



CORPORATION OF THE TOWN OF RAINY RIVER

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Finance Department

# Tangible Capital Assets Policy

## **Purpose**

A Tangible Capital Assets (TCA) Policy promotes compliance with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150. It provides overall direction for the capitalization of assets, technical guidance in the creation of a tangible capital assets accounting system and addresses areas of PSAB 3150 that may require professional judgement. In addition, a TCA Policy provides a framework in which to make consistent and sound decisions, plan ahead for future needs and provide public confidence in accounting and financial reporting processes.

Financial Statements prepared for fiscal the year starting January 1, 2009 will require compliance with PSAB 3150. Comparative figures for the year 2008 are also required.

## **Scope**

All tangible property owned by the Town, either through donation or purchase, and which qualifies as a tangible capital asset is included in the scope of this Policy.

## **Definitions**

### **Tangible Capital Assets**

In accordance with PSAB 3150, tangible capital assets are non-financial assets having physical substance that:

- i. are held for use in the production or supply of goods or services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- ii. have useful economic lives extending beyond an accounting period;

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- iii. are to be used on a continuing basis; and
- iv. are not for sale in the ordinary course of operations.

Tangible Capital Assets are recorded at historical cost. Where historical cost information is not available, valuation approaches such as appraisals, the deflated replacement cost, the deflated reproduction cost or fair value are to be applied where appropriate.

**Cost** as defined by PSAB 3150, 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. The cost of a contributed TCA, including a TCA in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants are not to be netted against the cost of the related TCA. The cost of a leased TCA is determined in accordance with Public Sector Guidelines PSG-2, Leased Tangible Capital Assets.

**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. For assets owned by the Town but not paid for by the Town including contributions, gifts and donations, valuation may be assessed by fair value.

**Asset Categories**

The level of detail required in the capital asset inventory is a balance between the cost of data collection, tracking and analysis and the beneficial use of the information gathered. A category of assets is a grouping of assets of a similar nature or function in the Town’s operations. The following list of categories and sub-categories shall be used:

| <b>CATEGORY</b>      | <b>SUB-CATEGORY</b>                   |
|----------------------|---------------------------------------|
| Land                 | n/a                                   |
| Parks Infrastructure | Playground Equipment, Pools, Fencing, |

|                                |  |
|--------------------------------|--|
|                                | Bleachers  |
| Buildings & Improvements       | Structure, Site Elements, Interior Components, Exterior Components, Mechanical/Electrical System, Elevator, Site Services, Fire & Safety |
| Linear Infrastructure          | Roads, Bridges, Water, Wastewater, Drainage, Signs, Culverts   |
| Technology / Communications    | Hardware & Peripherals, Software, Radio Equipment, Other   |
| Vehicle, Machinery & Equipment | Licensed Vehicles, Unlicensed Equipment, Attachments / Fixtures, Medical, Operational, Misc. Equipment                                   |
| Furniture and Fixtures         | Office, Furniture  |

### Capitalization Thresholds

Capitalization thresholds are established to determine whether expenditures are to be capitalized as assets and depreciated or treated as current year expenditures. For financial reporting purposes thresholds are set fairly high, however, details may be useful for the Town’s capital asset management program. Therefore, an optimal threshold for each asset category is a balance between the two.

The Town’s capitalization thresholds are set based on information gathered from various industry sources and experts combined the consideration of the materiality of the asset category.

| ASSET CATEGORY           | CAPITALIZATION THRESHOLD |
|--------------------------|--------------------------|
| Land                     | Capitalize Only          |
| Parks Infrastructure     | 5000                     |
| Buildings & Improvements | 10,000                   |
| Infrastructure           | 10,000                   |
| Construction in Progress | Capitalize Only          |

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|                                 |        |
|---------------------------------|--------|
| Technology/Communications       | 2,500  |
| Vehicles, Machinery & Equipment | 10,000 |
| Furniture & Fixtures            | 2,500  |

Thresholds apply to capital goods purchased and capital projects constructed with the total cost of the good or project meeting the capitalization threshold criteria. Long term assets that do not individually meet threshold limits but do meet threshold limits when aggregated are to be capitalized.

Further refinement to threshold levels will occur as the Town develops an understanding of its asset and reporting needs. Improvements are capitalized when they extend the useful life of the asset.

