
Request for Decision (RFD)

Topic: Tangible Capital Assets Policy 1300-03
Initiated by: Administration
Attachments: 1. DRAFT Tangible Capital Asset (TCA) Policy 1300-03
2. Current TCA Policy 1300-03

Purpose(s):

1. To review and endorse the revised Tangible Capital Asset (TCA) Policy 1300-03.

Background:

1. The current Tangible Capital Asset (TCA) Policy has not been reviewed or revised since 2015.
2. Village of Innisfree's Auditors, Metrix Group LLP, recommended that the Village of Innisfree review the current TCA Policy for any changes in estimated useful lives.

Key Issues/Concepts:

1. The purpose of a TCA Policy is to provide direction for recognizing and recording TCAs on a consistent basis and in accordance with the Public Sector Accounting Board (PSAB) 3150.
2. Administration forwarded the draft policy to the Village's Auditors, Metrix Group LLP, for review upon Council approval. Administration amended the draft policy per Metrix Group LLP's recommendations.
3. **Per the Village Audit team, a new TCA Class, Bulk Purchase/Pooled Assets, has been added to the Revised TCA Policy under Section 2.1.7. Bulk Purchases previously listed under Section 2.1.7. has been removed.**
4. **Therefore, under section 3.4, Amortization Method & Capitalization Methods, the amortization method of such items has been added and Section 3.4 has become 3.5.**
5. **Also noted, several typos in "Useful Life" definition the word "County" is replaced with "Village." And in section 2.1, the word "Town" is replaced with "Village."**

Options:

1. As directed by Council.
2. That this item be received as information.
3. Council endorses a motion to approve the Tangible Capital Asset Policy 1300-03 as presented.

Financial Implications:

1. None identified.

Relevant Policy/Legislation:

1. Current TCA Policy 1300-03
2. Public Sector Accounting Board
3. *Municipal Government Act*

Political/Public Implication(s): None identified.

Recommendation:

Council endorses a motion to approve the revised Tangible Capital Asset Policy 1300-03 as presented.

Procedure No. 1300-02

Tangible Capital Assets Policy - Classification/Capitalization Threshold/Amortization

Policy:

The Village of Innisfree identified the requirement for the implementation of a Tangible Capital Assets (TCA) Policy pursuant to the Public Sector Account Board (PSAB) 3150 regulations.

Purpose:

Tangible Capital Assets (TCA) are assets that have an economic life extending beyond the fiscal year in which they are purchased. The purpose of this policy is for the Village of Innisfree to:

- a. Maintain consistency with Public Sector Accounting Board (PSAB 3150) requirements,
- b. Provide directions for recognizing and recording TCA on a consistent basis,
- c. Ensure all asset capitalization is done consistently on the basis of estimated life, and
- d. Remove unnecessary tracking of “insignificant” assets/

All municipalities in Canada have been required by the Public Sector Accounting Board to report on TCA and amortization since December 31, 2009. This initiative is supposed and carried out by Alberta Municipal Affairs and Government Financial Officers Association.

This Policy provides guidelines and dollar value thresholds to be used for capitalizing the various classifications of TCA such as Engineered Structures, Buildings, Machinery and Equipment, Vehicles, Land and Land Improvements.

DEFINITIONS

“**Amortization**” is rational and systematic manner of allocating the cost of an asset over its estimated useful life. Amortization is reported as an expense on the Statement of Operations.

“**Cost**” is the amount of consideration given to acquire, construct, develop or better a capital asset and includes all costs directly attributable to its acquisition, construction, development, or betterment, including installing the asset at the location and in the condition necessary for its intended use. For contributed assets, the cost is considered to be equal to its fair market value at the date of contribution.

“**Disposal**” refers to the removal of a capital asset from service as a result of sale, destruction, loss, or abandonment.

“**Estimated Useful Life**” is the estimate of the period over which a capital asset is expected to be used or the number of units of production that can be obtained from the asset. It is the period over which an asset will be amortized and is normally the shortest of the physical, technological, commercial, or legal life.

“**Straight-Line Method**” is an amortization method which allocates the cost of a capital asset equally over each year of its estimated useful life.

“**Useful Life**” is the estimate of either the period over which the **Village** County 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 useful life. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial, or legal life.

“**Work in Progress**” is the accumulation of capital costs for partially constructed or developed projects.

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Tangible Capital Assets Policy - Classification/Capitalization Threshold/Amortization

1. PRINCIPLES

1.1 Amortization

The cost, less any residual value of a TCA with a limited life should be amortized over its useful life in a rational and systematic manner.

The amortization method and estimate of useful life of the remaining unamortized portion should be reviewed on a regular basis (as outlined in the table below or more frequently if needed) and revised when the appropriateness of a change can be clearly demonstrated.

1.2 Tangible Capital Assets

1.2.1 TCA are non-financial assets having physical substance that:

- a) Are used on a continuous basis by the Village,
- b) Have a useful economic life extending beyond one year,
- c) Are not for resale in ordinary course of operations.

