

Corporate Policy

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Section:	Finance	05
Sub-Section:	Asset Management	2020
Title:	Tangible Capital Assets	01

Related Policies

Number	Title
03-1200-01	Purchasing

Approvals

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Tangible Capital Assets

Policy

A framework is established for the management and control of the City's tangible capital assets. Included in this framework are proper recognition, measurement, thresholds, aggregation, segregation, amortization, reporting, safeguarding and disposal. Additional guidelines relating to the purchase of assets are found in the City's Purchasing policy.

Procedures

Purpose

This Tangible Capital Asset policy (TCA policy) promotes sound corporate management of capital assets and complies with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150.

Financial statements prepared for the fiscal year starting January 1, 2009 required compliance with PSAB 3150. Comparative figures for the year 2008 were also required.

Scope

All tangible property owned by the City, either through donation or purchase, and which qualifies as capital assets, are addressed in this TCA policy. In accordance with PSAB 3150, tangible capital assets (TCA) 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;
- iii. are to be used on a continuing basis;
- iv. are not for sale in the ordinary course of operations; and
- v. have a total cost that meets or exceeds the threshold for the TCA category (see *Thresholds*).

Tangible capital assets do not include:

- i. inventories held for resale;
- ii. heritage assets;
- iii. public art; or
- iv. feasibility studies, business cases, management reviews (i.e., post implementation).

These assets will be noted on the City's financial statements as being owned, but with no value stated.

Principles

Principles in this policy provide guidance for policy development and assist with interpretation of the policy once applied.

1. the purpose of this policy is for the benefit of the City as a whole; for the users of the City's financial statements and managers of the City's tangible capital assets;

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2. the cost associated with data collection and storage is balanced with the benefits achieved by users of the data and reports;
3. budgeting follows PSAB 3150. Only capital items meeting the capital asset criteria in this policy will be budgeted as capital;
4. compliance is with all legislation applicable to municipalities;
5. financial, operational, and information technology system limitations are considered;
6. materiality is considered; and
7. reporting deadlines are met.

TCA Inventory – Acquisition

Tangible capital assets are recorded at historical cost. TCAs are recognized as assets on the City's Statement of Financial Position on an annual basis. If the asset is still under construction at the end of the fiscal year, it is recognized as such and not amortized. All other assets are recorded in their appropriate category by date of receipt for capital goods or when the asset is put into use for capital projects. As assets go into service, the New Capital Asset form is completed.

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 would not be netted against the cost of the related TCA.

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

Historic cost for assets included in the initial inventory collection (those assets owned by the City up to December 31, 2007), if not available through invoice or other reliable records, was calculated using replacement cost of the asset in today's dollars and discounted back to the year it was purchased using a rate applicable to the asset [e.g., Consumer Price Index (CPI), Engineering News Record (ENR)]. When the City receives a contributed asset, the Contributed Asset form is completed.

Thresholds

Thresholds are established for a minimum dollar value and number of years of useful life. Thresholds help to determine whether expenditures are to be capitalized as assets and depreciated or treated as a current year expense. For financial reporting purposes, thresholds are set fairly high; however, values below the threshold are useful in the decision making for the City's maintenance management program. Therefore, an optimal threshold for each asset category has been established to summarize the assets.

The City's monetary threshold levels are set as follows:

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Asset Category	Threshold
Land	Capitalize Only
Buildings	\$25,000
Buildings Sub-Category: ➤ Other Structures	\$25,000
Construction in Progress	N/A
Furniture, Equipment, Technology, and Vehicles	\$5,000
Road Infrastructure	\$50,000
Road Sub-Categories: ➤ Multipathways ➤ Trails ➤ Boardwalks and Trail Bridges ➤ Bridges (Pedestrian and Vehicle) ➤ Parking Lots ➤ Culverts	\$20,000 \$20,000 \$20,000 \$20,000 \$50,000 \$50,000
Water Infrastructure	\$50,000
Sewer Infrastructure	\$50,000
Drainage Infrastructure	\$50,000

Thresholds apply to capital goods purchased and capital projects constructed with the total cost of the good or project meeting the threshold criteria. Improvements are capitalized when they meet the dollar threshold and extend the useful life of the asset by two years. Further refinement to threshold levels will occur as the City develops an understanding of its asset and reporting needs.

Pooled assets are a collection of like assets which would individually not meet the above thresholds but collectively meet or exceed it. Each asset in the pool must be similar in make and estimated useful life. The 'pool' is recorded as one asset and includes the number of units that make up the pool. Pooled assets will have a range of acquisition dates, but the one asset will be recorded at the top end of the range. When additions or disposals related to the pool are made, the asset record is adjusted.

