

# ALBERTA BEACH

## GENERAL VILLAGE POLICIES

**Policy: G.2.3**

**ACCOUNTING FOR TANGIBLE CAPITAL ASSETS  
CLASSIFICATION/CAPITALIZATION THRESHOLD  
AMORTIZATION**

### RESPONSIBILITY:

C.A.O.

### APPROVED BY COUNCIL:

DATE: December 15, 2009

### PURPOSE:

The objective of this policy is to prescribe the accounting treatment for tangible capital assets so that users of the financial report can discern information about the investment in property, plant and equipment and the changes in such investment. The principal issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts and amortization charges and the recognition of any related impairment losses.

In addition the policy covers policy and procedures to:

- a) Protect and control the use of all tangible capital assets.
- b) Provide accountability over tangible capital assets.
- c) Gather and maintain information needed to prepare financial statements.

The policy is in accordance with the Public Sector Accounting Board (PSAB) 3150.

### SCOPE:

This policy applies to the Village and future boards and commissions, agencies and other organizations that will fall within the reporting entity of the Village.

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### DEFINITIONS:

#### **Tangible Capital Assets:**

Assets having physical substance that:

- a) are used on a continuing basis in the Village's operations.
- b) have useful lives extending beyond one year.
- c) are not held for re-sale in the ordinary course of operations.

#### **Betterments:**

Subsequent expenditures on tangible capital assets that:

- increase previously 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 expenditure would be considered a repair or maintenance and expensed in the period.

#### **Group Assets:**

Assets that have a unit value below the capitalization threshold but have a material value as a group. Normally recorded as a single asset with one combined value. Although recorded in the financial systems as a single asset, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance. Examples could include personal computers, furniture and fixtures, small moveable equipment, etc.

#### **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.

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### POLICY STATEMENTS:

#### **Capitalization:**

Tangible capital assets should be capitalized (recorded in the fixed assets sub-ledger) according to the following thresholds:

- a) all land;
- b) all buildings;
- c) all roads;
- d) engineered structures with a unit cost of \$10,000 or greater (or as specified by Schedule "A");
- e) machinery and equipment with a unit cost of \$1,000 or greater;
- f) all others with a unit cost of \$2,000 or greater.

Different thresholds may be used for group assets. Capitalize betterments to existing assets when unit costs exceed the threshold.

#### **Categories:**

A category of assets is a grouping of assets of a similar nature or function in the Village's operations. The following major asset classes shall be used:

- Land;
- Buildings;
- Land Improvements;
- Engineered Structures;
- Machinery and Equipment;
- Vehicles.

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#### **Valuation:**

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

#### **1.1 Purchased assets**

Cost is the gross amount of consideration paid to acquire the asset. It includes all the nonrefundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc. It is net of any trader 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 the 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 purpose 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.

#### **1.2 Acquired, Constructed or Developed Assets**

Cost includes all cost 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.

#### **1.3 Capitalization of Interest Costs**

Borrowing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use should be capitalized as part of the cost of that asset.

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Capitalization of interest costs should commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization should be suspended during periods in which active development is interrupted.

Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

#### **1.4 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 using market or appraisal values. Cost may be determined by an estimate of replacement cost. Ancillary costs should be capitalized.

#### **Amortization:**

The cost, less any residual value, of a tangible capital asset with a limited life should 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 should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

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

Generally, the Village uses a straight – line method for calculating the annual amortization. A comprehensive list of estimated useful lives of assets and amortization rates is attached. See Schedule "A".

#### **Disposal:**

When tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the asset registers and accounting records recording a loss/gain on disposal will be adjusted.

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**SCHEDULE "A"**

The following table shows classes, capitalization thresholds, amortization method and useful life to be used:

(see attached excel file)(Draft Tangible Capital Assets Schedule A.xls)

**Schedule "A"**  
**Village of Alberta Beach**  
**Accounting for Tangible Capital Assets**  
**Classification/Capitalization Threshold/Amortization**  
**Policy No. G.2.4**

The following table shows classes, capitalization thresholds, amortization methods, residual values and useful life to be used.

