



Town of Lacombe

Tangible Capital Asset Policy

Policy #: 13/212.01 (09)

Adopted: June 22, 2009

Res. # 09-186

POLICY STATEMENT

The Town of Lacombe (the Town) follows generally accepted accounting principles for recording, measuring, and accounting for its tangible capital assets.

1. PURPOSE

The objective of this policy is to provide direction on recognizing, recording, valuing, and reporting on Tangible Capital Assets (TCA's) on a consistent basis and in accordance with the Public Sector Accounting Board (PSAB) Handbook Section 3150.

PSAB Section 3150 requires a change in accounting and reporting of TCA's for the year starting January 1, 2009, and requires comparative figures for the fiscal year of 2008. A number of recommendations and requirements established by Alberta Municipal Affairs and PSAB been reviewed and incorporated into this policy.

2. SCOPE

This policy provides information on basic TCA concepts and how to account for the Town's TCA's. This policy addresses the following:

- Asset classification (major and minor)
- Capitalization threshold for each asset classification
- Treatment of tangible capital assets
- Amortization method to be used
- Financial statement presentation and disclosures

This policy will apply to all Town of Lacombe departments, including the Town of Lacombe Fire Department and the Town of Lacombe Police Service.

This policy does not apply to intangible assets, natural resources, and Crown lands that have not been purchased by the Town. All tangible property owned by the Town, either through construction, purchase, or donation, and which qualify as capital assets are addressed in this policy.

3. RESPONSIBILITIES

- a. Town Council is responsible for approving this policy and any amendments
- b. Chief Administrative Officer (CAO) is responsible for implementing this policy and approving procedures relating to this policy
- c. The Finance Department is responsible for:
 - i. the overall enforcement and administration of this policy
 - ii. the development, maintenance, and testing of the asset registry
 - iii. providing support to those employees involved in the purchasing, acquisition, sale, and maintenance of capital assets to ensure the upkeep of accurate records
 - iv. making recommendations to the CAO of necessary policy or procedure amendments
- d. Employees are responsible for:
 - i. keeping accurate records when purchasing, acquiring, selling, and maintaining capital assets
 - ii. providing the Finance Department with required capital asset inventory forms and disposal information

4. DEFINITIONS

For the purposes of applying this policy:

- a. **Accumulated amortization** is the cumulative use of a recorded TCA
- b. **Amortization** is an annual non-cash expense to operations representing a portion of the use of a TCA
- c. **Betterments** are subsequent expenditures on a recorded TCA that:
 - increase previously assessed physical output or service capacity;
 - lower associated operating costs;
 - extend the useful life of the asset; or
 - improve the quality of the output
- d. **Capital Lease** is a lease with contractual terms that transfers substantially all of the benefits and risks of ownership in an asset to the Town. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met:
 - reasonable assurance that the Town will obtain ownership of the leased property by the end of the lease term;
 - lease term is of such a duration that the Town will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span; or
 - lessor would 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.
- e. **Capitalization** is recording a TCA on the Town's balance sheet as a long term asset
- f. **Cost** is the gross amount of consideration given up to acquire, construct, develop or better a TCA, and includes all costs directly attributable to acquisition, construction, development or betterment of the TCA, including installing the asset at the location and in the condition necessary for its intended use.
- g. **Fair Value** is 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.
- h. **Net book value** of a TCA is its cost, less both accumulated amortization and the amount of any write-downs.
- i. **Residual value** is the estimated value of a TCA at the end of its useful life.
- j. **Service potential** is the output or service capacity of a TCA, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.
- k. **Straight-line method of amortization** –The straight-line method assumes that the TCA's economic usefulness is the same each year. The amortization amount is determined by dividing the asset's original cost, less any residual values, by its estimated useful life in years.
- l. **Tangible Capital Assets** are non-financial assets having physical substance that:
 - are held for use in production or supply of goods and services or for the development, construction, maintenance or repair of other tangible capital assets;
 - have useful economic lives extending beyond an accounting period;
 - are to be used on a continuing basis in the Town's operations; and
 - are not for re-sale in the ordinary course of operations.
- m. **Useful life** is the estimate of either the period over which a TCA is expected to be used by a government, or the number of production units that can be obtained from the TCA by a government. The life of a TCA, other than land, is finite, and is normally the shortest of the physical, technological, commercial, and legal life.

5. POLICY DETAILS

a. **Asset Classification**

All tangible capital assets will be classified into Major, Minor, and where necessary, Subclasses of assets as defined in this section.

