

**Purpose:**

- 1 To define tangible capital assets and their accounting treatment.
- 2 To ensure capitalization, amortization, and subsequent changes of tangible capital assets are performed in a consistent manner throughout the organization.

**Policy Statement(s):**

- 3 The accounting treatment for tangible capital assets for budgeting and recording purposes must be in accordance with generally accepted accounting principles and specifically PSAB 3150 regulations, effective January 1, 2009.
- 4 Capitalization:
  - (1) Recognition:
    - (a) Tangible capital assets are property, plant and equipment which meet all three of the following criteria:
      - (i) Are held by the City for use in the production or supply of goods and services, or for the development, construction, maintenance or repair of other capital assets;
      - (ii) Have been acquired, constructed or developed with the intention of being used on a continuing basis for greater than one year; and
      - (iii) Are not intended for sale in the normal course of operations.
    - (b) Tangible capital assets that are under construction are considered work in progress and are not capitalized until complete or ready for service.
    - (c) The following items shall not be capitalized as tangible capital assets and shall be expensed in the period incurred:
      - (i) Costs for general studies
      - (ii) Inventory and supplies consumed within a year
      - (iii) Works of art and historical treasures (i.e. public art). The service potential and expected future benefits are difficult to quantify. They shall be set up in the Fixed Asset module without cost information to comply with the disclosure requirement by PSAB 3150.
      - (iv) Repairs and preventative maintenance costs which maintain assets' original performance level.
      - (v) Expenditures on a tangible capital asset for maintaining it at its original performance level and at the initial useful life are treated as repairs or preventative maintenance. These are expenses that are necessary to maintain the tangible capital asset similar to its original condition.
      - (vi) Costs included in work-in-progress for a project that will be terminated as per the Capital Budget Policy.
      - (vii) All budgeted tangible capital asset work in progress shall be captured and recorded.

- (d) Betterments to tangible capital assets are expenditures subsequent to acquisition of the original asset that are 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) Extends the useful life of the asset *and* exceeds the capitalization threshold for that major classification
- (e) All tangible capital assets controlled by the City must be recorded.
- (2) Measurement:
  - (a) Tangible capital assets are to be recorded at cost (historical). This includes all costs directly related to install the capital asset at the location in the condition necessary for its intended use.
  - (b) Contributed or donated assets shall 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) The valuation of tangible capital assets on annexed lands shall be the date of the acquisition.
  - (d) In situations where a capital asset's age and historical cost are indeterminable, a nominal value will be determined.
  - (e) Pooled tangible capital assets are capitalized as a single asset with one combined value because they have significant or material value as a group (above the threshold) but have a low unit value (below the capitalization threshold).
  - (f) Assets under a capital lease shall be capitalized at the inception of the lease. (Note: All capital leases must be approved by the Manager of Financial Services before entering into the agreement).
  - (g) Asset Classification and Thresholds:
    - (i) The following major asset classification and capitalization thresholds shall 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 component of the tangible capital asset.
  - (h) 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) When it is capable of being used or in service

- (ii) Occupancy
    - (iii) 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 an annual expense.
  - 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.
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## References/Links:

- 1 Legislation:
  - (1) Government of Alberta, Municipal Affairs
    - (a) Municipal Government Act
  - (2) Canadian Institute of Chartered Accountants, Public Sector Accounting Board
    - (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) 5331-CA Disposal of Surplus City Material & Equipment
  - (7) 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) Canadian Institute of Chartered Accountants, Public Sector Accounting Board
  - (a) Guide to Accounting for and Reporting Tangible Capital Assets
  - (b) PSG-7, Tangible Capital Assets for Local Governments
  - (c) PSAB 3150 Reporting Guideline

**Scope/Application:**

- I This policy applies to all City departments.

**Roles/Responsibilities:**

- I Financial Services roles/responsibilities:
  - (1) Develops and delivers training for tangible capital assets
  - (2) Sets capitalization thresholds and reviews thresholds on a regular basis for any required changes
  - (3) Maintains the tangible capital asset registry
  - (4) Calculates, records and reports amortization for financial reporting purposes
  - (5) Completes reconciliations to ensure integrity and accuracy of tangible capital assets including quarterly reconciliations of GIS system
  - (6) Records works of art and historical treasures for disclosure purposes
  - (7) Makes the final decision on capitalization uncertainty (Corporate Controller, Budgets and Investments) in consultation with the respective department manager
- 2 Department Manager roles/responsibilities:
  - (1) Defines the initial level of detail for asset classification (minor classification and sub-classifications)
  - (2) Ensures Financial Services is notified of tangible capital asset additions, disposals, write-downs, change of use and transfers
  - (3) Provides final approval for opening inventory of tangible capital assets for their respective department
  - (4) Ensures department staff are trained and proficient in the City's capitalization of tangible capital assets policy
  - (5) Ensures 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 the purpose of determining utility rates
  - (6) Ensures mobile (fleet) assets are recorded accurately
  - (7) Ensures all assets are appropriately safeguarded
- 3 Responsibility to Implement:
  - (1) Financial Services Manager
  - (2) Corporate Controller – Budgets and Investments

**Inquiries/Contact Person:**

- 1 Corporate Controller – Budgets and Investments
- 2 Capital Asset Accountant

**Document History:**

<b>Date:</b>	<b>Approved/Reviewed By:</b>	<b>Title:</b>
June 9, 2009	“Craig Curtis”	City Manager
Revised: December 22, 2011	“Craig Curtis”	City Manager

**Administrative Revisions:**

<b>Date:</b>	<b>Description:</b>
September 20, 2017	Updated to the current format.