**Classification, Aggregation & Segmentation**

**LAND**

Land owned by the Town includes parkland, land for Town owned facilities and land under roads and sidewalks. All land owned by the Town is segmented by each parcel held. Town parkland and the land for Town facilities and leased facilities is quantified and included in the Town's land database. Due to the age of the land under roads and sidewalks, existing Town land under the roads and sidewalks are considered to have a nominal value of \$1.

**PARKS INFRASTRUCTURE**

Parks infrastructure includes playground equipment, outdoor pools, and fencing. Each asset when capitalized is separately recorded with an attached useful life.

**BUILDINGS & IMPROVEMENTS**

Buildings owned by the Town include Town Hall; Town facilities including public works garage, water treatment plant, medical centre, curling club, pools, arenas and community centers; and third party leased properties. A building is segmented by envelope, roof and

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equipment and other significant component parts based on useful life. This treatment provides for capital replacement of each component over the years of ownership.

Building improvements include furniture, fixtures and equipment along with interior fit-outs required to make the building ready for use. Furniture, fixtures, equipment and fit-outs are capitalized if purchased in volume and the volume exceeds the threshold limit or if the individual cost of individual items exceed the threshold.

**CONSTRUCTION IN PROGRESS**

Construction in progress contains capital projects underway but not complete or put to use. These projects are individually segmented and are capitalized if costs exceed threshold limits.

**INFRASTRUCTURE**

**WATER**

The water system components include and are segmented by water mains, valves, hydrants and services. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

**SEWER AND DRAINAGE**

The sewer system components include and are segmented by sewer mains, pump stations, manholes, catch basins and services. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

**TRANSPORTATION**

Transportation assets include and are segmented by roads, lanes, sidewalks, traffic intersections, and signage. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

**TECHNOLOGY/COMMUNICATIONS**

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IT infrastructure includes software, hardware, infrastructure, computers, printers, scanners, photocopiers and the telephone network. This IT infrastructure is capitalized if each purchase or project meets threshold limits. Computers and printers, scanners, photocopiers, etc. are capitalized if purchased in volume and the volume exceeds the threshold limit.

**VEHICLES, MACHINERY AND EQUIPMENT**

Vehicles, machinery and equipment are pooled, segmented at unit level for threshold purposes.

**TCA INVENTORY - OWNERSHIP**

Ownership of assets requires safeguarding, maintenance, amortization for replacement and possibly write-downs. These requirements are addressed in this section.

It is the responsibility of the staff members to ensure capital assets assigned to his or her custody are maintained and safeguarded.

Amortization is an annual charge to expenditures for the use of a capital asset. The Town sets amortization rates on a straight line basis based the on number of years in service less salvage value. The asset categories are amortized as follows:

| <b>Asset Category</b>             | <b>Amortization of Cost less Savage Value</b>     |
|-----------------------------------|---|
| Land                              | Not amortized                                     |
| Land Improvements                 | Straight line over useful life of each asset unit |
| Parks Infrastructure              | Straight line over useful life of each asset unit |
| Buildings & Improvements          | Straight line over useful life of each asset unit |
| Construction in Progress          | Not amortized                                     |
| Machinery, Vehicles and Equipment | Straight line over useful life of each asset unit |
| Technology/Communication          | Straight line over useful life of each asset unit |

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|   |  |
|---|--|
| Infrastructure (e.g. water, wastewater, roads etc.) | Straight line over average useful life of each segment for cost less salvage value |
|---|--|

All assets are amortized as of January 1<sup>st</sup> of the year for which the said asset is put into service. Economic useful life is used for amortization rather than physical useful life.

A write down of assets occurs when reduction in future economic benefit is expected to be permanent and the value of future economic benefit is less than the TCA's net book value. A write down should not be reversed. Further information regarding write-downs may be found in Attachment 1.

**TCA INVENTORY - DISPOSAL**

Disposal procedures for capital assets are in accordance with the Town's Procurement Policy. All disposals of TCA's are recorded in the Town's financial statements in accordance with PSAB 3150.

**ACCOUNTING**

The Public Sector Accounting Board expectations regarding transition to PSAB 3150 is provided in PSAB 3150.43 to PSAB 3150.48. PSG-7 Tangible Capital Assets of Local Governments (Attachment III) provides further guidance on the notes to the Financial Statements.