Classification, Aggregation, and Segmentation

The level of detail required in the capital asset inventory is a balance between cost of data collection, tracking, and analysis and the beneficial use of the information gathered. The full cost of preparing a TCA for its intended use is considered the aggregate cost of the capital asset.

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LAND

Land owned by the City includes parkland, land for City-owned facilities, and land under roads and sidewalks. All land owned by the City is segmented either by each parcel held or by area. City parkland and the land for City facilities and leased facilities is quantified and included in the City's land database. Land is to be capitalized, but not amortized. It is recorded at historical cost and remains at that cost until disposal.

BUILDINGS

Buildings owned by the City include City Hall, police buildings, fire halls, libraries, theatres, art centres, and facilities, including pools, arenas, and community centers, and third-party leased properties. A building is segmented by envelope, roof, and other significant component parts based on useful life. This treatment provides for capital replacement of each component over the years of ownership. New construction costs of buildings also include the furniture, fixtures, and equipment required to make the building ready for use. Buildings should be recorded at either their acquisition cost or construction cost.

BUILDINGS SUB-CATEGORIES

The building sub-category is segmented and includes other structures which are temporary/portable in nature, including sheds, containers, trailers, and other temporary buildings owned by the City. The useful life for other structures is determined to be 20 years.

CONSTRUCTION IN PROGRESS

Construction in progress contains capital projects underway, but not complete or in use. Upon completion, these projects are transferred to the appropriate category and depreciated based on the date they are put into service. Construction in progress should be capitalized and not amortized.

FURNITURE, EQUIPMENT, TECHNOLOGY, and VEHICLES

Furniture, equipment, technology, and vehicles are capitalized when a purchase is made that exceeds the threshold, or when a group of assets are purchased (the assets are pooled). Equipment includes but is not limited to assets such as: playground equipment, fencing, artificial turf fields, tools, and library books.

Vehicles are capitalized upon purchase and capital improvements are applied if the total cost of the work exceeds the threshold for the category and extends the life of the vehicle for two years or more.

INFRASTRUCTURE

ROADS

The road network is segmented by intersections and includes all components of the system such as: curbs and gutters, sidewalks, lamp posts, and traffic signals. Bridges and constructed pathways are valued separately. Capital projects, when complete, are recorded as assets by allocating costs to each segment. The road network is further divided by roads and sub-roads because of the difference in life expectancy between the top layer of the road and the sub-road. Sub-roads typically have a 75-80-year life expectancy, whereas the top layer has a life expectancy of approximately 20-50 years.

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ROADS SUB-CATEGORIES

The road sub-categories are segmented and include components such as: multi-pathways, boardwalks and trail bridges, pedestrian and vehicle bridges, parking lots, and culverts. Capital projects, when complete, are recorded as assets by allocating costs to each segment. The useful life of multi-pathways is determined to be 30 years for concrete, brick, and/or pavers, 20 years for asphalt surfaces, and 15 years for gravel and wood. The useful life of boardwalks is determined to be 25 years, while the useful life for trail bridges is determined to be 20 years for bridges built prior to 2007 and 30 years for bridges built in 2007 and later due to the City's increase in quality standards. The useful lives for bridges are unique with respect to construction style and material used. The useful life for pedestrian bridges is determined to be 60 years for steel, 50 years for concrete, 30 years for steel substructure/wood superstructure, and 20 years for wood. The useful life for vehicle bridges is determined to be 60 years for steel, 50 years for concrete, and 40 years for wood. The useful life for parking lots, consisting of pavements, curbs, and fencing, is determined to be 35 years. The useful life for culverts is determined to be 60 years for New Arch Span type (metal with lock block), 50 years for Old Arch Span type (concrete sandbag), and 40 years for concrete box type construction.

WATER

The water system is segmented and includes all components of the system such as water mains, valves, hydrants, and services. Capital projects, when complete, are recorded as assets by allocating costs to each segment. PRV stations are recorded as separate assets and include components such as electrical systems and pumps.

SEWER AND DRAINAGE

The sewer and drainage system is segmented and includes all components of the system such as sewer mains, manholes, catch basins, and services. Capital projects, when complete, are recorded as assets by allocating costs to each segment. Pump stations are recorded as separate assets and include components such as electrical systems and pumps.

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 General Manager, Division Manager, and staff members to ensure capital assets assigned to their custody are maintained and safeguarded.

