

| THE CITY OF GRAND FORKS | | | |
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| POLICY TITLE: Tangible Capital Assets | | POLICY NO: 804-A1 | |
| EFFECTIVE DATE: August 18, 2014 | | SUPERSEDES: 804 | |
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| APPROVAL: Council | | PAGE: 1 of 12 | |

POLICY:

The City of Grand Forks will record, account and disclose of its capital assets in accordance with the Public Sector Accounting Board (PSAB) requirements and this policy.

POLICY OBJECTIVE:

Under the *Community Charter*, the Municipality is required to comply with the financial reporting requirements of the Public Sector Accounting Board (PSAB).

The objective of this policy is to promote sound asset management and accounting for tangible capital assets ("TCA") by establishing a framework for the accounting of the Municipality's TCAs in accordance with PSAB 3150 Tangible Capital Assets. Accordingly, this policy should be considered within the overall context, constraints and requirements of PS3150, which remains the senior authoritative document.

DEFINITIONS

All definitions are taken from PSAB 3150 (as at June 24, 2009) and are included here for ease of reference only; the reader should refer to section 3150 to ensure the definitions remain current.

Tangible Capital Assets: Are non-financial assets having physical substance that:

- 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,
- Have useful economic lives extending beyond an accounting period,
- Are to be used on a continuing basis, and
- Are not for sale in the ordinary course of operations.

Cost: The gross amount of consideration given up, and directly attributable to, the acquisition, construction, development or betterment of a TCA. Capital grants would not be netted against the cost of the related TCA.

Betterments: A cost incurred to enhance the service potential of a TCA. Service potential is the output or service capacity of the TCA. 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.

Fair Value: The amount of the consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act.

Useful Life: An estimate of either the period over which a TCA is expected to be used, or the number of production or similar units that can be obtained from the TCA. The life of a TCA can extend beyond an asset's useful life to the government. In general the life of a TCA, other than land, is finite and is normally the shortest of the physical, technological, commercial or legal life.

Amortization: A charge to expenditures for the use of a capital asset.

PRINCIPLES

Overarching principles that guide development, interpretation and implementation of the policy.

- 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.
- The cost associated with data collection and storage is balanced with the benefits achieved by users of the data and reports. Materiality and costs vs. benefits is considered.
- The City's capital budget items comply with PSAB 3150 and criteria in this policy.
- All legislation applicable to municipalities will be complied with.
- Financial, operational and information limitations are considered.
- Reporting requirements and deadlines will be met.

POLICY FRAMEWORK

Included in this framework are policies for

- financial accountability
- valuation and measurement
- classification
- recognition

- capitalization thresholds
- segregation and pooling
- work in progress
- write-downs, write-offs, betterments
- amortization
- trade-ins and
- disposal
- presentation and disclosure.

Additional guidelines relating to the purchase and disposal of assets are contained in the City's Contracting Authority and Purchasing Policy 802 and Asset Disposal 804/805.

Financial Accountability

1. Departments are responsible for maintaining tangible capital asset information as provided through the application of these policies.
2. Departments are required to record and report periodic changes in tangible capital assets to the Finance Department consistent with the application of these policies.
3. Departments are required to verify tangible capital assets under their control through the completion of periodic physical counts. A reconciliation of each physical count to the Finance Department's accounting records should be completed as a part of this process.
4. It is policy that physical counts on moveable tangible capital assets are conducted at least annually and verification of non-moveable tangible capital assets be conducted at least every three years.
5. Departments are required to maintain tangible capital information such as location, usage, condition and maintenance records and ensure that proper control of tangible capital assets is maintained.
6. Departments are required to submit periodic tangible capital asset information in the designated format as requested by the Finance Department.
7. The Finance Department is responsible for monitoring the application of this policy and updating the policy on a regular basis.
8. The Finance Department is responsible for facilitating the approval of the capital budget and accounting for tangible capital assets in accordance with this policy, including the application of proper capitalization, categorization and amortization policies of the tangible capital assets.

9. The Finance Department is responsible for the accurate recording and reporting of tangible capital assets in the financial statements of the Corporation of the City of Grand Forks.