Asset Classes Minor Sub-class One Sub-class Two Sub-class Three	Maximum Useful Life	Capitalization Threshold	Residual Value	Amortization Method
<b>Land</b>	N/A	All Land will be Recorded	Cost	None
Right of Way				
Undeveloped Right of Way				
Parks				
General				
<b>Buildings</b>		All Buildings will be Recorded	None	Straight Line
Permanent Structures				
Frame	50			
Metal	50			
Concrete	50			
Portable Structures				
Metal	25			
Frame	25			
Leasehold Improvements	Variable			
Construction in Progress				
<b>Land Improvements</b>		\$2,000	None	Straight Line
Parking Lot				
Millings	10			
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			
Soccer Pitch - Outdoor	20			
Bike/Jogging Paths				
Gravel	15			
Asphalt	20			
Construction in Progress				

**Schedule "A"**  
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Asset Classes Minor	Sub-class One Sub-class Two Sub-class Three	Maximum Useful Life	Capitalization Threshold	Residual Value	Amortization Method
<b>Engineered Structures</b>					
<b>Roadway System</b>					
	Bridges	Variable	\$2,000	None	Straight Line
	Curb & Gutter	30			
	Parkades	50			
	Roads & Streets				
	Lanes/Alleys		All Roads will be Recorded	None	Straight Line
	ACP - Hot Mix	20			
	Millings	10			
	Gravel	15			
	Nonconforming	20			
	Local/Collector/Arterial/Major Arterial				
	Concrete	30			
	ACP - Hot Mix	20			
	ACP - Cold Mix	10			
	Millings	10			
	Chip Seal	10			
	Oil	10			
	Gravel	15			
	Subsurface	40			
	Road Signs		\$2,000	None	Straight Line
	Traffic Control	30			
	Information	30			
	Lights				
	Decorative	30			
	Street	30			
	Traffic	30			
	Guard Rails	30			
	Ramps	30			
	Sidewalks & Pararamps	30			
	Construction in Progress	-			
<b>Water System</b>					
	Distribution System		\$10,000	None	Straight Line
	Mains	75			
	Services	75			
	Construction in Progress	-			
<b>Wastewater System</b>					
	Distribution System		\$10,000	None	Straight Line
	Mains	75			
	Services	75			
	Construction in Progress	-			
<b>Storm System</b>					
	Collection System		\$10,000	None	Straight Line
	Mains	75			
	Services	75			
	Construction in Progress	-			



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Asset Classes Minor	Sub-class One Sub-class Two Sub-class Three	Maximum Useful Life	Capitalization Threshold	Residual Value	Amortization Method
<b>Electrical System</b>					
Electrical Distribution					
Towers and Fixtures		38			
Poles and Fixtures		38			
Construction in Progress		-			
<b>Marine Structures</b>					
Boat Launch		25			
Construction in Progress		-			
<b>Machinery and Equipment</b>					
Heavy Construction Equipment		Variable			
Stores		25			
Food Services		10			
Fire Equipment		12			
Police Special Equipment		10			
Aircraft		Variable			
Boats		25	\$1,000	10% of Acquisition Cost	Straight Line
Fitness and Wellness		10			
Control Systems		5			
Communication Links		20			
SCADA System		10			
Fuelling Stations		15			
Laboratory		10			
Communications					
Radios		10	\$1,000	None	Straight Line
Telephone Systems		10			
Tools, Shop and Garage Equipment		10			
Scales		10			
Bins		15			
Meters					
Electrical		20			
Cumulative Interval		20	\$1,000	10% of Acquisition Cost	Straight Line
Gas		20			
Water		40			
Parking Meters and Splitters		20			
Turf Equipment		10			
Ice Re-Surfacer		10			
Office Furniture and Equipment					
Furniture		20			
Office Equipment		10			
Audiovisual		10			
Photocopiers		5	\$1,000	None	Straight Line
Computer Systems					
Hardware		5			
Software		10			
Construction in Progress					

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<b>Asset Classes</b> <b>Minor</b> <b>Sub-class One</b> <b>Sub-class Two</b> <b>Sub-class Three</b>	<b>Maximum</b> <b>Useful Life</b>	<b>Capitalization</b> <b>Threshold</b>	<b>Residual Value</b>	<b>Amortization Method</b>
<b>Vehicles</b>		<b>\$2,000</b>	<b>10% of</b> <b>Acquisition</b> <b>Cost</b>	<b>Straight Line</b>
Light Duty	10			
Medium Duty	10			
Heavy Duty	10			
Construction in Progress	-			