

Town of High Level  
Policy 221-08

**Title:** **Tangible Capital Assets**

Authority: Council  
Council Motion: 656-08  
Date Adopted: April 28, 2008  
Old Policy No.:  
Amended:  
Amended by Motions:

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PURPOSE OF POLICY:

To provide direction for recognizing and recording Tangible Capital Assets (TCA) on a consistent basis and in accordance with Public Sector Accounting Board (PSAB) 3150.

POLICY STATEMENT AND GUIDELINES

**1. Tangible Capital Assets (TCA)**

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

1. are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other Tangible Capital Assets;
2. have useful economic lives extending beyond one year;
3. are to be used on a continual basis; and
4. are not for sale in the ordinary course of operations

Subsequent expenditures on a recorded TCA that:

1. increase output or service capacity;
2. increase the service life;
3. lower associated operating costs; or
4. improve the quality of the output.

Tangible Capital Assets should be classified as betterments and capitalized accordingly. Any other expenditure should be considered a repair or maintenance and should be expensed in the period.

**2. Amortization:**

The cost, less any residual value of a TCA with a limited life should be amortized over its useful life in a rational and systematic manner.

The amortization method and estimate of useful life of the remaining unamortized portion should be reviewed on a regular basis (as outlined in the table below or more frequently if needed) and revised when the appropriateness of a change can be clearly demonstrated.

## Town of High Level Policy 221-08

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### 3. Scope:

This Policy addresses the following:

1. Asset classification (major & minor).
2. Capitalization threshold for each asset classification.
3. Amortization method to be used.
4. Review schedule.

The following Table\* shows the classes, capitalization thresholds and amortization method to be used:

Major Asset Class	Minor Asset Class	Capitalization Threshold	Amortization Method	Review Schedule
Land		All land will be recorded	NA	NA
Land Improvements		\$2,500	Straight-line	Every 3 years
Buildings		\$25,000	Straight-line	Every 5 years
Engineered Structures	Roadway system	\$25,000	Straight-line	Every 5 years
	Water System	\$25,000	Straight-line	Every 5 years
	Wastewater System	\$25,000	Straight-line	Every 5 years
	Storm System	\$25,000	Straight-line	Every 5 years
Fibre Optics		\$25,000	Straight-line	Every 5 years
Machinery & Equipment		\$2,500	Straight-line	Every 3 years
Vehicles		\$2,500	Straight-line	Every 3 years
Cultural & Historical		NA	NA	NA

*\*Where the above table cannot be used, the auditor for the Town will be consulted to assist in establishing the correct accounting procedures for the TCA.*

### 4. Procedures

The attached Schedule “A” “Tangible Capital Assets Procedure” shall be used to provide the framework and standards for reporting and recording the Town’s Tangible Capital Assets.

Town of High Level  
Policy 221-08

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Schedule "A"  
**Tangible Capital Assets Procedure**

**Purpose:**

To achieve compliance with the standards of the Public Sector Accounting Board (PSAB) 3150 requirements for recording and reporting of the Town's Tangible Capital Assets.

To provide the framework and standards for the reporting and direction of recognizing and recording of the Town's Tangible Capital Assets on a consistent basis to be compliant with the requirements of the Public Sector Accounting Board (PSAB) 3150.

**Definition TCA Classes:**

Tangible Capital Assets will be recorded in major, minor and subclasses.

1. Major: A group of Tangible Capital Assets that is significantly different in design and use.
2. Minor: A classification within a major class that has unique characteristics.
3. Subclass: A further classification that may be required due to unique Tangible Capital Asset criteria, methodologies and asset lives. There is the option to classify further into subclass one, subclass two, subclass three, etc.

**Tangible Capital Assets recorded in the Major classification include:**

1. Land
2. Land improvements
3. Buildings
4. Engineered structures
5. Machinery and equipment
6. Vehicles
7. Cultural and historical assets

**Amortization Methods:**

1. Straight-line

The Straight-Line method assumes that the asset's economic usefulness is the same each year and the repair and maintenance expense is essentially the same each period. The amortization amount is determined by dividing the asset's original cost (less its salvage value) by its estimated life in years.

