

TOWN OF STETTLER

| | | | |
|----------------------------|--------------------------|--------------------------------|------------|
| <u>Prepared by:</u> | Administration | <u>Number:</u> | V-2(a) |
| <u>Adopted by:</u> | Town of Stettler Council | <u>Original Policy:</u> | 2010 12 21 |
| | | <u>Previous Policy:</u> | N/A |
| | | <u>Current Policy:</u> | 2010 12 21 |

Title: **Tangible Capital Assets**

Purpose: To prescribe the accounting treatment for recognizing and recording tangible capital assets on a consistent basis and in accordance with CICA Public Sector Accounting Handbook Section 3150.

The principle issues in accounting for tangible assets are the recognition of the assets, the determination of their carrying amounts and amortization charges and the recognition of any related impairment losses, so that users of the financial statements can discern information about the municipality's investment in tangible capital assets and the changes in such investment.

Scope: This policy applies to all departments within the Town of Stettler.

Definitions:

Tangible Capital Assets – Assets having physical substance that are used on a continuing basis in the Town's operations, and have useful lives extending beyond one year, excluding those assets that are held for re-sale in the ordinary course of operations.

Betterments – Subsequent expenditures on tangible capital assets 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. Any other subsequent expenditure will be considered a repair or maintenance and recorded as an operating expense in the period it is incurred.

Fair Value – Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Policy Statement:

Capitalization – Tangible capital assets will be capitalized, recorded in the tangible capital asset sub-ledger, according to the following thresholds:

Tangible capital assets, engineered structures in particular, will be accounted for using the network approach, where the major components of the structure will be recorded as a single asset.

The Town will apply these thresholds to each asset individually. There will be no consideration given to pooling of assets in the application of these thresholds.

| MAJOR ASSET CLASS | MINOR ASSET CLASS | CAPITALIZATION THRESHOLD | AMORTIZATION METHOD | REVIEW SCHEDULE |
|--------------------------|--------------------------|---------------------------------|----------------------------|------------------------|
| Land | | All land will be recorded | n/a | n/a |
| Land Improvements | | \$5,000 | Straight Line | Every 5 years |
| Buildings | | \$5,000 | Straight Line | Every 5 years |
| Engineered Structures | Roadway System | \$25,000 | Straight Line | Every 5 years |
| Engineered Structures | Water System | \$25,000 | Straight Line | Every 5 years |
| Engineered Structures | Wastewater System | \$25,000 | Straight Line | Every 5 years |
| Engineered Structures | Storm System | \$25,000 | Straight Line | Every 5 years |
| Machinery & Equipment | | \$5,000 | Straight Line | Every 5 years |
| Vehicles | | \$5,000 | Straight Line | Every 5 years |

Categories – A category of assets is a grouping of assets of a similar nature or function in the Town's operations. The major and minor classes as listed in Appendix A may be used by the Town of Stettler.

Valuation – Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use.

Purchased Assets – Cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc. It is net of any trade discounts or rebates.

Cost of land includes purchase price plus legal fees, land registration fees, transfer taxes, etc. Costs would include any costs to make land suitable for intended use, such as pollution mitigation, demolition and site improvements that become part of the land.

When two or more assets are acquired for a single purchase price, it is necessary to allocate the purchase price to the various assets acquired. Allocation should be based on the fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

Acquired, Constructed or Developed Assets – Cost includes all costs directly attributable (e.g. construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized. Capitalization of general administrative overheads is not allowed.

Capitalization of carrying costs ceases when no construction or development is taking place or when tangible capital asset is ready for use.

Donated or Contributed Assets – The cost of donated or contributed assets that meet the criteria for recognition is equal to the fair value at the date of construction or contribution. Fair value may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost. Ancillary costs should be capitalized.

Cultural & Historical – Works of art and historical treasure are property that has cultural, aesthetic or historical value that is worth preserving perpetually. The existence of such property will be disclosed in the notes to the financial statements. They would not be recognized as tangible capital assets in the financial statements because a reasonable estimate of the future benefit associated with such property cannot be made.

Amortization

The cost, less any residual value, of a tangible capital asset with a limited life will be amortized over its useful life in a rational and systematic manner appropriate to its nature and use. The amortization method and estimate of useful life of the remaining unamortized portion will be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

Useful life is normally the shortest of the asset's physical, technological, commercial or legal life.

The Town uses a straight-line method for calculating the annual amortization.

The straight-line method assumes that the economic usefulness is the same each year.

The amortization amount is determined by dividing the asset's original cost, less any residual value, by its estimated useful life in years.

The Town uses an estimated useful life not greater than the recommended maximum life in Appendix A.

In the year of acquiring an asset, putting an asset into service or disposing of an asset, the Town records 50% of the annual amortization amount. This is in accordance with the recommended guideline provided by Alberta Municipal Affairs and Housing.

