

POLICY NO:	FI 010
POLICY TITLE:	TANGIBLE CAPITAL ASSETS
DEPARTMENT:	FINANCE
APPROVAL DATE:	69-03-09 (March 26, 2009)
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REVIEW DATE:	

Policy Statement:

The County of Vermilion River recognizes the need to meet the requirements of Public Sector Accounting Handbook Section 3150 – Tangible Capital Assets. Capital Asset policy will enable the preparers and users of the County financial statements to recognize the investment and economic resources required to acquire and maintain County assets thereby providing information that is necessary to make informed decisions. As such, all departments and organizations that are reported within County financial statements will be subject to Capital Asset Policy.

Purpose:

The purpose of this policy is to prescribe the accounting treatment for tangible capital assets. The principal issues in accounting for tangible capital assets are recognition of the assets, the determination of the carrying values and amortization charges, and the recognition of any related impairment losses.

Asset Recording and Management System:

The system for the recording of tangible assets is to be integrated with the general ledger financial recording system in place within the County and the development and maintenance of both systems are the responsibility of the Finance/Administration Department. The asset records as prepared by Finance/Administration will provide the basis for all tangible capital asset information included in any and all County financial reporting and as such will take precedence over any duplicate systems maintained by other County departments.

Definitions:

Tangible Capital Asset- Assets having a physical substance that:

- a. Are used in the ongoing operation of The County of Vermilion River.
- b. Have a useful life extending beyond an accounting period.
- c. Are not held for re-sale in the ordinary course of operations.

- d. Meet both the criteria of a tangible capital asset and exceed the established capitalization thresholds.

Capitalization Threshold- The value of a expenditure for a tangible capital asset that will be established as the base minimum amount for the recording of tangible capital assets.

Betterment – A cost incurred to the tangible capital asset that increase previously assessed physical output or service capacity, lower associated operating costs, extend the useful life of the asset or that improve the quality of output. All other expenditures will be considered a repair or maintenance and will be expensed.

Pooled/Grouped Assets- Assets that have an individual unit value below the capitalization threshold but that as a group have a material value. These items are to be recorded as a single asset with one combined value.

1. Asset Classification

Tangible Capital Assets will be defined in three classes: Major, Minor and Subclass.

- a. Major – A group of tangible capital assets that is significantly different in design and use.
- b. Minor – A classification within a major class that has unique characteristics.
- c. Subclass – A further classification that may be required due to unique tangible capital asset criteria, applications, methodologies and asset lives. There is the option to classify further into subclass one, subclass two etc.

Tangible capital assets recorded in the **Major** classification will include:

- i. **Land** - Included land purchased or acquired for value for parks and recreation, building sites, infrastructure (highways, dams, bridges etc.) and other program use, but not land held for resale.
- ii. **Land Improvements** – All improvements of a permanent nature to land such as parking lots, landscaping, lighting pathways and fences
- iii. **Buildings** – 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.
- iv. **Engineered structures** – Permanent structural works such as roads, bridges, water and sewer, and utility distribution and transmission systems including plants and substations.
- v. **Machinery and equipment** – Equipment that is heavy equipment for constructing infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware and software. This class does not include stationary equipment used in the engineered structures class.
- vi. **Fleet** – Rolling stock that is used primarily for transportation purposes.

Minor classification will further define the major asset classifications of Engineered Structures and Machinery and Equipment.

- Engineered Structures: Roadway system
 Water system
 Wastewater system
 Storm system
 Communication system
 Gas system
- Machinery and Equipment Heavy duty (*Equipment with a value in excess of \$5,000*)
 Light duty (*Equipment with a value \$5,000*)
 Attachments (*Value over \$5,000 attached to unit #'s*)
 Pooled/Grouped (*Office furniture, Computers, small equipment and tools*)

2. Capitalization Thresholds

Capitalization thresholds have been established in order to ensure asset records meet materiality requirements and proved for effective asset management.

Initial capitalization- All initial expenditures that meet the requirements of a tangible capital asset and meet or exceed the minimum thresholds as listed in Table 2.1 shall be recorded as tangible capital assets.

Table 2.1 initial Capitalization

Asset Description	Class	Minimum Threshold
Land	Major	No minimum
Land Improvements	Major	\$ 5,000
Buildings	Major	\$ 10,000
Engineered Structures	All classes	\$ 25,000
Machinery & Equipment		
Heavy Equipment	Minor	\$ 5,000
Light Equipment	Minor	\$ 5,000
Pooled/Grouped	Minor	\$ 5,000
Fleet	Major	\$ 5,000

Betterments - Betterments are to be capitalized when the unit cost of the betterment meets the betterment definition criteria and meets or exceeds the minimum threshold limit as listed in Table 2.2.