1.2.2 When purchases are made there are often charges related to the purchase such as freight, installation, or legal costs. These costs are part of preparing the asset for its intended use and are to be included as part of the purchase price of the TCA (PSAB 3150.10).

1.2.3 Subsequent expenditures on a recorded TCA that:

- a) Increase output or service capacity.
- b) Increase service life.
- c) Lowers associated operating costs.
- d) Improves the quality of the output.

Should be classified as betterments and capitalized accordingly.

1.2.4 Other expenditures should be considered repair or maintenance and should be expensed in the period.

1.3 Contribution of Tangible Capital Asset

Tangible capital assets received as contributions are recorded at fair value at the date of receipt and are recorded as revenue.

1.4 Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

1.5 Cultural and Historical Tangible Capital Assets

Works of art for display are not recorded as tangible capital assets but are disclosed in the financial statement.

2. CLASSES OF TCA

2.1 The Classes of TCA for the Town **Village** are:

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

2.1.2 Engineered Structures – includes all permanent structural works such as roads, curbs, gutters, sidewalks, bridges, dams and water and sewer distribution and transmission systems including plants and substations.

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- 2.1.3 **Land** – includes land purchased or acquired for value, for parks and recreation, building sites, infrastructure, and other program use. This class does not include land held for resale.
- 2.1.4 **Land Improvements** – all improvements of a permanent nature to land such as parking lots, landscaping, lighting, pathways, and fences.
- 2.1.5 **Machinery and Equipment** – Equipment that is heavy equipment for constructing infrastructure, smaller equipment in buildings, offices, furnishings and computer hardware and software. This class does not include stationary (moving not movable) equipment used in the engineered structures class.
- 2.1.6 **Vehicles** – rolling stock primarily used for transportation purposes, including buses and other mass transit units, automobiles, trucks, and tractor-trailer units.
- 2.1.7 **Bulk Purchases** – Bulk purchases of like assets with unit costs of less than the classifications capitalization threshold will not be capitalized as each asset on its own is not of significant value.

Bulk Purchase/Pooled Assets – Certain items such as tools, furniture and computers are generally below the capitalization threshold individually but are typically purchased or held in large quantities which may represent significant expenditures overall. In such cases, it would seem reasonable to capitalize all items acquired in a given asset class or pool and amortize the pool over a pre-determined amortization period. Due to the large financial impact and large numbers purchased, there are certain assets that represent material pooled asset. The Village will create pools of assets when it believes that the pool of assets represents a significant pool of tangible capital assets that has or will have a significant financial impact on the Village.

3. AMORTIZATION METHOD AND CAPITALIZATION THRESHOLDS

- 3.1. The costs, less any residual value of a TCA with a limited life should be amortized over its useful life using the method below.
- 3.2. TCAs held by the Village of Innisfree will be amortized using the most appropriate amortization method, using condition and depreciation curves used and developed by the Village for asset management. In the absence of a depreciation curve used by the Village, asset management shall be done using the Straight-Line Amortization Method.
- 3.3. The Village of Innisfree will not dispose of a TCA if the TCA still economically serves its intended purpose even if the TCA has a value of zero. The Village will use TCAs up to the time that the TCA:
 - 3.3.1. Is no longer able to serve its purpose due to condition,
 - 3.3.2. The purpose it serves is no longer needed,
 - 3.3.3. Can be replaced more economically than continuing to maintain and repair,
 - 3.3.4. No longer satisfactory fulfills the intended purpose,
- 3.4 **The amortization will begin in the month following purchase or completion of construction. Assets will be amortized up to and including the month disposal.**
- 3.5 Any asset with a historical cost above the capitalization threshold for its class will be capitalized. The table below lists the capitalization thresholds for the TCA Classes.

4. USEFUL LIFE OF TCA

The following table illustrates the capitalization threshold, useful life and amortization method of TCA that is used by the Village of Innisfree.

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Tangible Capital Assets Policy - Classification/Capitalization Threshold/Amortization