Valuation and Measurement

Purchased and constructed TCAs are valued and recorded at cost.

1. Costs for a purchase would include all direct purchase costs such as: purchase price, cost of installation, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs and duties.
2. Cost for constructed assets would include all direct construction costs (equipment, material and labor charges) and directly related overhead.
3. Direct costs DO NOT include:
 - General studies not related to a specific capital works (such as Service Master Plans that detail how to maintain an asset or asset category, or future capital works planning).
 - Carrying costs, such as interest charges on debt incurred to finance the construction, during the period of active construction to the date of substantial completion.
 - Costs for staff (and related operating costs) that perform administrative and managerial functions with respect to the capital works. This would include the management of the overall capital works program including the planning and tendering of works, grant application completion and development and management of related funding structures such as development cost charges.
- Direct costs DO include:
 - Third party costs incurred in anticipation of specific projects such as grant applications (whether approved or not), preliminary design or engineering works, appraisal costs, applications fees, handling and storage costs, advertising, public open houses etc.. These costs may be incurred a number of years prior to the works being approved and started. These costs are capitalized as Work In Progress until such time as the works are completed, or the costs are written off.
 - Costs for City staff who work directly on the construction of the capital works, such as installing a new water main. Costs would include salary, benefits and an allocation of directly related overhead (public works cost center costs for management, building & equipment, training etc.).
 - Costs for City equipment used directly on the construction of the capital works. Such costs are allocated through the use of equipment charge out rates times actual time spent on the capital work.

4. Costs of betterments are considered to be part of the cost of a TCA and are added to the recorded cost of the related asset.
5. Leased TCAs are valued and recorded in accordance with Public Sector Guidelines PSG-2 -Leased Tangible Capital Assets.
6. Contributed or donated TCAs are
 - Valued and recorded at ***fair value*** at the date of contribution. Where an estimate of fair value cannot be made, the TCA is valued and recorded at \$1.00.
 - TCAs contributed in lieu of a developer charge or as part of the normal development process (contribution of infrastructure upon development of a subdivision)

Classification

The level of detail of capital assets maintained by the City is dependent on costs of data collection and storage vs benefit.

1. Primary Asset Classification:

The primary classification breaks down the assets into the various government functions as follows:

- General Government
- Protective Services – Fire
- Protective Services - Other
- Transportation
- Sanitary Sewer System
- Storm Sewer System
- Water System
- Electrical System
- Recreation & Culture
- Development Services
- Cemetery
- Other

2. Secondary Asset Classification:

The secondary classification breaks down each asset function into various asset types. The asset types and the assets included in each type, are the same* as that detailed in the Ministry of Municipal Affairs, Local Government Infrastructure and Finance Division, May 2008, *Guide to the Amortization of Tangible Capital Assets*.

The asset types are summarized below (see Attachment A for more details).

- Land
- Land Improvements
- Buildings & Other Structures
- Furniture, Equipment and Technology
- Vehicles
- Transportation Infrastructure
- Water Infrastructure
- Sanitary Sewer Infrastructure
- Electrical Infrastructure
- Storm Sewer Infrastructure
- Other.

Recognition and Capitalization Thresholds

1. Tangible capital assets are recognized on the date of receipt of the capital goods, or when the asset is put into use for capital construction projects referred to as the “in-service date”. During construction capital work is classified as Work in Progress.
2. Capitalization Thresholds – Thresholds apply to the total cost of the purchased or constructed asset put into use. Future refinement to threshold levels may be necessary

| <u>Asset Classification</u> | <u>Threshold</u> |
|-------------------------------------|------------------|
| Land | All |
| Land Improvements | >= \$5,000.00 |
| Buildings & Other Structures | >= \$5,000.00 |
| Furniture, Equipment and Technology | >= \$5,000.00 |
| Vehicles | >= \$5,000.00 |
| Infrastructure Assets | >=\$10,000.00 |
| Other | >= \$5,000.00 |
| Work-in-Progress | All |

3. TCAs not meeting the above thresholds are expensed.

Segmentation and Pooling

The total aggregate cost of a capital asset is segmented into components based on useful life. See following table for asset segmentation.

