

**Tangible Capital Asset (TCA) Policy****Policy No. 1.5.2****Date of Policy:** December 8, 2008**Revision:****Motion Number:** 7(e)**Purpose**

The purpose of the policy is to provide direction for recognizing and recording Tangible Capital Assets (TCA) on a consistent basis and in accordance with Public Sector Accounting Board (PSAB) PS 3150.

**Tangible Capital Asset**

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

- a) 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;
- b) have useful economic lives extending beyond one year;
- c) are used on a continuing basis; and
- d) are not for resale in the ordinary course of operations. (PS3150.05)

The objective of the TCA 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 Tangible Capital Assets and the changes in such investment.

The principal issues in accounting for TCA are the recognition of the assets, the determination of their carrying amounts, and the amortization charges and the recognition of any related impairment or disposal losses.

**Recognition of Tangible Capital Assets**

Tangible capital assets (TCA) are assets having physical substance that are used on a continuing basis in the municipality's operations, have useful lives extending beyond one year and are not held for resale in the ordinary course of operations.

TCA are acquired, constructed, or developed assets and have the following characteristics:

- ownership and control clearly rest with the municipality;
- the asset is used to achieve government objectives.

The following will help determine whether an asset is a TCA:

- Include land, buildings, infrastructure assets (road and water network), vehicles, purchased computer software, in-house developed computer software, computer hardware, tools, furniture, equipment, leasehold improvements, and assets acquired by capital leases or by donations;

- Include operational heritage assets such as buildings.
- Do not include non-operational assets such as museum and gallery collections, other works of art, archives, archaeological sites, ruins, burial sites, monuments, and statues;
- Do not include intangible assets such as copyrights, trademarks, patents, easements and rights-of-way.

#### Recognition of Tangible Capital Assets Carrying Amounts (Cost)

The cost of TCA includes the cost of any asset that has been acquired, constructed, or developed with the intention of being used and normally consumed in operations which achieve government objectives.

TCA also include betterments. Betterments are expenditures relating to the alteration or modernization of an asset that appreciably prolong the asset's period of usefulness or improve its functionality.

#### Threshold

Only TCA that exceed the asset class threshold will be capitalized. The following are the thresholds that are being used to develop the initial TCA listing.

- Any individual item that meets the definition of a Tangible Capital Asset with a cost of \$5,000 or greater
- A pool of assets that meets the definition of a Tangible Capital Asset, that was purchased in bulk and has a replacement cost of \$25,000 or greater in any given year
- Due to the nature of some assets, the threshold will be \$0. Examples are all land, all vehicles, all roads, all water pipe segments, etc. would be recorded.

Once the initial TCA listing has been prepared and in subsequent years, it will be reviewed to determine whether or not the threshold should be raised.

#### Capitalization of Interest Costs

The municipality does not capitalize interest costs incurred during the construction or development of TCA.

#### Estimated Useful Life

Expected useful life is normally the shortest of the asset's physical, technological, commercial and legal life and is based on its use by the municipality. In determining an asset's useful life the present condition, intended use, construction type and maintenance policy will be considered, including how long the asset is expected to meet service demands and the municipality's experience with similar assets.

#### Amortization

The cost, less any residual value of a TCA with a limited life will be amortized over its useful life using the straight line method. The amortization method and estimate of useful life of the remaining unamortized portion will be reviewed on a regular basis and revised when the

appropriateness of a change can be clearly demonstrated.

Amortization begins in the year after acquisition as it will be after year end that the full cost of putting the asset into service will be known.

### **Transfers of Assets**

Transfers of TCA between departments will be recorded at the net book value of the asset. The receiving department will record both the asset at its original historical cost and the accumulated amortization.

Transfer of assets from outside the municipality to the municipality will only be capitalized as a TCA when the agreement provides for the transfer of ownership.

### **Disposal of Assets**

When TCA are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the Operating Department must notify the Finance Department of the asset description and effective date of the disposal.

Assets will be retired from the accounts of the municipality when the asset is disposed of. The gain or loss on disposal will be calculated as the difference between the proceeds received and the net book value of the TCA. The gain or loss on disposal will be recorded in the accounts of the Operating Department.

### **Capital Leases**

A lease will be recorded as a TCA and an offsetting liability when it meets the test for a capital lease as defined by PSAB. PSAB uses a “benefits and risks” approach to assessing if a leased asset should be treated as a capital lease. If the “benefits and risks” of the asset are essentially transferred to the municipality (the lessee) then the lease is a capital lease and the leased asset is a TCA if it exceeds the municipality’s threshold.

### **Write Downs**

A write down is used to reflect a permanent partial impairment in the value of an asset. This impairment may be as a result of:

- Removal of the asset from service
- Physical damage
- Significant technological developments
- A decline in or cessation of the need for the service provided by the asset
- A change in the law or environment affecting the asset usage

If the value of an asset is impaired, the cost of the asset will be written down to reflect the decline in the asset’s value and its shorter useful life. This write down is considered a loss (expense) in the accounts of the Operating Department.

**Transition**

All TCA in the municipality will be inventoried and valued as of December 31, 2007. The TCA Continuity Schedule will be used to track 2008 additions and disposals. The accounting for TCA is effective January 1, 2009 at which time TCA will be recorded in the municipality's financial system.