Disposal – When tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, the department head must notify financial Services of the assets description and effective date. The Financial Services department is responsible for adjusting the tangible capital asset sub-ledger and recording a loss or gain on disposal.

Appendix A: Recommended Maximum Useful Life

Land

| | |
|-----|-----|
| All | n/a |
|-----|-----|

Land Improvements

| | |
|------------------------|----|
| Parking Lot | |
| - Gravel | 15 |
| - Asphalt | 25 |
| Playground Structures | 15 |
| Landscaping | 25 |
| Fences | 20 |
| Sprinkler Systems | 25 |
| Golf Courses | 45 |
| Tennis Courts | 20 |
| Fountains | 20 |
| Lakes/Ponds | 25 |
| Retaining Walls | 20 |
| Running Tracks | 15 |
| Outdoor Lighting | 20 |
| Airport Runways | 10 |
| Soccer Pitch – Outdoor | 20 |
| Bike/Jogging Paths | |
| - Gravel | 15 |
| - Asphalt | 20 |
| Transfer Stations | 25 |

Buildings

| | |
|----------------------|----|
| Permanent Structures | |
| - Frame | 50 |
| - Metal | 50 |
| - Concrete | 50 |
| Portable Structures | |
| - Metal | 25 |
| - Frame | 25 |

Vehicles

| | |
|-------------|----|
| Ambulances | 7 |
| Light Duty | 10 |
| Medium Duty | 10 |
| Heavy Duty | 10 |
| Fire Trucks | 25 |

Appendix A: Recommended Maximum Useful Life

Engineered Structures

Roadway System

| | |
|----------------------------------|----------|
| - Bridges | Variable |
| - Overpass/Interchange | 60 |
| - Curb & Gutter | 30 |
| - Roads & Streets | |
| - Lanes/Alleys | |
| ACP – Hot Mix | 20* |
| Gravel | 15* |
| Nonconforming | 20* |
| - Local/Collector/Arterial/Major | |
| Arterial Surface | |
| Concrete | 30* |
| ACP – Hot Mix | 20* |
| ACP – Cold Mix | 10* |
| Chip Seal | 10* |
| Oil | 5* |
| Gravel | 25* |
| Sub-Surface | 40* |
| - Road Signs | |
| - Traffic Control | 30 |
| - Information | 30 |
| - Lights | |
| - Decorative | 30 |
| - Street | 30 |
| - Traffic | 30 |
| - Guard Rails | 30 |
| - Ramps | 30 |
| - Sidewalks & Para-Ramps | 30 |

(* Subject to Weather Conditions)

Water System

| | |
|------------------------------------|----|
| - Distribution System | |
| - Mains | 75 |
| - Services | 75 |
| - Pump, Lift and Transfer Stations | 45 |
| - Plants and Facilities | |
| - Structures | 45 |
| - Treatment Equipment | |
| - Mechanical | 45 |
| - Electrical | 45 |
| - General | 45 |
| - Pumping Equipment | 45 |
| - Hydrants/Fire Protection | 75 |
| - Reservoirs | 45 |

Appendix A: Recommended Maximum Useful Life

Engineered Structures (con't)

Wastewater System

| | |
|------------------------------------|----|
| - Collection System | |
| - Mains | 75 |
| - Services | 75 |
| - Pump, Lift and Transfer Stations | 45 |
| - Plants and Facilities | |
| - Structures | 45 |
| - Treatment Equipment | |
| - Mechanical | 45 |
| - Electrical | 45 |
| - General | 45 |
| - Pumping Equipment | 45 |
| - Lagoons | 45 |

Storm System

| | |
|------------------------------------|----|
| - Collection System | |
| - Mains | 75 |
| - Services | 75 |
| - Pump, Lift and Transfer Stations | 45 |
| - Catch Basins | 75 |
| - Outfalls | 75 |
| - Wetlands | 75 |
| - Retention Ponds | 75 |
| - Treatment Facility | 45 |

Machinery and Equipment

| | |
|--------------------------------|----------|
| Heavy Construction Equipment | Variable |
| Stores | 25 |
| Food Services | 10 |
| Fire Equipment | 12 |
| Police Special Equipment | 10 |
| Fitness and Wellness | 10 |
| Control Systems | 5 |
| - Communication Links | 20 |
| - SCADA System | 10 |
| Fuelling Stations | 15 |
| Communications | |
| - Radios | 10 |
| - Telephone Systems | 10 |
| Tools, Shop & Garage Equipment | 15 |
| Meters - Water | 40 |
| Turf Equipment | 10 |
| Ice Re-Surfacers | 10 |
| Office Furniture | 20 |
| Office Equipment | 10 |
| - Audiovisual | 10 |
| - Photocopiers | 5 |
| Computer Systems | |
| - Hardware | 5 |
| - Software | 10 |