| <u>Asset Classification</u> | <u>Level of Segmentation and/or Pooling</u> |
|-------------------------------------|--|
| Land | Segment by each legal parcel held. |
| Land Improvements | Segment by individual asset. |
| Buildings & Other Structures | <p><u>Generally</u> pooled by envelope, roof cover, interior finishes, and services (see Attachment A for a summary of what is included in each pool). May elect to further segment material, distinct components (eg.: electrical, flooring, interior finish etc.) to partially or fully replace the respective pool.</p> <p>The degree of segmentation for each building should be based on the value of the building (net book value) and variances in the useful lives of the various components. In general, a higher value and significant variances in useful lives would lead to greater segmentation.</p> <p>Older buildings owned prior to Jan/1/2009 will be initially accounted for on a single asset basis and converted to a component basis (pooled components or individual material components) as the components are replaced in future years.</p> |
| Furniture, Equipment and Technology | Similar assets will be pooled when the individual asset value is less than \$5,000 but when acquired in the same year as other like assets where the total value of the like assets purchased in the year exceeds \$5,000. Assets in these pools will be disposed of using the deemed disposition method.** |
| Motor Vehicles | <p>Segment by individual asset.</p> <p>Apparatus and equipment added to a vehicle will be accounted for as part of the Vehicle (single asset) if it is expected to have a useful life similar to that of the Vehicle. If its useful life is significantly different it may be recorded as a separate asset and classified under Furniture, Equipment and Technology.</p> |
| Infrastructure Assets | <p>Vertical Assets – segment by individual asset and further break into components as deemed appropriate by the Finance Officer.</p> <p>Linear Assets – segment by:</p> <ul style="list-style-type: none"> • Major type as defined in terms of the assets specifications (ex. collector road, rural road etc.) • Then breakdown by length (typically road name measured from center line to centerline) |

****Deemed disposition** – assets in this pool may be replaced on a regular basis but the administrative costs to separately track and account for each acquisition and disposal

transaction would be prohibitive. In these situations, the total additions are recorded and amortized over the applicable estimated useful life. The asset is assumed or deemed to have been disposed of in the last year of its estimated useful life. At the deemed disposition, the full cost of the addition and the related accumulated amortization is removed from the accounting records.

Work in Progress

1. Work-in-progress includes all current construction or development in progress on all tangible capital assets. These are costs incurred to construct a tangible capital asset before it is available for use. Accumulation of these costs cease when the asset is put into service.
2. All work-in-progress costs are to be reported separately under the work-in-progress asset category. As assets or significant portions of assets become available for service, they must be transferred to the regular asset categories for similar assets.
3. Where an asset has been constructed or developed, the estimated cost of the asset to final completion should be compared with the threshold for the asset category, to determine whether the asset would meet the minimum requirements to be considered a tangible capital asset.
4. Interest costs, incurred during the construction or development of tangible capital assets until the asset is ready for use and the asset is transferred to a regular asset category, may be added to the capitalized asset cost base.
5. Where a tangible capital asset is being constructed the department will clearly identify all costs related to the work and communicate these costs to the Finance Department.

Write-Downs

1. Where it can be objectively estimated that a reduction in a tangible capital asset's useful life or service potential has occurred, and the reduction is expected to be permanent, then the tangible capital asset should be written down to the revised estimate.
2. A write-down shall not be reversed.
3. All write-downs must be approved by Council, with a copy of the approval forwarded to the Finance Department.

Write-Offs

1. When an asset is no longer useful or it is obsolete then it may be written off. When a write-off occurs, the historic cost of the asset and the related accumulated amortization are reduced to zero. Any remaining net book value of the asset becomes an expense in the accounting period.
2. Costs of projects that have been abandoned or indefinitely postponed should be written off in the period of abandonment or indefinite postponement.
3. All write-downs must be approved by Council, with a copy of the approval forwarded to the Finance Department.

Betterments

1. Betterments, which extend the useful life or improve the efficiency of the asset and meet the capitalization threshold of the asset class to which it relates, must be added to the historical cost and amortized.

