

<b>Policy Title:</b> Tangible Capital Asset Reporting Policy	<b>Policy Number:</b> P31
<b>Policy Category:</b> Finance	
<b>Approval Date:</b> October 26, 2010	<b>Policy Owner:</b> Deputy Chief Administrative Officer
<b>Approved by:</b> Board	<b>File Reference:</b> 0340-50

**Purpose**

This Tangible Capital Asset Reporting Policy promotes sound corporate management of capital assets and complies with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150. All tangible capital assets acquired by the Comox Valley Regional District (CVRD), whether by way of transfer, exchange, lease, donation or purchase, are subject to this policy. Financial statements prepared for the fiscal year starting January 1, 2009 require compliance with PSAB 3150. Comparative figures are required.

**Definition**

All tangible property owned by the regional district which qualifies as tangible capital assets (TCA) are addressed in this policy. In accordance with PSAB 3150.05, tangible capital assets 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; and
- iv. are not for sale in the ordinary course of operations.

Intangible assets such as copyrights, trademarks, patents, easements and rights of way do not fall under this policy and are not capitalized.

**Acquisition**

Acquisitions of capital assets are made in accordance with the Delegation of Authority Bylaw and Procurement Policy and fall within the adopted financial plan.

TCA are recorded at historical cost and are recognized as assets on the CVRD’s Statement of Financial Position on the date of the transfer of ownership for capital goods or when the asset is put into use for capital projects.

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. Appendix B provides examples of the types of expenses to be capitalized.

Capital grants are not netted against the cost of the related TCA. The cost of a leased TCA is determined in accordance with Public Sector Guidelines PSG-2, Leased Tangible Capital Assets.

For assets owned by the CVRD but not purchased by the CVRD including contributions from developers in lieu of a development cost charge, gifts and donations, valuation may be assessed by fair value. Fair value is defined as the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act.

**Valuation 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 amortized over its useful life, or treated as a current year expense.

The CVRD’s threshold levels are founded on the US Government Accounting Standards Board (GASB) 34 for local governments with consolidated revenues between \$10 million and \$100 million. GASB 34 thresholds have been recommended for use by Canadian local governments by the Ontario Municipal Benchmarking Initiative (OMBI).

	<b>Asset Category</b>	<b>Threshold for Local Governments with Revenues Exceeding \$10M and \$100M</b>
1	Land	Capitalize Only
2	Land improvements/Park infrastructure	\$25,000
3	Buildings	\$50,000
4	Building improvements	\$25,000
5	Office equipment and furniture	\$5,000
6	Machinery and equipment	\$5,000
7	Vehicles	\$5,000
8	IT Infrastructure - equipment and software	\$5,000
9	Other infrastructure (water, sewer, solid waste, etc)	\$50,000
10	Development Cost Charge –projects listed in bylaw	Capitalize
11	Work in progress	Capitalize Only

Thresholds apply to capital goods purchased and capital projects constructed with the total cost of the good or project meeting the threshold criteria.

The useful life threshold for capitalization purposes is set at two years.

Improvements and repairs (betterments) are capitalized when they either increase the productive capacity or significantly extend the useful service life of the asset.

### **Classification, Aggregation (pooling) & Segmentation**

Classification is according to the categories shown above with infrastructure further segmented by utility type – water, sewer and solid waste where possible.

Smaller assets that individually would not meet the threshold but as a group would meet or exceed the threshold, may be capitalized as a pool and amortized accordingly. Assets within the pool that are replaced during the amortization period will be considered an operating expense.

#### **1) Land**

Land owned by the CVRD includes parkland and land for regional district owned facilities and is segmented by each parcel held and by service.

A right of way, where the regional district has the right to enter or occupy private property, is not a TCA and will be recorded as an operating expense.

#### **2) Land Improvements/Park Infrastructure**

Land improvements/park infrastructure include parking lots, park trails, playground equipment, fencing, and sport fields. Each asset when capitalized is separately recorded with an attached useful life.

#### **3) Buildings**

Buildings include all structures that provide shelter from the elements. Buildings can be segmented by structure and significant components based on useful life if it provides better information for asset management purposes.