- i. **Major Classification** – A group of TCAs that are significantly different in design and use. The categories in the Major asset classifications are as follows:
 - **Land** – Land purchased or acquired for value for parks and recreation, building sites, infrastructure and other program use, but not land held for resale.
 - **Land Improvements** – All improvements to land of a permanent nature such as parking lots, landscaping, lighting, pathways, and fences.
 - **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.
 - **Engineered Structures** – Permanent structural works such as roads, bridges, canals, dams, water and sewer, and utility distribution and transmission systems, including plants and substations.
 - **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 structure class).
 - **Vehicles** – Rolling stock that is used primarily for transportation purposes.
 - **Cultural and Historical Assets** – Works of art and historical treasures that have cultural, aesthetic or historical value that are worth preserving perpetually. These assets are not recognized as TCAs in the financial statements, but the existence of such property is to be disclosed. Buildings declared as heritage sites may be included in this asset classification.
- ii. **Minor Classification** – A classification within a Major asset class that has unique characteristics. A listing of the Minor classifications can be found in Schedule A of this policy. Definitions of the Engineered Structures minor classes are as follows:
 - **Roadway System** – Assets intended for the direct purpose of vehicle or pedestrian travel or to aid in vehicle or pedestrian travel.
 - **Storm Sewer 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.
 - **Wastewater** – Wastewater is defined as water that has been used for household, business and other purposes, which flows from private plumbing systems to public sanitary sewers and on to a treatment plant. This system is comprised of assets used for the collection and treatment of non-potable water intended for return to a natural water system or other originating water source or used for other environmentally approved purposes.
 - **Water Systems** – Systems for the provision of water through pipes or other constructed convey. It is normally comprised of assets for the intake, distribution, storage, and treatments of safe potable water. It may also be comprised of assets required to distribute non-potable water.
- iii. **Subclass Classification** – A further classification that may be required due to unique TCA criteria, applications, methodologies, and asset lives. A listing of the Subclass classifications can be found in Schedule A of this policy.

b. Capitalization Thresholds

Capitalization thresholds have been established for each major asset class which will determine whether expenditures should be capitalized or expensed in the current year. Expenditures that meet both the criteria of a TCA and exceed the thresholds outlined in Schedule A of this policy, are to be recorded as a TCA and will be financially reported as such.

There is no capitalization threshold for Land. All land, excluding land held for resale, will be capitalized because of its' permanent nature.

c. Recording Betterments

Subsequent expenditures on existing assets that meet the definition of a betterment will be capitalized accordingly. Expenditures incurred to maintain the originally anticipated service potential of an asset should be considered a repair or maintenance and will be expensed in the period.

d. TCA Inventory – Acquisition and Valuation

TCA's are recorded at historical cost plus all ancillary charges necessary to place the asset in its intended location and condition for use. Where the actual historical cost is not available, the current value will be determined by discounting the replacement cost using an appropriate Price Index for the asset. If required, the sources used may consist of the Canadian Non-Residential Building Construction Price Index, the Canadian Consumer Price Index, and the Alberta Consumer Price Index. Where necessary, if the actual

historical cost is available for a similar type asset that was constructed or purchased in the same year as an asset with an unknown cost, the actual historical cost date will be used. The calculated historical cost will then be reduced by the accumulated amortization in order to calculate the net book value of the asset.

This valuation will only apply to the implementation of this policy. All future acquired assets will be recorded at actual cost. Contributed or donated assets will be valued at fair market value.

e. TCA Inventory – Disposal

Disposals of TCA's in the accounting period may occur by sale, trade-in, destruction, loss or abandonment. Such disposals represent a reduction in the Town's investment in TCA's, regardless of how that investment is reported.

When TCA's are disposed of, employees must notify the Finance Department of the asset description and effective date. The Finance Department is responsible for adjusting the asset registers and accounting records.

The difference between the net proceeds on disposal of a TCA and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations in accordance with PSAB Section 3150.

f. Useful Life

Schedule A shows the maximum expected life for all major classes of TCA's. The actual length of the useful life for an asset will depend on the asset quality and its intended use. In some situations, the useful life may differ from the values in Schedule A. In such instances, adequate documentation to support the variance from the recommended maximum will need to be obtained.

The estimate of the useful life on the remaining unamortized portion will be reviewed on an annual basis and will be revised when the appropriateness of a change can be clearly demonstrated. Reasons for revision may be due to the following significant events:

- a change in the extent or manner to which the TCA is used;
- removal of the TCA from service for an extended period of time;
- physical damage;
- significant technological developments;
- a change in the demand for the services provided through use of the TCA; or
- a change in the law or environment affecting the period of time over which the TCA can be used

The effect of this change will be recorded in the year of revision and in future years.

g. 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 appropriate to its nature and use. The Town uses the straight-line method of amortization for all TCA's.

In the year an asset is acquired or put into service and in the year of disposal, an amount equal to 50 percent of the annual amortization will be expensed.