## Town of High Level Policy 221-08

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### 2. Unit of Use or Output

The Unit of Use or Output method determines depreciation as a function of use or productivity. It is used for assets which deteriorate based on usage and may be designed to produce a finite amount of product or service. This method determines depreciation based on asset output by dividing an asset's cost by its total expected productive output and multiplying the cost per unit by the actual production to date.

### 3. Declining Balance

The Declining Balance method is another method where amortization is considered as a function of usage instead of a function of time. The periodic charge is a constant percentage of the unamortized cost, and that the depreciation cost approaches zero by the retirement date. This method can be used when an asset depreciates significantly faster in the early years of its useful life.

The Straight-Line Amortization method is the most common and may be used to amortize all assets excluding land, which is not a depreciable asset. Other amortization methods may be more appropriate allocating the historical cost of the asset over its useful life and may provide a better estimate of the remaining useful life. Other generally accepted amortization methods may be consistently applied.

Residual value should be determined and deducted from the gross cost of the asset before the depreciation amount is calculated.

In the year of acquiring an asset, putting the asset into service or disposing of an asset, the Town will record 50% of the annual amortization amount.

The Useful Life or Amortization method of an asset may require revision during its life, due to significant events as outlined in PSAB 3150.30. The effect of this change would be recorded in the year of revision and future years.

### **Capitalization Thresholds:**

A capitalization threshold is defined as the minimum value of an expenditure that meets the criteria of a Tangible Capital Asset and will be recorded as a Tangible Capital Asset.

There will be no capitalization threshold for land. All land, excluding land held for resale, is to be capitalized because of the permanent nature of land.

Expenditures that meet both the criteria of a Tangible Capital Asset and exceed the capitalization thresholds are to be recorded as a Tangible Capital Asset.

The cumulative cost of a Tangible Capital Asset purchased that does not reach the capitalization threshold will be expensed. Tangible Capital Assets that have a value less than the capitalization threshold will be reviewed by the auditor for materiality purposes. The Town should estimate the annual amount of recorded Tangible Capital Assets and discuss the amount with the auditor to determine if the respective threshold levels are appropriate.

## Town of High Level Policy 221-08

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### **Recording Requirements:**

1. Tangible Capital Assets should be recorded at cost.
2. The cost, less any residual value, should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the Town.
3. Amortization method and estimated useful life of a Tangible Capital Asset should be reviewed on a regular basis and revised as required.
4. When conditions indicate that a Tangible Capital Asset no longer contributes to the Town's ability to provide goods and services, or that the value of the future economic benefits associated with the Tangible Capital Asset is less than its book value, the cost of the Tangible Capital Asset should be reduced to reflect the decline in the asset's value. The new write-down of the Tangible Capital Asset should be accounted for as an expense in the Statement of Operations.
5. The difference between the net proceeds on disposal of a Tangible Capital Asset and the net book value of the asset should be accounted for as a revenue or expense in the Statement of Operations.
6. Fully amortized assets in use will need to be recorded.

### **Betterment versus Repairs and Maintenance**

#### **Betterment:**

1. Enhance the service potential of a Capital Asset, i.e. service value; service life; future operating costs.
  - a. Increase in physical output or capacity.
  - b. Associated costs are lowered.
  - c. Useful life of the asset is extended.
  - d. The quality of output is improved.
2. Identification of betterment is a matter of professional judgment.

#### **Repairs and Maintenance:**

- a. Expenditures made to restore and keep Capital Assets in good operating condition, including corrective/preventative repairs, major overhauls and rehabilitation programs.
- b. Maintain the predetermined service of a Capital Asset for a given useful life.
- c. Costs incurred to keep the asset in normal operating condition.