Asset type	Description	Capitalization Threshold	Useful Life (years)	Amortization Method
Building				
Buildings - Permanent	Buildings with a foundation	\$5,000	50	Straight Line
Buildings - Temporary	Buildings without a foundation	\$5,000	25	
Engineered Structures				
Transportation				
Road - Paved Asphalt		\$5,000	20	Straight Line
Road - Paved Concrete		\$5,000	30	Straight Line
Road - Paved Pavers	Pavers, Brick, Ornamental, Etc.	\$5,000	15	Straight Line
Road - Gravel		\$5,000	15	Straight Line
Road - Subsurface		\$5,000	40	Straight Line
Curb, Gutter, & sidewalks		\$5,000	30	Straight Line
Lights	Street Lights, Traffic Lights	\$2,500	25	Straight Line
Signs	Traffic Signs, Road Signs	\$2,500	10	Straight Line
Water Distribution				
Mains - Metal	Ductile Iron, Steel, Cast Iron	\$5,000	40	Straight Line
Mains - AC	Asbestos Cement, Cement	\$5,000	50	Straight Line
Mains - Plastic	PVC, HDPE	\$5,000	100	Straight Line
Hydrants		\$5,000	20	Straight Line
Valves	Gate, PRV, Globe, Butterfly	\$5,000	20	Straight Line
Service - Other	Copper, Lead, HDPE, Etc.	\$2,500	40	Straight Line
Service - Plastic	Kitec, MuniPlex, Etc.	\$2,500	100	Straight Line
Service - Curb Stops		\$2,500	40	Straight Line
Service - Meters		\$2,500	20	Straight Line
Water Equipment				
Pumps, Lifts, Treatment Equipment		\$5,000	20	Straight Line
Reservoirs		\$5,000	75	Straight Line
Sewer Collection				
Mains - Metal	Cast Iron		40	Straight Line
Mains - VC	Vitrified clay, Concrete		50	Straight Line
Mains - Plastic	PVC		100	Straight Line
Forcemain - HDPE			50	Straight Line
Forcemain - Other			35	Straight Line
Manholes - Brick			40	Straight Line
Manholes - Concrete			50	Straight Line
Services - Other	Cast Iron, VC, Concrete		40	Straight Line
Services - Plastic	PVC, ABS		75	Straight Line
Sewer Equipment				
Wetwells, drywells, surge tanks		\$5,000	50	Straight Line
Pumps, lifts		\$5,000	20	Straight Line

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Treatment equipment		\$5,000	20	Straight Line
Storm Collection				
Mains – Concrete		\$5,000	50	Straight Line
Mains – PVC SDR35	Solid wall plastic	\$5,000	100	Straight Line
Mains – Plastic Other	Ribbed or hollow wall, ultra-rib, etc.	\$5,000	75	Straight Line
Metal – Galvanized	CSP, Steel, etc.	\$5,000	40	Straight Line
Metal	Any non-galvanized metal	\$5,000	20	Straight Line
Manholes		\$5,000	50	Straight Line
Catch basins		\$5,000	40	Straight Line
Services		\$5,000	50	Straight Line
Storm Equipment				
SWMF (Ponds)		\$5,000	100	Straight Line
SWMF Landscaping		\$5,000	50	Straight Line
SWMF Structures	Inlet and outlet structures	\$5,000	50	Straight Line
Lift Stations		\$5,000	50	Straight Line
Pumps		\$5,000	20	Straight Line
Treatment Equipment		\$5,000	20	Straight Line
Land				
Land	ROW, Parks, Reserves and General	All	unlimited	N/A
Land Improvements				
Parking lots		\$2,500	25	Straight Line
Playgrounds		\$2,500	20	Straight Line
Landscaping		\$2,500	40	Straight Line
Fences		\$2,500	20	Straight Line
Outdoor Lighting		\$2,500		Straight Line
Fields		\$2,500	25	Straight Line
Paths (Gravel/Shale)		\$2,500	40	Straight Line
Trails (asphalt)		\$2,500	25	Straight Line
Machinery and Equipment				
Heavy Equipment	Compactor, Backhoe, Etc.	\$5,000	10	Straight Line
Light Equipment more than \$5,000	Street Sweeper, Ice Resurfacer, Skidsteer, Trackless, Etc.	\$5,000	10	Straight Line
Light Equipment less than \$5,000	Mowers, UTVs, Etc.	\$2,500	5	Straight Line
Electronic Equipment	Leak Detection, CCTV, In-line Flow Meters, Inspection Cameras, GPS, Etc.	\$2,500	10	Straight Line
Office Furniture		\$2,500	20	Straight Line
Office Equipment		\$2,500	10	Straight Line
Computer – Hardware		\$2,500	5	Straight Line
Computer – Software		\$2,500	5	Straight Line

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Other Equipment	Tools, Scales, Garbage Bins, Etc.	\$2,500	10	Straight Line
Vehicle				
Vehicles	Light, Medium and Heavy Cars, Trucks and Vans	\$5,000	10	Straight Line
Cultural & Historical		N/A	N/A	N/A
<i>*Where the above table cannot be used, the auditor for the Village will be consulted to assist in establishing the correct account procedures for a TCA.</i>				

5. POLICY

- 5.1. All TCA, as defined above, meeting the Capitalization Threshold for its class are to be capitalized and amortized over its useful economic life per above schedules.
- 5.2. Subsequent expenditures on a recorded TCA as defined above are to be capitalized and amortized as per above table. Subsequent expenditures:
- 5.3. In the case of a Building Class less than 5% of the initial value of the Tangible Capital Asset will be recorded as an operating expense,
- 5.4. For all other classes less than 10% of the initial value of the Tangible Capital Asset will be recorded as an operating expense,
- 5.5. The amortization method and the estimated useful life of the remaining TCA unamortized portion will be reviewed as outlined in the above schedule and revised when the appropriateness of change can be clearly demonstrated.

6. REVIEW DATE

- 6.1. This policy has a life of 2 years or less at the discretion of the current council. This policy will have its first review no later than September 19, 2025.