Betterments purchased in the year of acquisition for the purpose of customization and permanently attached to the vehicle, form part of the original cost of the vehicle and are not individually subject to the Minimum Thresholds listed hereinafter.

Table 2.2 Betterments

Asset Description	Class	Minimum Threshold
Land	Major	No Minimum
Land Improvement	Major	\$ 5,000
Buildings	Major	\$ 5,000
Engineered Structures	All classes	\$ 5,000
Machinery & Equipment		
Heavy Equipment	Minor	\$ 5,000
Light Equipment	Minor	\$ 5,000
Pooled/Grouped	Minor	\$ 5,000
Fleet	Major	\$ 5,000

3. Valuation of Assets

All tangible capital assets are to be recorded at historical cost.

Should historical cost be unknown a reasonable estimate and assumption of the value shall be made. In the absence of actual costs for roadway infrastructure, assets shall be valued in accordance with costing formulas provided by the Alberta Ministry of Municipal Affairs. In the absence of actual costs for bridges and culvers, assets shall be valued in accordance with costing formulas provided by Alberta Infrastructure and Transportation.

Land-Costs are to include the purchase price plus legal fees, registration costs, transfer taxes, out of pocket expenses and any costs incurred to make the land suitable for use.

Purchased assets – Costs are to include initial consideration paid plus all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs. Discounts or rebates are to be netted against the costs.

Constructed or Developed Assets – Costs are to include all costs for the acquisition, development and construction of the asset and include construction costs, professional fees and architectural fees. Carrying costs may include internal design, inspection and administrative costs but not general administrative overheads. Carrying cost may no longer be capitalized once the asset is ready for use or when no construction or development is taking place.

Donated or Contributed Assets – Value is to be the estimated fair market value at the date of construction or contribution or may be determined by an estimate of the replacement cost.

Interest costs - Interest costs are to be capitalized from start of the period where expenses are incurred, interest costs are incurred and when activities take place to ready the asset for the intended use. Capitalization of interest costs is to cease during periods where no activity takes place and will end when substantially all of the activities to prepare the asset for use are complete.

Single purchase – When a single purchase price is obtained for a group of assets then value must be allocated to each asset within the group. Each asset is to be valued at its fair value or some other reasonable basis if the fair value cannot be determined.

4. Amortization Methods and Rates

The cost of a tangible capital asset, less the residual value, is to be amortized over the useful life of the asset in a rational and systematic manner.

Useful life - The useful life is normally the shortest of the physical, legal, technological or commercial life and the maximum useful life is detailed in Appendix A. Assets will normally be recorded at the maximum useful life as per Appendix A however a lesser period may be allocated if the nature of the asset warrants it.

Residual value – Residual or salvage value is the net amount that may be realized at the end of the useful life of an asset. Per PS 3150.27 residual value should be determined and deducted from the gross cost of the asset before the depreciation amount is determined only when the residual value is deemed to be significant.

Amortization method and application – Amortization will be recorded the year following acquisition and in year of disposal or in the year an asset is put into service. Assets, with the exception of land, are to be amortized in a straight-line basis. Land is not subject to amortization.

Basis for amortization:

Network or Single Asset – Land Improvements
Roadway systems
Fibre optics
Gas distribution
Vehicles
Heavy equipment
Light equipment

Component - Buildings
Communication systems
Water systems
Waste water system
Storm system

Pooled/Grouped - Small equipment and tools
 Computer hardware and software
 Furnishings and fixtures

5. Review and Write-downs of Assets

The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed according to Schedule A and revised when the appropriateness of a change can be clearly demonstrated.

When conditions indicate that a tangible capital asset no longer contributes to the County’s ability to provide goods and services, or that the value of future economic benefits associated with the asset is less than its net book value, the cost of the asset should be reduced to reflect the decline in the asset’s value. The persistence of such conditions over several successive years increases the probability that a write-down is required unless there is persuasive evidence to the contrary.

A write-down should not be reversed.

6. Disposal of Assets

Disposals of tangible capital assets may occur by sale, destruction, loss or abandonment.

A gain or loss on disposal shall be recorded as a revenue or expense in the statement of operations.

The Manager of each department shall be responsible to notify Finance/Administration in a timely manner when an asset is taken out of service, becomes surplus to the department operations, is destroyed or is replaced. Information to be provided must include the asset particulars and the effective date of the change.