Where an expenditure made in respect of a property serves only to restore it to its original condition, that fact is one indication that the expenditure is of a current nature. This is often the case where a floor or a roof is replaced. Where, however, the result of the expenditure is to materially improve the property beyond its original condition, such as when a new floor or a new roof clearly is of better quality and greater durability than the replaced one, the expenditure is regarded as capital in nature. Whether or not the market value of the property is increased as a result of the expenditure is not a major factor in reaching a decision.

## Town of High Level Policy 221-08

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Where a cost cannot easily be differentiated between a repair and betterment, the cost should be expensed in respecting the accounting principle of conservatism.

### **Reporting Requirements:**

1. Tangible Capital Assets should be accounted for and reported as assets on the Statement of Financial Position.
2. Financial Statements should disclose, for each major category of Tangible Capital Assets, the total cost, accumulated amortization and net book value at the beginning and end of the period and the total additions, disposals, write-down and amortization for the period.
3. The Financial Statements should also disclose other information about Tangible Capital Assets such as amortization methods, rates, Tangible Capital Assets under construction, donated Tangible Capital Assets, the nature of Tangible Capital Assets recorded at a nominal value or considered to be works of art or historical treasures and the amount of interest capitalized in the period.

### **Historical Costs not known:**

When the Town does not have historical cost accounting records of its Tangible Capital Assets, the Town will need to use other methods to estimate the cost and accumulate amortization of the Tangible Capital Asset.

# Town of High Level Policy 221-08

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## Appendix A: Definitions

### 1. Major Asset Classifications:

- **Land** – includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (highways, dams, bridges, tunnels, etc.) and other program use, but not held for resale.
- **Land Improvements** – all improvements of a permanent nature to land such as parking lots, landscaping, lighting, pathways, and fences.
- **Buildings** – Permanent, temporary or portable building structures, such as offices, garages, warehouses, and recreation facilities intended to shelter persons or goods, machinery, equipment and working space.
- **Engineered Structures** – permanent structural works such as roads, bridges, dams, water and sewer, and utility distribution and transmission systems, including plants and substations.
- **Machinery and Equipment** - Equipment that is heavy equipment for constructing infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware and software. Does not include stationary equipment used in the engineered structures class.
- **Vehicles** - Rolling stock that is used primarily for transportation purposes.

### 2. Minor Asset Classifications:

Minor classifications in the engineered structures major classification will be:

- **Roadway System** – Assets intended for the direct purpose of vehicle or pedestrian travel or to aid in vehicle or pedestrian travel. Includes roads, bridges, overpass, tunnels, bridges, lights, sidewalks and signage.
- **Water Systems** – Systems for the provision of water through pipes or other constructed convey. It is normally comprised of assets for the intake, distribution, storage and treatment of safe potable water. It may also be comprised of assets required to distribute non-potable water. Includes mains, services, pump and lift stations, plants and equipment, reservoirs and fire hydrants.
- **Storm System** – Assets used for the collection, storage and transfer of water as a result of rain, flood and other external source or natural water system. Includes mains, services, catch basins, pump and lift stations, outfalls and retention periods.
- **Wastewater System** – Wastewater is defined as water that has been used for household or business and other purposes, which flows from private plumbing systems to public sanitary sewers and on to a treatment plant. This system is comprised of assets used for the collection and treatment of non-potable water intended to be returned to a natural water system or other originating water source or used for other environmentally approved purposes. Includes mains service, pump and lift stations, plants, equipment and lagoons.
- **Fibre Optics** – Fibre Optics is defined as technology that uses glass or plastic threads to transmit data. Fibre Optic cable consists of a bundle of threads, each capable of transmitting messages modulated onto light waves. The system is comprised of assets necessary to transmit data through Fibre Optic cable.