#### **4) Building Improvements**

Building improvements include HVAC systems, arena and pool systems, process control systems and building components with a useful life less than the building itself and are capitalized when they exceed the threshold.

#### **5) Office Equipment and Furniture**

Office equipment and furniture are capitalized if the cost of individual items exceeds the threshold or if purchased in volume and the volume exceeds the threshold limit.

#### **6) Machinery and Equipment**

Machinery and equipment are capitalized if the cost of individual items exceeds the threshold or if purchased in volume and the volume exceeds the threshold limit.

#### **7) Vehicles**

Vehicles are capitalized if the cost of individual items exceed the threshold.

#### **8) IT infrastructure, equipment & software**

IT infrastructure includes software, hardware, infrastructure, computers, printers, scanners. IT infrastructure is capitalized if each purchase or project meets threshold limits. Computers and printers, scanners, photocopiers, etc. are capitalized if purchased in volume and the volume exceeds the threshold limit or if purchased individually and the individual item exceeds the threshold.

#### **9) Other Infrastructure**

Infrastructure includes underground systems such as water and sewerage systems which are generally constructed or arranged in a continuous and connected network, or water and

sewerage components that do not qualify as a building. Solid waste infrastructure would also be included in this classification.

#### Water

Water infrastructure has two major categories – supply and distribution - which may be segmented by major component - reservoirs, mains, valves, pump stations, hydrants and services, and by service area. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part where possible and applicable. Smaller water systems can be aggregated when allocation by component part would not provide added value for asset management purposes.

#### Sewer

The sewerage system components are segmented by forcemains, pump stations, valves and services, and by service area. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part where possible and applicable. Smaller sewerage systems can be aggregated when allocation by component part would not provide added value for asset management purposes.

### **10) Development Cost Charges Projects**

Projects listed in the development cost charge bylaw are capitalized.

### **11) Work in Progress**

Work in progress consists of capital projects underway but not complete or put into use. These projects are individually segmented where possible and are capitalized once complete or put into use if costs exceed threshold limits. No amortization is calculated on work in progress.

### **Amortization and Useful Lives**

PSAB 3150 requires that TCA be depreciated over the useful life of the asset. The CVRD will use the straight-line method of amortization based on the useful life of the asset less residual value. Residual value will only be considered if it can be reasonably estimated at the time of acquisition. For infrastructure assets and those assets whose residual value cannot be reasonably estimated, residual value is deemed to be immaterial.

Amortization is calculated for one half of the year in the year the asset is put into service, excepting those assets acquired prior to February 15, 2008.

Land and work in progress are not amortized.

Appendix A provides general guidelines for estimating asset useful life for amortization purposes and has been based on the Ministry of Community Services document *Amortization of Tangible Capital Assets (May 2008)*. Variations from the useful lives provided in the guidelines can be made with justification from the acquiring department based on industry experience, geographical conditions and extent of maintenance programs.

### **Betterments**

Costs of 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. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. In general, service potential is considered to be enhanced when

there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered or where the useful life of the asset is extended.

Expenditures incurred to maintain the originally anticipated service potential of an asset or infrastructure component, or its estimated useful life, are considered maintenance.

### **Write Downs**

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's net book value. A write down cannot be reversed.

### **Disposals/Retirements**

All disposals or retirements of TCA are recorded in the regional district's financial statements in accordance with PSAB PS3150. Infrastructure assets that are part of a network will only have a disposal if the replacement of the elements of the network exceeds the established threshold. In most cases, the annual replacement of a small percentage of the network will be an operating expense and there will not be any asset disposal. The annual replacement of individual assets in a pool will also be considered an operating expense if less than the established threshold and no asset disposal will be recorded.

Disposal procedures for capital assets are in accordance with the regional district's purchasing management services policy.

### **Revision History**

<b>Approval Date</b>	<b>Approved By</b>	<b>Description of Change</b>
August 11, 2020	Board	Housekeeping

**APPENDIX A – Guidelines for estimating capital asset useful life**

This appendix provides general guidelines for estimating asset useful life for amortization purposes and has been based on the Ministry of Community Services document *Amortization of Tangible Capital Assets (May 2008)*. Variations from the useful lives provided in this appendix can be used with justification from the acquiring department based on industry experience, geographical conditions and extent of maintenance programs.