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

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Asset Category	Amortization of Cost less Savage Value
Land	Not amortized
Buildings and building sub-category	Straight line over useful life of each asset unit
Construction in Progress	Not amortized
Furniture, Equipment, Technology, and Vehicles	Straight line over useful life of each asset unit
Road Infrastructure and relevant sub-categories	Straight line over average useful life of each segment
Water Infrastructure	Straight line over average useful life of each segment
Sewer Infrastructure	Straight line over average useful life of each segment
Drainage Infrastructure	Straight line over average useful life of each segment

Amortization is calculated the month the asset is put into service. Economic useful life is used for amortization rather than physical useful life.

TCA – Betterments

Costs for betterments are considered to be part of the cost of a tangible capital asset and are added to the recorded cost of the related asset. Costs incurred to enhance the service potential of a tangible capital asset are betterments. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, the useful life of the property is extended, or the quality of the output is improved.

TCA Inventory – Write Down

The useful life of assets will be reviewed on a periodic basis and amortization will be adjusted accordingly. 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 net book value. A write down should not be reversed.

TCA Inventory – Disposal

Disposal procedures for capital assets are in accordance with the City's Purchasing policy. Disposals can occur through sale, destruction, loss, or abandonment of the asset, at which time the disposal of Capital Asset Form is completed. Such disposals represent a reduction in the City of Port Moody's investment in tangible capital assets. The difference between the net proceeds of the asset and the net book value of the asset is accounted for as a revenue or expense.

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TCA Inventory – Leased Tangible Capital Assets

A leased asset will be capitalized if the lease is determined to be a capital lease. If during the term of the lease, the City of Port Moody receives substantially all the economic benefits by the use of the leased property over its life span, it will be recorded as both a tangible capital asset and as a liability. The value of the leased tangible capital asset will be based on the value of the lease at the time it is put into effect, excluding any administrative costs. Payments made under an operating lease will be expensed in the period. Historical cost of TCA acquired under capital lease will be determined by calculating the net present value of future lease payments.

Accounting

The Public Sector Accounting Board expectations regarding transition to PSAB 3150 is provided in PSAB 3150.43 to PSAB 3150.48. PSG-7 (Attachment III) provides further guidance on the notes to the financial statements.

Transitional steps taken were as follows:

- i. removed existing Capital Assets and Investment in Capital Assets from the Statement of Financial Position;
- ii. long-term debt was kept as a financial liability;
- iii. added to the Statement of Financial Position, the recently measured, currently held, tangible capital assets along with related accumulated amortization. The offsetting account used was prior year surplus;
- iv. recorded new additions on the Statement of Financial Position with the offsetting entry to cash, accounts payable or long-term debt. Did not expense the cost of capital assets;
- v. recorded disposals at the time of replacement. Disposals reduced the cost of the asset, accumulated amortization with the residual recorded as either an expense or revenue;
- vi. amortized the assets each year. Budgeted for amortization;
- vii. write-downs were an adjustment to the cost of the TCA (PSAB 3150.31) and expensed;
- viii. offsetting adjustment for amortization in the budget for the purposes of a balanced budget was a transfer from equity; and
- ix. budgeting for capital assets was for the capital asset additions expected on the Statement of Financial Position.

Tangible Capital Assets on the financial statements resulted in net capital assets on the Statement of Financial Position and expenditures for depreciation and write-downs on the Statement of Operations.

Presentation and Disclosure

In total and for each major category of capital assets, the City 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;

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- e. the amount of depreciation for the period;
- f. accumulated amortization at the beginning and end of the period; and
- 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;
- b. the amortization method used, including amortization period or rate for each major capital category of TCA;
- c. the net book value of TCA not being amortized because they are under construction or development or have been removed from service;
- d. the nature and amount of contributed TCA 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.

Monitoring / Authority

Each department General Manager is responsible for ensuring that this policy is followed.

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Schedule A

ASSET USEFUL LIFE – General Guidelines

<u>ASSET TYPE</u>	<u>DEPRECIABLE LIFE IN YEARS</u>
Building	
Exterior Envelope	40-75
HVAC Systems	15-30
Roofs	15-30
Mechanical Systems	15-35
Other/Temporary Structures	20
Furniture, Equipment, Technology, and Vehicles	
Hardware	4
Telephone system	7
General Equipment	10
Grounds Equipment and Machinery	15
Library Books and Collections	5
Playground Equipment	20-30
Artificial Turf Field	10-15
Playing Fields	15
Basketball/Tennis Courts	20
Cars and Light Trucks	5-15
Fire Trucks	20-30
Heavy Construction Equipment	10-40
IT Infrastructure	3-15
IT Trenched Fiber Inlay	25
Infrastructure (dependent upon component and material)	
Water	10-100
Sewer	10-100
Drainage	10-100
Roads	20-50
Sub-Roads	75-80
Culverts	40-60
Bridges	30-60
Parking Lots	35
Multi-pathways	15-30
Boardwalks and Trail bridges	20-30