Town of High Level  
Policy 221-08

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**Appendix B: Recommended Capitalization Threshold**

<b>Asset Description</b>	<b>Capitalization Threshold</b>
Land	NA
Land Improvements	\$2,500
Buildings	\$25,000
Engineered Structures	\$25,000
Machinery and Equipment	\$2,500
Vehicles	\$2,500

Town of High Level  
Policy 221-08

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**Appendix C: Recommended Maximum Useful Life**

Classification	Maximum Useful Life
<b>Land</b>	
<b>Right of Way</b>	NA
<b>Undeveloped Right of Way</b>	NA
<b>Parks</b>	NA
<b>General</b>	NA
<b>Cultural and Historical Assets</b>	
<b>Public Art</b>	NA
<b>Historical</b>	NA
<b>Heritage Site</b>	NA
<b>Land Improvements</b>	
<b>Parking Lot</b>	
Gravel	15
Asphalt	25
<b>Playground Structures</b>	15
<b>Landscaping</b>	25
<b>Fences</b>	20
<b>Sprinkler Systems</b>	25
<b>Golf Courses</b>	45
<b>Tennis Courts</b>	20
<b>Fountains</b>	20
<b>Lakes/Ponds</b>	25
<b>Retaining Walls</b>	20
<b>Running Tracks</b>	15
<b>Outdoor Lighting</b>	20
<b>Airport Runways</b>	10
<b>Soccer Pitch-Outdoor</b>	20
<b>Bike/Jogging Paths</b>	
Gravel	15
<b>Asphalt</b>	20
<b>Landfill</b>	
Pits	volume
Pads	volume
Transfer Stations	25
Construction in Progress	variable

Town of High Level  
Policy 221-08

---

Buildings	
<b>Permanent Structures</b>	
Frame	50
Metal	50
Concrete	50
<b>Portable Structures</b>	
Metal	25
Frame	25
<b>Leasehold Improvements</b>	
Construction in Progress	variable
Engineered Structures	
<b>Roadway Systems</b>	
Bridges	variable
Overpass/interchange	60
Curb & Gutter	30
Parkades	50
Roads & Streets	
Lanes/Alleys	
ACP-hot mix	20*
Gravel	15*
Non-conforming	20*
Local/Collector/Arterial/Major Arterial Surface	
Concrete	30*
ACP-hot mix	20*
ACP-cold mix	10*
Chip Seal	10*
Oil	5*
Gravel	25*
Subsurface	40*
Road Signs	
Traffic control	30
Information	30
Lights	
Decorative	30
Street	30
Traffic control	30
Guard Rails	30
Ramps	30
Sidewalks & Para-Ramps	30
Light Rail System	65

Town of High Level  
Policy 221-08

---

Construction in Progress	variable
<b>Water System</b>	
Distribution System	
Mains	75
Services	75
Pump, Lift and Transfer Stations	45
Plants and Facilities	
Structures	45
Treatment Equipment	45
Mechanical	45
Electrical	45
General	45
Pumping Equipment	45
Hydrants/Fire Protection	75
Reservoirs	45
Construction in Progress	variable
<b>Wastewater System</b>	
Collection System	
Mains	75
Services	75
Pump, Lift and Transfer Stations	45
Plants and Facilities	
Structures	45
Treatment Equip	
Mechanical	45
Electrical	45
General	45
Pumping Equipment	45
Lagoons	45
Construction in Progress	variable
<b>Storm System</b>	
Collection System	
Main	75
Services	45
Pump, Lift and Transfer Stations	45
Catch Basins	75
Outfalls	75
Wetlands	75
Retention Ponds	75
Treatment Facility	45
Construction in Progress	variable

Town of High Level  
Policy 221-08

---

Fibre Optics	
<b>Electrical System</b>	
Electrical Generation	
Boilers	30
Turbo Generations	30
Combustion Turbines	20
Condensate Tanks Gas Compressors	10
Other	10
Generation Wind/Turbine	30
Construction in Progress	variable
Electrical Transmission	
Structures & Improvements	35
Station & Line Equipment	
Transformers	40
Switchgear	35
Protection Systems	20
Insulators	60
Other Structures & Equipment	35
Towers and Fixtures	38
Poles and Fixtures	38
Overhead (O/H) Conductors & Devices	35
Underground (U/G) Conductors & Devices	40
U/G Conduit	40
U/G Cable	40
Construction in Progress	
Electrical Distribution	
Site Development	35
Station and Line Equipment	
Transformers	40
Switchgear	35
Protection Systems	20
Insulators	60
Towers and Fixtures	38
Poles and Fixtures	38
Overhead (O/H) Conductors & Devices	35
Underground (U/G) Conductors & Devices	40
U/G Conduit	40
Construction in Progress	variable
General Plant-Electrical	
Site Development	80
Electrical Substations	