Amortization

1. Amortization is a non cash expense for the use of the capital asset and is allocated based on its useful life. See Attachment A for Useful Life Estimates.
2. All assets, except land and work in progress assets, are amortized.
3. The amortization basis is straight line basis over the assets useful life, less salvage value if material.
4. Amortization begins on the first day of the month following purchase or construction completion.

Trade-Ins

1. Capital assets may be disposed of by trading them in.

Disposals

1. On disposal of a tangible capital asset, the asset and its associated accumulated amortization are to reduced to zero, and any gain or loss on disposal is recorded as a revenue or expense for the period.

Presentation and Disclosure

1. The City will present in accordance with PSAB
 - a. Cost of the asset
 - b. Additions to the assets
 - c. Disposals of the asset
 - d. Write downs
 - e. Amortization
 - f. Net book value
2. The City's annual audited financial statements will disclose
 - a. Method used to determine asset costs
 - b. Amortization
 - c. Estimated useful life of asset

Living Document

This policy is established to set guidelines for determining the valuation, classification, amortization rates and life expectancy of assets. It is recognized that not all assets will fall within the guidelines established, and from time to time there may be value in capitalizing assets that fall below the established thresholds, or to change the amortization method and expected useful economic life, or to account for an asset outside of an established pool. When determining the method for recording an asset, the City will consider the usefulness of the resulting information and the cost versus the benefit of collecting and maintaining it.

RELATED POLICIES

| Policy No# | Policy Name |
|-------------------|------------------------------------|
| 802 | Contracting Authority & Purchasing |
| 805 | Asset Disposal |

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| APPROVED BY: | DATE: |
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ATTACHMENT A

SECONDARY ASSET CLASSIFICATION DETAILS

- Land - All land, except held for resale. Includes parkland, land for City facilities and land under roads and sidewalks.
- Land Improvements - All land improvements which will generally decay or break-down over time. Includes: landscaping, lighting (not street-lights), park infrastructure (tennis courts, outdoor pool, playing fields, playground equipment, fencing etc.), etc.
- Buildings & Other Structures - All buildings, arenas, stadiums etc. Includes the envelope/structure (including all studies, architectural and engineering services etc.), roof cover, services (plumbing, HVAC electrical etc.), and interiors (fittings and fixtures, elevators, ceiling/floor/wall finishes, doors etc.). Other structures include: retaining walls and parking structures (parkades).
- Furniture, Equipment and Technology - Includes tools, apparatus, computer equipment, office equipment, furniture and fixtures, vehicle attachments, library books, phone system, etc. May be installed in a building but can be moved and re-installed in another location.
- Vehicles – Insured, means of transportation.
- Transportation Infrastructure – Includes roads (roadway, sidewalks, medians, signage and curb and gutter), street lights, parking lots (but not parkades), alleys, bike and jogging paths, tunnels, bridges, and noise reduction berms.
- Water Infrastructure – Includes supply, distribution and treatment infrastructure.
- Sanitary Sewer Infrastructure – Includes collection, treatment and discharge infrastructure.
- Storm Sewer Infrastructure – Includes culverts and storm drains.
- Other – Includes assets not included in the other categories.

| <u>Secondary Asset Classification</u> | <u>Useful Life</u> |
|---|---------------------------|
| Land Improvements | |
| Playground Equipment | 15-20 |
| Fencing | 40-50 |
| Artificial Turf Field | 10-12 |
| Washrooms | 40-50 |
| Building Structure | 40-75 |
| Building Improvements | |
| Exterior envelope | 30-40 |
| Services - HVAC systems, Electric/Plumbing/Fire | 10-20 |
| Roofs | 15-20 |
| Furniture, Equipment and Technology | |
| Public Works and Parks Equipment | 7-10 |
| Fire Services Equipment | 15-20 |
| Office Furniture, Fixtures & Equipment | 5-20 |
| Information Systems - Hardware | 4-5 |
| Information Systems - Software | 5-10 |
| Telephone System | 7-10 |
| Motor Vehicles | |
| Cars and Trucks | 5-10 |
| Fire Trucks | 15-20 |
| Infrastructure Assets | |
| Transportation | 10-100 |
| Water | 10-100 |
| Sewer | 10-100 |
| Storm Sewer | 10-100 |