the Fair Market Value on the date of contribution and included on the Statement of Financial Position.

For donated Tangible Capital Assets, the department receiving the Tangible Capital Asset should obtain an independent valuation from a third-party, such as an appraisal or engineering professional opinion. This third party valuation will be the Fair Market Value assigned to the donated Tangible Capital Asset.

For contributed Tangible Capital Assets, the department receiving the Tangible Capital Assets will obtain the Fair Market Value of the Tangible Capital Assets through the development contract or agreement.

If a Fair Market Value cannot be determined by the process outlined above, then a nominal value will be used and a note to disclose this information will be included with the Statement of Financial Position.

## **Amortization**

Amortization reflects the annual cost to the Town of the Tangible Capital Assets. As the Tangible Capital Asset is consumed (through the Estimated Useful Life) a portion is allocated as an operating expense through amortization.

The Town will utilize the straight-line method of amortization which includes the Half Year Rule. This rule states that only 50% of the annual amortization will be booked in year one.

Land is the only category of Tangible Capital Assets that will not be amortized.

As per section PSAB 3150.29, the amortization method of Estimated Useful Life of a Tangible Capital Asset should be adjusted if one of the following events occurs:

- A change in how the Tangible Capital Asset is used
- Removal of the Tangible Capital Asset out of service for an extended period of time (one year)
- Physical damage to the Tangible Capital Asset
- Significant technological advancements
- Change in the demand of the service (that the Tangible Capital Asset provides)
- Change in legislation that affecting the period of time over which a Tangible Capital Asset can be used.

Amortization is reviewed on an annual basis through the completion of the Financial Statements.

## **Estimated Useful Life**

The estimated useful life (included in Appendix A) is the shorter of either the physical, technological, commercial or legal life. Using professional judgement, staff have assigned an estimated useful life for the various Tangible Capital Assets that are owned and operated by the Town. Although the physical life of the Tangible Capital Asset may differ, the intent is to try and make these two useful lives the same. Factors that go into setting the estimated useful life include:

- Experience with similar Tangible Capital Assets
- Third party knowledge of the Tangible Capital Assets
- Expected usage of the Tangible Capital Asset in conjunction with the maintenance program

## **Impairment of a Tangible Capital Asset**

When a Tangible Capital Asset is no longer able to provide the good and or service that it was purchased to perform, the Net Book Value of that Tangible Capital Asset needs to be reduced to reflect the new Fair Market Value of the Tangible Capital Asset to the Town.

Any impairments will be expensed to the responsible department and will be shown on the annual Statement of Operations.

Indications of an impairment include:

- A change in how the Tangible Capital Asset is used
- A change in the manner to which a Tangible Capital Asset is used
- Physical damage to the Tangible Capital Asset
- Significant technological advancements
- Change in the demand of the service (that the Tangible Capital Asset provides)
- A decision to halt construction before the Tangible Capital Asset is in a useable condition

### **Disposals**

On disposal, the historical cost and accumulated amortization is removed from the Statement of Financial Position. As per PSAB 3150, the difference between the net proceeds on disposal and the Net Book Value of the Tangible Capital Asset is accounted for as either a revenue (Gain on Disposal) or expense (Loss on Disposal) through the Statement of Operations.

Disposals of a Tangible Capital Asset may occur by sale, trade-in, destruction, loss or abandonment.

### **Tangible Capital Assets under Construction (Work In Progress)**

During construction or the ordering process of a Tangible Capital Asset the costs will be recorded to the Work In Progress inventory account. Once the Tangible Capital Asset is completed and ready to be transferred into use, the Tangible Capital Asset is then transferred to the correct Tangible Capital Asset classification.

Tangible Capital Assets included in the Work In Progress account are not amortized until they are considered in service. All costs included in Work In Progress must be written off if construction of the Tangible Capital Asset is terminated or deferred indefinitely, or have been in Work In Progress for five years, whichever is earlier.

### **Exclusions**

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There are no exclusions from this policy.

### **References and Related Policies**

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1. Public Sector Accounting Board 3150
2. Disposal of Physical Tangible Capital Assets Policy FS.08.07
3. Purchasing of Goods and Services Policy POL.COR.07.05
4. Purchasing of Goods and Services Procedures FS.08.08
5. Tangible Capital Asset Management Policy and Strategy POL.COR.17.07

## **Consequences of Non-Compliance**

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As per section 294.1 of the Municipal Act, 2001:

*A municipality shall, for each fiscal year, prepare annual financial statements for the municipality in accordance with generally accepted accounting principles for local governments as recommended, from time to time, by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.*

Included in the Town's consolidated Financial Statements are The Blue Mountains Public Library, Blue Mountains Attainable Housing Corporation, Thornbury Business Improvement Area, and Thornbury Clarksburg Union Cemetery Trust. These entities are required to follow this policy to ensure compliance with PSAB 3150.