Town of High Level  
Policy 221-08

---

Site Development	35
Station & Line Equipment	
Transformers	40
Switchgear	35
Protection Systems	20
Other Structures & Equipment	35
Towers and Fixtures	38
Poles and Fixtures	38
O/H Conductors & Devices	35
U/G Conductors & Devices	
U/G Conduit	40
U/G Cable	40
Construction in Progress	variable
Gas Distribution System	
Structures	75
Transmissions	75
Services	75
Medium pressure	36
High Pressure	36
Measurement	35
Construction in Progress	variable
<b>Machinery &amp; Equipment</b>	
<b>Heavy Construction Equipment</b>	variable
<b>Stores</b>	25
<b>Food Services</b>	10
<b>Fire Equipment</b>	12
<b>Police Special Equipment</b>	10
<b>Aircraft</b>	variable
<b>Boats</b>	25
<b>Fitness and Wellness</b>	10
<b>Control Systems</b>	5
<b>Communication Links</b>	20
SCADA System	10
Fuelling Stations	15
<b>Laboratory</b>	10
<b>Communications</b>	
Radios	10
Telephone Systems	10
<b>Tools, Shop and Garage Equipment</b>	15
<b>Scales</b>	15
<b>Bins</b>	15

Town of High Level  
Policy 221-08

---

<b>Meters</b>	
Electrical	20
Cumulative	20
Interval	20
Gas	20
Water	40
Parking Meters and Splitters	20
<b>Turf Equipment</b>	10
<b>Ice Re-surfacer</b>	10
<b>Office Furniture &amp; Equipment</b>	
Furniture	20
Office Equipment	10
Audiovisual	10
Photocopiers	5
<b>Computer Systems</b>	
Hardware	5
Software	10
Construction in Progress	variable
<b>Vehicles</b>	
<b>Light Duty</b>	10
<b>Medium Duty</b>	10
<b>Transit Buses</b>	10
<b>Fire Trucks</b>	20
<b>Light Rail Transit Cars</b>	25
Construction in Progress	40

Town of High Level  
Policy 221-08

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**Appendix D: Glossary of Terms**

Accumulated Amortization	Accumulated amortization is the total of amortization charges to date on a Tangible Capital Asset or group of Tangible Capital Assets.
Amortization	Amortization is a systemic and logical process of recognizing the expense associated with using a Tangible Capital Asset during a fiscal period. Amortization is often thought of as “depreciation”.
Asset Class	An asset class is a group of Tangible Capital Assets that are similar in nature and useful life. “Buildings” is an example of an asset class. Asset classes form the basis for the General Ledger accounts and the summary presentation of Tangible Capital Assets by major groupings in the financial statements.
Betterment	A betterment is a cost incurred that either increases the capacity, extends the useful life, or reduces the operating costs of a Tangible Capital Asset.
Capital Lease	A capital lease is a lease with terms and conditions that substantially transfers all the “benefits and risks” of ownership to the lessee (i.e. the municipality), without necessarily transferring legal ownership
Capitalization	Capitalization is the process of recording an eligible expenditure as a Tangible Capital Asset, or including it as part of the cost of a Tangible Capital Asset.
Capitalization Threshold	The capitalization threshold is the minimum dollar amount that the government will use in determining whether the expenditure should be capitalized as a Tangible Capital Asset addition or expensed in the current year.
Capitalization Interest	Capitalization interest is the interest and carrying charges owed on the debt to external parties that is included as part of the cost. Only interest that is directly attributable to the development and construction of a Tangible Capital Asset can be capitalized. The capitalization of interest ends when the asset is put into use.