Preliminary transition steps are as follows:

- i. Remove Tangible Capital Assets and Investment in Tangible Capital Assets from the Statement of Financial Position.
- ii. Keep long term debt as a financial liability.
- iii. Add to the Statement of Financial Position, the recently valued, currently held, tangible capital assets along with related accumulated amortization. The offsetting account is prior year surplus.



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- iv. Record new additions on the Statement of Financial Position with the offsetting entry to cash, accounts payable or long term debt. Do not expense the cost of capital assets.
- v. Record disposals at the time of replacement. Disposals reduce the cost of the asset, accumulated amortization with the residual recorded as either an expense or revenue.
- vi. Amortize the assets each year. Budget for amortization.
- vii. Write-downs are an adjustment to the cost of the TCA (PSAB 3150.31) and expense.
- viii. Offsetting adjustment for amortization in the budget for the purposes of a balanced budget is a transfer from equity.
- ix. Budgeting for capital assets will be for the costs expected on the Statement of Financial Position.

Tangible Capital Assets on the financial statements will result in net capital assets on the balance sheet and expenditures for depreciation and write-downs on the income statement.

### **PRESENTATION AND DISCLOSURE**

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

- a. Cost at the beginning and end of the period;
- b. Additions in the period;
- c. Disposals in the period;
- d. The amount of any write-downs in the period;
- e. The amount of depreciation for the period;
- f. Accumulated amortization at the beginning and end of the period;
- g. Net carrying amount at the beginning and end of the period;

Also in accordance with PSG-7 disclosure will include:

- a. The method used to determine the cost of each major category of TCA;

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- b. The amortization method used, including amortization period or rate for each major capital category of TCA;
- c. The net book value of TCA's not being amortized because they are under construction or development or have been removed from service;
- d. The nature and amount of contributed TCA's received in the period;
- e. The nature and use of tangible capital assets disclosed at nominal value;
- f. The nature of the works of art and historical treasures held by the government ; and
- g. The amount of interest included in the cost in the period.

The Tangible Capital Asset Policy for the Town of Rainy River shall be effective January 1, 2009.

ATTACHMENT I

ASSET USEFUL LIFE – General Guidelines

| <u>ASSET TYPE</u>                                 | <u>ESTIMATED USEFUL LIFE</u> |
|---|------------------------------|
| Parks Infrastructure                              |                              |
| Playground Equipment                              | 20                           |
| Washrooms, Concessions, Picnic Shelters           | 60                           |
| Outdoor pools, spray pools                        | 20                           |
| Docks   | 40                           |
| Building Structure/sewer lift station wet well    | 60                           |
| Building Improvements                             |                              |
| Exterior Envelope                                 | 50                           |
| HVAC Systems/Generator                            | 20                           |
| Roofs   | 15                           |
| Electrical/Plumbing                               | 25                           |
| Site works – Asphalt, water and sewer lines, etc. | 20                           |
| Lift Station pumps/inlet pipes                    | 30                           |
| Machinery & Equipment                             |                              |
| General Equipment                                 | 10                           |
| Grounds Equipment and Machinery                   | 10                           |
| Heavy Construction Equipment                      | 20                           |
| Office Furniture                                  | 10                           |
| Fire Department turnout gear, SCBA;s              | 10                           |
| Vehicles  |                              |
| Cars and Light Trucks                             | 20                           |
| Fire Trucks                                       | 20                           |
| IT Infrastructure                                 |                              |
| Hardware  | 5                            |
| Software  | 10                           |
| Telephone system/Photo copiers, fax, radios       | 10                           |
| Infrastructure                                    |                              |
| Water lines/Hydrants                              | 60                           |
| Water valves/services                             | 30                           |
| Sewage Lagoon Cells                               | 75                           |
| Sewer/Storm Sewer                                 | 60                           |
| Manholes  | 40                           |
| Drainage  | 40                           |
| Street Lights                                     | 30                           |
| Roads – base                                      | 80                           |
| Roads – Gravel                                    | 80                           |

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|                      |    |
|----------------------|----|
| Roads – Asphalt      | 20 |
| Roads – tar and Chip | 10 |
| Sidewalks/curbs      | 30 |
| Landfill             | 50 |
|                      |    |

**ADOPTION & REVIEW GUIDELINES**

Approved by Motion # 10-186 on October 12, 2010

Reviewed/Revised by Res. # 16-055

Approximate date of next review \_\_\_\_\_, 20\_\_\_\_

**REFERENCES:**

**POLICY AREA**

Finance

**POLICY NUMBER**

Section F-9