Land is not a depreciable asset as the expected useful life is infinite. Land will be inventoried and recorded on the statement of financial position at historical cost until such time it is disposed of. There will be no annual amortization expense recognized.

h. Residual Value

Residual value will only be included in calculating amortization if residual value exceeds \$5,000.

i. Division of Assets

For the purposes of this policy, there are two approaches that will be used to define a capital asset; Network approach and Component approach.

- i. *Network Approach* – This approach views an asset as one unit even if the respective asset is comprised of a number of significant components.
- ii. *Component Approach* – This approach identifies major, significant components of an asset. Each component with a unique historical cost, useful life or amortization method is recorded separately.

The Town will use both approaches. Individual departments shall review with the Finance Department, the preferred method that best serves the departmental needs. In certain circumstances, it is appropriate to allocate the total disbursement of an asset to its component parts and account for each component separately. This is the case when the components have different useful lives or provide economic benefits or service potential to the entity in a different pattern, thus necessitating use of different amortization rates. Additional factors that may influence the choice of method include:

- significance of amounts;
- quantity of individual asset components (volume);
- availability of information with respect to specific components;
- specific information needs of management for decision-making and asset control purposes;

The Town will also segment its TCA's by geographic location to record its linear infrastructure. For example, roads and waterworks will be recorded and valued on a block by block basis.

j. Pooled or Group Assets

The unit value of an asset rather than the value of a group of similar assets will be the value used to determine if the TCA meets the threshold. For example, the total number of computers purchased in a year may be over the capitalization threshold, but the unit value of the computers would likely not meet the threshold and would therefore not be capitalized or amortized. Engineered Structures will be the exception to this statement as they will follow the Network Approach.

k. Work in Progress

Work or construction projects in progress represent the costs incurred to date on a project in which the Town has not reached substantial completion, has not issued a Construction Completion Certificate (CCC's) or has not placed the asset into service.

The costs incurred for assets under development or construction at the end of an accounting period will be capitalized and reported as assets on the financial statements but will not be amortized in the current accounting period. Once the asset has been completed (CCC's are issued) or the asset has been placed into service, the appropriate transfer will occur from work in progress to completed assets and amortization will commence in that period.

For projects that have distinct, multiple, self-sustaining phases that will be brought into production or use at different points in time, professional judgment will be used to determine the timing of when the asset is transferred from work in progress to the asset register. The applicable department will consult with the Finance Department to make such determination. If an incomplete project is terminated or put on hold indefinitely, any costs currently recorded as work in progress will be expenses unless there is an alternative use for the asset.

Work in progress balances will be reviewed, at a minimum, on an annual basis.

l. Cultural and Historical Assets

Works of art and historical treasures will not be recognized as TCA's in the financial statements because a reasonable estimate of future benefits associated with such property cannot be made. However, the existence of such property will be disclosed (see Presentation and Disclosure section)

m. Special Situations

- i. *Donated or Contributed Assets* – Governments may receive contributions of TCA's. The cost of a contributed TCA (including a TCA in lieu of a developer charge), is considered equal to its fair value at the date of contribution. For subdivision developments, the date of contribution is to be when the Town issues the Construction Completion Certificates. Prior to this date, the asset is assumed to be in progress by the developer with no useful life consumed. Fair value of a contributed TCA may be estimated using engineering replacement cost estimates, assessment values, or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the TCA would be recognized at a nominal value.
- ii. *Municipal Reserve Land* – This will be valued at the time of subdivision registration.
- iii. *Annexation* – Parcels of land being annexed will usually include existing infrastructure. In this case, the infrastructure will be valued at fair market value at the date of the annexation.
- iv. *Change in Status of a Municipality* – If the Town of Lacombe changes status from a Town to a City, there will be no impact on valuation dates of currently held assets. However, if the Town inherits assets as a result of the change in status, then those assets will be valued at fair market value at the

date of the Order in Council.

n. Presentation and Disclosure

In total and for each major class of capital assets, the Town will disclose the following in accordance with CICA Public Sector Guideline 7 (PSG-7):

- i. cost at the beginning and end of the period;
- ii. additions in the period;
- iii. disposals in the period;
- iv. the amount of any write-downs in the period;
- v. the amount of amortization of the costs of TCA's for the period;
- vi. accumulated amortization at the beginning and end of the period;
- vii. net carrying value at the beginning and end of the period;

Also in accordance with PSG-7, other disclosures about TCA's will include:

- i. The amortization method used, including amortization period or rate for each major class of TCA;
- ii. The net book value of TCA's not being amortized because they are under construction or development or have been removed from service;
- iii. The nature and amount of contributed TCA's received in the period and recognized in the financial statements;
- iv. The nature and use of TCA's disclosed at nominal value;
- v. The nature of the works of art and historical treasures held by government;
- vi. The method used to determine the cost of each major class of TCA;
- vii. The amount of interest included in the cost in the period.