## Town of High Level Policy 221-08

---

Component	<p>A component is a Tangible Capital Asset that forms part of a larger and wider Tangible Capital Asset. Components are normally associated with infrastructure, which also includes the right of way (i.e. land), grade, street signs, etc. A water pump is one component of the water supply system. The component approach to Tangible Capital Assets is the opposite of the single assets approach.</p>
Cost	<p>Cost is the gross amount of consideration directly attributable to acquire, construct, develop or better a Tangible Capital Asset.</p>
Fair Value	<p>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.</p>
Financial Assets	<p>Financial assets are assets that could be used to discharge existing liabilities or finance future operations and not for consumption in the normal course of operations. Financial assets include cash, accounts receivable, temporary investments, and portfolio investments. Tangible Capital Assets are non-financial assets.</p>
Intangible Assets	<p>Intangible assets are assets that have no physical form or substance. Goodwill, patents and copyrights are examples of intangible assets. PSAB does not recognize intangible assets. Intangible assets should not be included in Tangible Capital Assets. Software licenses are Tangible Capital Assets.</p>
Infrastructure	<p>Infrastructure assets are Tangible Capital Assets that are normally comprised of a number of components to form complex network systems. Infrastructure assets are different from general Capital Assets in terms of access and consumption. The public has limited access to infrastructure assets and the benefits of the asset are consumed directly by the public. The public access to general Capital Assets is normally restricted by the government. General Capital Assets are used by the government to provide services to the public. Infrastructure assets include roads, streets, bridges, water systems, sewers and surface water control devices such as dams, canals, levies and erosion control devices.</p>

# Town of High Level

## Policy 221-08

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Materiality	Materiality is the point where a misstatement or aggregate of misstatements in financial statements would influence the decision of a person who is relying on the financial statements. Material misstatements in financial statements can arise from departures from GAAP, errors, fraud, inappropriate accounting estimates, and omissions of necessary information.
Net Book Value	The net book value of Tangible Capital Assets is the cost, less the accumulated amortization and the amount of any write-down.
Operating Lease	An operating lease is a lease in which the lesser does not transfer substantially all the benefits and risks incident to ownership of property
Network System	Network system is a term used to refer to infrastructure that have “linear” assets arranged in a continuous or connected network. Network systems normally mean roads, water systems and sewers.
Residual Value	Residual values are the estimated net realizable value of a Tangible Capital Asset at the end of the useful life. The colloquial term for residual value is “scrap” or “salvage” value.
Segmentation	Segmentation is the process of breaking down network systems in homogenous groups that are similar in terms of age, material or geography. Segmentation reduces the number of possible identifiable individual assets into a manageable number for valuation. For example, the road system within a large town would literally be a patchwork of segments of various pools and amortized using an average age. Newly constructed streets and resurfacing would be recorded on an asset by asset basis.
Tangible Capital Assets	Tangible Capital Assets are non-financial assets having physical substance that: <ol style="list-style-type: none"><li>1. Are used to provide goods and services;</li><li>2. Have an economic life beyond one year;</li><li>3. Are used on a continuous basis; and</li><li>4. Are not for sale in the ordinary course of operations.</li></ol>

# Town of High Level

## Policy 221-08

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**Useful Life** Useful life is the estimate of the period over which a Tangible Capital Asset is expected to be used by the government. The life of a Tangible Capital Asset may extend beyond the useful life of Tangible Capital Asset to a government. Other than land, the life of a Tangible Capital Asset is finite and is normally the shorter of physical, technological, commercial and legal life. Useful life does not necessarily need to be measured in units of time. Useful life can also refer to the number of units of production that can be obtained from a Tangible Capital Asset by the government.

**Write-down** A write-down is a reduction in the cost of an asset to reflect a decline in the asset value. A Tangible Capital Asset should be written down whenever the benefits associated with the asset are less than its net book value. A write-down can never be reversed.

	<b>Date</b>	<b>Resolution</b>
Adopted	April 28, 2008	656-08