<b>ASSET TYPE</b>	<b>Useful life in years</b>
<b>Land improvements/Park infrastructure</b>	
Parking lot - gravel	15
Parking lot - asphalt	40
Playground structures	10
Sport fields	20
Landscaping	20
Fencing	15
Irrigation/sprinkler systems	20
Retaining walls	15
Running tracks	20
Outdoor lighting	20
Trails – gravel/chip	10
Trails - asphalt	40
Pedestrian bridges	Varies
<b>Buildings</b>	
Brick, Stone, Cement	50
Log, Frame, Steel or Other	40
Temporary or Portable	20
<b>Building improvements</b>	
HVAC systems, mechanical, plumbing, wiring, etc.	20
Leasehold Improvements	Lease term
<b>Office furniture and equipment</b>	
Photocopy/Multi function device machines	5
Office furniture	10
Office equipment	5
<b>Machinery &amp; equipment</b>	
General equipment	10
Heavy construction equipment, compactor	15
Light construction and grounds equipment	10
Fire department equipment (other than vehicles)	10-12
Fire department turnout gear (if bought as a pool)	5
Communication equipment (including telephone systems)	10
Ice Resurfacer	15
Fitness equipment	5
<b>Vehicles</b>	
Cars and light trucks	6

Fire trucks	15
Heavy trucks and other vehicles	10
<b>IT infrastructure</b>	
Hardware	5
Software – purchased or developed in house	5
<b>Water infrastructure</b>	
Water reservoir – concrete	80
Water reservoir – steel and other	80
Water towers and tanks	35
Wells	60
Wells – screens	25
Fire hydrants	40
Meters	5
Pipes – cast iron	60-100
Pipes – ductile iron	100
Pipes – galvanized steel	60
Pipes – PVC	80
Pipes – steel	80
Pipes – concrete	50
Pipes – copper	80
Pumps	20
Valves	40
Water distribution system – if using aggregate approach	50
<b>Sewerage infrastructure - collection</b>	
Meters	5
Pipes – cast iron	60-100
Pipes – ductile iron	80
Pipes – galvanized steel	60
Pipes – PVC	60
Pipes – steel	60
Pipes – concrete	60
Pipes – asbestos concrete	40
Pipes – copper	80
Pumps	20
Valves	40
<b>Sewerage infrastructure – treatment and discharge</b>	
Aerators	15
Blowers	20
Concentrators	20
Digesters	20
Heat Exchangers	15
Screens	10
Pump	20
Tanks	40
Compost facility structures (other than buildings)	20

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Odour control/scrubber	20
Dewatering/centrifuge	20
Aggregate approach – Filtration treatment or discharge system	30



## **APPENDIX B – Examples of items to be capitalized**

This list provides examples of expenses that could be included in the cost of an asset and is not exhaustive:

- Amount paid to vendor (net of discounts or rebates)
- Direct construction costs (internal wages, vehicle charges)
- Transportation and freight charges
- Customs and brokers fees related to imports
- Handling and storage charges
- Engineering, architectural and other outside services for designs, plans, specifications and surveys, including disbursements related to these services
- Purchase price of land and buildings
- Legal fees related to the purchase
- Appraisal costs
- Advertising related to the construction or purchase
- Application fees
- Management fees
- Utility costs during construction
- Site preparation costs including the removal of existing buildings
- Transportation insurance costs
- Construction insurance costs
- Non refundable purchase taxes (eg. PST/HST)

This list provides examples of expenses that should never be included in the cost of an asset and is not exhaustive:

- Feasibility studies – including site visits to see demonstrations
- Post implementation reviews – ex. safety inspections after the asset has been put into use
- Training and training materials
- Advertising not related to the construction or purchase (eg. open house)
- Hospitality (eg. food and supplies relating to open house or training/info sessions)
- Staff travel expenses
- Indirect charges for administration or overhead