

Purpose:

- 1 To define Tangible Capital Assets (TCA) and their accounting treatment for The City.
- 2 To ensure capitalization, amortization, and subsequent changes of Tangible Capital Assets are performed consistently throughout the organization.

Policy Statement(s):

- 3 The accounting treatment for Tangible Capital Assets for budgeting and recording purposes must be in accordance with Public Sector Accounting Standards (PSAS).
- 4 Capitalization
 - (1) Recognition:
 - (a) The following items must not be capitalized as Tangible Capital Assets and must be expensed in the period incurred:
 - (i) costs for general studies, such as feasibility studies;
 - (ii) inventory and supplies consumed within a year;
 - (iii) works of art and historical treasures (e.g., public art). The service potential and expected future benefits are difficult to quantify. They must be set up in the Fixed Asset module without cost information to comply with the disclosure requirement under PSAS 3150;
 - (iv) repairs and preventative maintenance costs which maintain an asset's original performance level;
 - (v) costs included in work-in-progress for a project that will be terminated as per the Capital Budget Policy; and
 - (vi) capital costs related to assets held by third party agencies for production or supply of goods and services. If the third-party agency is controlled by The City, assets held by that agency will be capitalized by The City upon consolidation at year-end instead of through The City's usual capitalization process.
 - (b) Betterments to Tangible Capital Assets are expenditures subsequent to the acquisition of the original asset that is capitalized if:
 - (i) the betterment increases the previously assessed performance, enhances service capacity or lowers operating costs *and* exceeds the capitalization threshold for that major classification; or
 - (ii) it extends the useful life of the asset *and* exceeds the capitalization threshold for that major classification
 - (c) All budgeted Tangible Capital Asset work in progress must be captured and recorded in the job cost module.

(2) Measurement:

- (a) Tangible Capital Assets are to be recorded at cost (historical). This includes all costs directly related to the installation of the Capital Asset at the location in the condition necessary for its intended use.
- (b) Contributed or donated assets must be recorded at estimated Fair Market Value or appraised value at the date of contribution to The City. Contributed or donated assets are Tangible Capital Assets received by The City without monetary consideration.
- (c) Tangible Capital Assets that are received as a result of a Restructuring Transaction such as an annexation must be recorded at its net book value as at the date of the Restructuring.
- (d) A nominal value must be determined in situations where a Capital Asset's age and historical cost are indeterminable.
- (e) Assets under a capital lease must be capitalized at the inception of the lease.
 - (i) All capital leases must be approved by the Chief Financial Officer before entering into the agreement.
- (f) Asset Classification and Thresholds:
 - (i) The following major asset classification and capitalization thresholds must be used for individual Tangible Capital Assets:
 - (A) Land.....\$ Any value
 - (B) Land Improvements.....\$ 10,000.
 - (C) Buildings/Leasehold Improvements.....\$ 25,000.
 - (D) Machinery and Equipment.....\$ 10,000.
 - (E) Vehicles.....\$ 10,000.
 - (F) Engineered Structures/Infrastructure.....\$ 25,000.
 - (ii) The thresholds will only apply to the Tangible Capital Asset as a whole and not to the individual components that make up the Tangible Capital Asset.
 - (iii) Pooled Tangible Capital Assets are capitalized as a single asset with one combined value because they have significant or material value as a group but have a low unit value. Pooled Tangible Capital Assets must be capitalized when they, as a group, exceed the capitalization threshold for that major asset classification as seen in s. 4(2)(f)(i) above.
- (g) Tangible Capital Assets and betterments will be recorded in accordance with the asset categories, classes, sub-classes, and capitalization thresholds.

(3) Timing:

- (a) Tangible Capital Assets are considered complete and are added to the Fixed Asset module at the earliest of:
 - (i) the date the asset is capable of being used or in-service;
 - (ii) the date of occupancy; or
 - (iii) the maintenance start date documented on a Construction Completion Certificate (CCC).

5 Amortization

- (1) Amortization is calculated using the straight-line method of amortizing assets over the useful life and is recorded and reported as a monthly expense.
- (2) Amortization is not calculated or recorded on the following:

- (a) Land; and
- (b) work-in-progress projects not considered complete based on criteria in s. 4(3)(a).

6 Subsequent Adjustments

(1) Write-downs:

- (a) Write-downs of Tangible Capital Assets occur when an asset is no longer used for its original purpose, or the performance has been impaired. The cost of the Tangible Capital Asset must be reduced to reflect the decline in the future value. Write-downs are recognized as an expense in the period the write-down is taken and cannot be reversed.

(2) Disposals:

- (a) Disposals of Tangible Capital Assets may occur by sale, trade-in, demolition, destruction, loss or abandonment and must be reported to Financial Services.