## **Review Cycle**

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This policy will be reviewed once every term of Council.

## Appendix A

<b>Tangible Capital Asset</b>	<b>Years</b>	<b>Tangible Capital Asset</b>	<b>Years</b>
<b>Land</b>	Indefinite	<b>Building</b>	
<b>Land Improvements</b>		Structure	40
Parking Lot		Roofing	
Asphalt	30	Metal	30
Gravel	30	Flat	25
Landscaping		Asphalt Shingles	25
Irrigation System	15	Tile	30
Plantings	15	HVAC	
Street Trees	25	System	25
Street Furniture	10	Furnace	15
Golf Course	20	Plumbing	
Weigh Scale Foundation	50	System	30
Laneway - Gravel	30	Sprinkler System	25
Compost Pad –Base	40	Cistern	50
Compost Pad – Surface	20	Boiler	20
Baseball Diamond	15	Septic System	25
Trails -Limestone	30	Electrical	
Tennis/Pickleball Court	20	System	25
Basketball Court	15	Interior Lighting	20
Fencing	15	Ice Surface Lighting	20
n/a		Exterior Lighting	15
<b>Vehicles</b>		Fire Alarms	20
Light Duty	10	Windows and Doors	25
Heavy Duty	10	Flooring	
Fire Tankers	20	Carpet	15
Fire Rescue	20	Vinyl	20
Fire Pumpers	25	Concrete	20
		Tile	20
		Hardwood	20
		Wet Well	50
		Dry Well	50
		Valve Chamber	50
		Holding Tank	50

<b>Tangible Capital Asset</b>	<b>Years</b>	<b>Tangible Capital Asset</b>	<b>Years</b>
<b>Linear</b>		<b>Machinery &amp; Equipment</b>	
Bridges	75	<b>Water and Wastewater</b>	
Culverts		MCC	25
Concrete	75	Submersible Pump	25
Corrugated Steel	40	Surge Tank	25
Stormwater Facility	40	Vertical Motor	25
Sidewalk		Septage Unloader	25
Concrete	50	Flowmeter	25
Asphalt	30	Clarifier Driver	25
Paving Stone	20	Tank	50
Road Base		Side Screen	20
Asphalt – Curb	50	Grit Collector	15
Asphalt – Ditch	40	Grit Auger	25
Surface Treatment	40	UV System	25
Gravel	30	Lab Equipment	20
Road Top		Inlet/WAS Pump	20
Asphalt – Curb	30	Centrifugal Pump	30
Asphalt – Ditch	25	RAS Pump	30
Surface Treatment	6	Control Bridge	30
Streetlights	30	Membrane Filter	50
Traffic Signals	25	Comminutor	25
Manholes	75	SCADA Equipment	15
Fire Hydrants	20	Blower	40
Guiderails		Biosolid Mixer	25
Pipe		Gravity Filters	5
Polyvinyl Chloride DR18	100	Chlorine Analyzer	5
Polyvinyl Chloride DR35	100	Chlorine Pump	10
Stainless Steel	20	Level Transmitter	15
Concrete	100	Water Meters	15

<b>Tangible Capital Asset</b>	<b>Years</b>	<b>Tangible Capital Asset</b>	<b>Years</b>
<b>Machinery &amp; Equipment</b>		<b>Machinery &amp; Equipment</b>	
Office Furniture	15	<b>Fire</b>	
Office Equipment	5	Air Cart	20
Computer Software	5	Air Bags	20
Computer Hardware	5	Multipod	20
Book Collection	7	Bunker/Ice Rescue Suit	10
Sound Equipment	5	Auto Extraction Jaws	20
Vehicle Scale	15	Thermal Imaging Equipment	10
Waste Containers	15	SCBA Suit	10
Signage	15	SCBA Bottle	10
General Pump	10	<b>Large Equipment</b>	
Fuel Tank	25	Tractor	15
Pressure Washer	5	Compactor	15
Generator	30	Backhoe	10
Communications Equipment	15	Grader	20
Communication Tower	50	Ice Resurfacer	10
General			
<b>Parks and Trails</b>			
Landscaping Equipment	10		
Playground Equipment	15		
Skateboard Equipment	15		
<b>Harbour</b>			
Docks	25		
Docks –Hydro Supply	15		
Pump-out Tank	15		
<b>Arena</b>			
Tempered Glass	25		
Protective Netting	30		
Dasher Boards	20		
Score Clock	20		
Chiller	20		
Compressor	20		
Brine Pump	15		
Cooling Pump	20		
Header Line	20		
Condenser	20		
Dehumidifier	15		
Radiant Heater	20		