**APPENDIX A RECOMMENDED MAXIMUM USEFUL LIFE/ AMORTIZATION
METHOD/REVIEW SCHEDULE**

Major Minor Sub-class One Sub-Class Two Sub-Class Three	Asset Classes Maximum Useful Life	Amortization Method	Review Schedule	Residual Value
Land Right-of-way Undeveloped right-of-way Parks General	All land will be recorded	N/A	N/A	
Land Improvements Parking lot Gravel Asphalt Playground structures Fences Outdoor lighting Landfill Pits Pads Transfer stations <i>Construction in progress</i>	 15 25 15 20 20 Volume Volume 25	Straight line	Every 5 years	
Buildings Permanent Structures Frame Metal Concrete Portable Structures Metal Frame	 50 50 50 25 25	Straight line	Every 5 years	
Engineered Structures Roadway system Bridges Overpass/Interchange Curb & gutter Residential Streets & Lanes ACP-hot mix Cold Mix Gravel & Nonconform	 Variable 60 30 20 15 40	Straight line	Every 5 years	/ mile

Major Minor	Asset Classes			Maximum Useful Life	Amortization Method	Review Schedule	Residual Value
	Sub-class One	Sub-Class Two	Sub-Class Three				
	Local/Collector/Arterial/Main Roads						
			Hot Mix ACP	15			\$200,000
			Graded Seal Aggregate (Chip Seal)	10			\$200,000
			Cold Mix ACP	10			\$200,000
			Oiled	10			\$200,000
			Main Roads Gravel				\$100,000
			Improved Gravel	40			\$50,000
			Unimproved Gravel	40			
	Road signs				Straight line	Every 5 Years	
		Traffic control	30				
		Information	30				
	Lights						
		Decorative	30				
		Street	30				
		Traffic	30				
	Guard rails		30				
	Ramps		30				
	Sidewalks & para-ramps		30				
	Construction in progress (*subject to weather conditions)						
Water System					Straight line	Every 5 years	
	Distribution system						
		Mains	75				
		Services	75				
	Pump, lift and transfer stations		45				
	Plants and facilities						
		Structures	45				
		Treatment equipment					
		Mechanical	45				
		Electrical	45				
		General	45				
		Pumping equipment	45				
	Hydrants/fire protection		75				
	Reservoirs		45				
Wastewater system					Straight line	Every 5 years	
	Collection system						
		Mains	75				

Major	Asset Classes				
Minor	Sub-class One	Maximum Useful Life	Amortization Method	Review Schedule	Residual Value
	Sub-Class Two				
	Sub-Class Three				
	Services	75			
	Pump, lift and transfer stations	45			
	Plants and facilities				
	Structures	45			
	Treatment equipment				
	Mechanical	45			
	Electrical	45			
	General	45			
	Pumping equipment	45			
	Lagoons	45			
	Construction in progress				
Storm system			Straight line	Every 5 years	
	Collection system				
	Mains	75			
	Services	75			
	Pump, lift and transfer stations	45			
	Catch basins	75			
	Outfalls	75			
	Wetlands	75			
	Retention ponds	75			
	Treatment facility	45			
	Construction in progress				
Communication System		30	Straight line	Every 5 years	
	Fibre Optics				
	Tower system				
	Radios				
	Electronic - questionable				
Gas distribution system			Straight line	Every 5 years	
	Gas compressors	10			
	Transmission				
	Plastic	50			
	Aluminum	50			
	Services (Residential)	50			
	Medium pressure	50			
	Plastic	50			
	Aluminum	50			
	High pressure	50			
	Plastic	50			
	Aluminum	50			

Major Minor Sub-class One Sub-Class Two Sub-Class Three	Asset Classes	Maximum Useful Life	Amortization Method	Review Schedule	Residual Value
Machinery and Equipment General Heavy Equipment Max		Variable	Straight line	Every 5 years	Guaranteed Buy Back
Specific Maximums			Hourly		
Graders		5			
Loaders		10			
Scrapers		15			
Packers		15			
Light Equipment		12			
Fire equipment		5			
Control systems		20			
Communication links		5			
SCADA		15			
Fueling stations					
Communications					
Radios		10			
Telephone systems		15			
Tools, shop and garage equip.		15			
Scales					
Meters					
Gas		20			
Water		40			
Office Furniture & Equipment					
General Maximum		20			
Specifics		10			
Furniture		10			
Office equipment		10			
Audiovisual		5			
Photocopiers		10			
Computer Systems			Straight line	Every 5 years	
Hardware		5			
Software		10			
Vehicles			Straight line	Every 5 years	
Light duty		5			
Medium duty		10			
Heavy duty		25			
Fire Trucks		20			
Cultural & Historical		N/A	N/A	N/A	