(3) Other Changes:

- (a) Change of use of a Tangible Capital Asset must be reported to Financial Services.

Definitions:

- 7 “**Fair Market Value**” means the normally highest price expressed in dollars that the asset would bring in an open and unrestricted market between a willing buyer and a willing seller who are knowledgeable, informed, prudent, and who are acting independently of each other.
- 8 “**Public Sector Accounting Standards (PSAS)**” means accounting standards issued by the Public Sector Accounting Board (PSAB) that sets out financial reporting guidelines for public sector entities (e.g., governments and their components, government not-for-profits, and government partnerships).
- 9 “**Restructuring Transactions**” means a transfer of a set of assets and/or liabilities along with their related programs and operating responsibilities without considerations based on the Fair Market Value of those assets and liabilities.
- 10 “**Tangible Capital Asset**” means a property, plant, and equipment which meet all three of the following criteria:
 - (1) the asset is held by The City for use in the production or supply of goods and services, or the development, construction, maintenance or repair of other Capital Assets;
 - (2) it has been acquired, constructed, or developed with the intention of being used on a continuing basis for greater than one year; and
 - (3) it is not intended for sale in the normal course of operations.

References/Links:

- I CPA Canada Public Sector Accounting Handbook

- (a) PS3150 – Tangible Capital Assets
- 2 Associated Policies and Procedures:
 - (1) 5004-CA Enterprise Asset Management Program
 - (2) 5320-C Capital Budget Policy
 - (3) 5320.02-C Capital Budget Contingency Policy
 - (4) 5320.03-C Capital Budget Funding Policy
 - (5) 5323-C Capitalization of Interest
 - (6) 5327-CA Financial Reporting & Accounting
 - (7) 5327.01-CP Restructuring Transactions
 - (8) 5331-CA Disposal of Surplus City Material & Equipment
 - (9) 5331-CP Disposal of Surplus City Material & Equipment
- 3 Guidelines:
 - (1) Government Finance Officers of Alberta
 - (a) TCA Recommendations
 - (b) Tangible Capital Asset Implementation Guidelines
 - (c) Recommended Capitalization Thresholds
 - (2) CPA Canada Public Sector Accounting Handbook
 - (a) Guide to Accounting for and Reporting Tangible Capital Assets
 - (b) PSG-7, Tangible Capital Assets for Local Governments
 - (c) PSAB 3150 Reporting Guideline
- 4 Internal Guidelines
 - (1) TCA Training Manual

Scope/Application:

- I This Policy applies to all City departments.

Roles/Responsibilities:

- I Financial Services is responsible for:
 - (1) developing and delivering training for Tangible Capital Assets;
 - (2) setting capitalization thresholds and reviewing thresholds regularly for any required changes;
 - (3) maintaining the Tangible Capital Asset registry;
 - (4) calculating, recording, and reporting amortization for financial reporting purposes;
 - (5) completing reconciliations to ensure integrity and accuracy of Tangible Capital Assets including quarterly reconciliations of the GIS system;
 - (6) recording works of art and historical treasures for disclosure purposes; and
 - (7) making the final decision on capitalization uncertainty (Corporate Controller, Budgets and Investments) in consultation with the respective department manager.

- 2 Departments are responsible for:
 - (1) defining the initial level of detail for asset classification (minor classification and sub-classifications);
 - (2) ensuring Financial Services is notified of Tangible Capital Asset additions, disposals, write-downs, change of use, and transfers;
 - (3) providing final approval for opening inventory of Tangible Capital Assets for their respective department;
 - (4) ensuring department staff are trained and proficient in The City's capitalization of Tangible Capital Assets Policy;
 - (5) ensuring any sub-systems utilized for capturing Tangible Capital Assets not recorded are maintained. Note: Utility rate models are maintained in sub-systems outside the financial system and may have different capitalization rules for determining utility rates;
 - (6) ensuring mobile (fleet) assets are recorded accurately; and
 - (7) ensuring all assets are appropriately safeguarded.

- 3 The Chief Financial Officer has been delegated the responsibility to implement and update this Policy as necessary.

Inquiries/Contact Person:

- 1 Corporate Controller, Budgets and Investments, Financial Services
- 2 Financial Coordinator

Monitoring & Evaluation

- 1 This Policy will be reviewed every three years and updated as necessary.

Document History:

Date	Approved/Reviewed By:	Title:
Approved: June 9, 2009	"Craig Curtis"	City Manager
Revised: December 22, 2011	"Craig Curtis"	City Manager
Revised: February 7, 2022	"Tara Lodewyk"	Interim City Manager