6. ATTACHMENTS

Schedule A: Asset Classification, Maximum Useful Life, Capitalization Thresholds

This policy shall be in effect retroactively to January 1, 2009.

____Judy Gordon_____
Mayor

DATE: June 22, 2009

____Kenneth Kendall_____
Chief Administrative Officer

RES: 09- 186

SCHEDULE A
ASSET CLASSIFICATION, MAXIMUM USEFUL LIFE, CAPITALIZATION THRESHOLDS

ASSET CLASSIFICATION Major Minor Subclass One Subclass Two Subclass Three	MAXIMUM USEFUL LIFE (Years)	CAPITALIZATION THRESHOLD (\$)	COMMENTS
LAND Environmental Reserves General (Titled lots) Municipal Reserves Right-of-way		n/a	All Land capitalized but not amortized
LAND IMPROVEMENTS Airport Runways Surface Subsurface Bike/Jogging Paths Asphalt Gravel Fences Fountains Lakes/Ponds Landfill Transfer Stations Landscaping Outdoor Lighting Parking Lots Asphalt Gravel Playground Structures Retaining Walls Running Tracks Soccer Pitches-Outdoor Sprinkler Systems Tennis Courts (rubberized surface) Work in progress	 15 40 20 15 20 20 25 25 25 20 20 15 15 20 15 20 25 15 n/a	5,000	Work in Progress is capitalized but not amortized until complete
BUILDINGS Leasehold Improvements Permanent Structures Concrete Frame Metal Portable Structures Frame Metal Work in progress	Variable 50 50 50 25 25 n/a	25,000	Work in Progress is capitalized but not amortized until complete
ENGINEERED STRUCTURES Roadway System Bridges Curb & Gutter Guard Rails Lights Decorative Street Traffic Overpass/Interchange Parkades Road Signs	Variable 30 30 30 30 30 60 50 30	25,000	Work in Progress is capitalized but not amortized until complete

Roads & Streets			
Lanes/Alleys			
Asphalt	20		
Gravel	15		
Local/Collector/Arterial			
Surface	20		
Subsurface	40		
Sidewalks	30		
Work in progress	n/a		
Storm Sewer System			
Collection System			
Mains/Services	75		
Catch Basins/Manholes	75		
Pump, Lift, Transfer Stations	45		
Retention Ponds	75		
Treatment Facility	45		
Wetlands/Water Courses	75		
Work in progress	n/a		
Wastewater System			
Collection System			
Mains/Services	75		
Manholes	75		
Pump, Lift, Transfer Stations			
Structures	45		
Treatment Equipment			
Electrical	30		
General	45		
Mechanical	45		
Lagoons	45		
Work in progress	n/a		
Water Systems			
Distribution Systems			
Mains/Services	75		
Hydrants/Fire Protection	75		
Metering Chambers			
Mechanical	45		
Structures (Concrete)	60		
Pressure Regulating Valves			
Mechanical	45		
Structures (Concrete)	60		
Plants and Facilities			
Pumping Equipment	45		
Structures	45		
Treatment & Equipment			
Electrical	30		
General	45		
Mechanical	45		
Pump, Lift, Transfer Stations			
Pumping Equipment	45		
Structures	45		
Treatment & Equipment			
Electrical	30		
General	45		
Mechanical	45		
Reservoirs	45		
Concrete tank	60		
Steel Tank	45		
Transmission Lines	75		
Work in progress	n/a		

MACHINERY & EQUIPMENT		5,000	
Communications			Work in Progress is capitalized but not amortized until complete
Radios	10		
Telephone Systems	5		
Computer Systems			
Hardware	5		
Software	10		
Control Systems	5		
Fire Equipment	10		
Food Services	10		
Fuelling Stations	15		
Heavy Construction Equipment	Variable		
Ice-resurfacer	10		
Office Equipment/Furniture			
Audiovisual	10		
Furniture	15		
Office Equipment	10		
Photocopiers	5		
Meters			
Water	30		
Police Special Equipment	10		
Tools, shop, garage equipment	15		
Turf Equipment	10		
Work in progress	n/a		
VEHICLES		5,000	
Light/Medium Duty	10		Work in Progress is capitalized but not amortized until complete
Heavy Duty	10		
Transit Buses	20		
Fire Trucks	25		
Work in progress	n/a		
CULTURAL & HISTORICAL ASSETS		n/a	
Heritage Sites			Disclosed on Audited Financial Statements
Historical			
Public Art			