TOWN OF COCHRANE
POLICY

Policy No.:	2201-02
Policy Title:	Tangible Capital Assets Accounting Policy
Approval Date:	March 23, 2009
Revision Date:	February 22, 2010
Department:	Corporate Services

Policy Statement

The Town of Cochrane follows generally accepted accounting principles for recording, tracking, and accounting for its tangible capital assets.

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

A number of recommendations for TCA established by Alberta Municipal Affairs (AMA) and suggested by the accounting profession are incorporated into this policy.

1. Reason for Policy and Effective Date

1.1. This policy provides information on basic tangible capital assets concepts and how to account for Town of Cochrane tangible capital assets.

1.2. This policy addresses the following:
- Asset classification (major & minor);
- Capitalization threshold for each asset classification;
- Amortization method to be used.

1.3. Effective January 1, 2009 accounting for Town of Cochrane tangible capital assets must be in accordance with this policy. Opening balances are to be estimated by completing inventories, estimating original costs, and calculating net book values of assets acquired prior to January 1, 2009.

2. Definitions

2.1. Accumulated amortization is the cumulative use of a recorded TCA.

2.2. Amortization is a non-cash charge to operations representing a portion of the useful life of a recorded TCA.

2.3. Betterments are subsequent expenditures on a recorded TCA that meet any one of the following criteria to enhance the service potential:
- increase output or service capacity;
- increase the useful life;
- lower associated operating costs;
- improve the quality of the output.

2.4. Capital Lease is a lease with contractual terms that transfers substantially all of the benefits and risks of ownership in an asset to the Town of Cochrane.

2.5. Capitalization is recording a tangible capital asset on the Town's balance sheet as a long term asset.

2.6. Leasehold improvements are additions, alterations, or renovations performed on a leased property.

2.7. Net Book Value (NBV) is original cost of a TCA less accumulated amortization and asset writedowns.

2.8. Residual value is the estimated net realizable value of a tangible capital asset at the end of its useful life to a government.

2.9. Service Potential is the output or service capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output capacity, quality of output, associated operating costs, and useful life.

2.10. Tangible Capital Assets are non-financial assets having physical substance that:
- are used on a continuous basis by the Town;
- have useful economic lives extending beyond one year;
- are held for use in the production or supply of goods and services, for rentals to others, for administrative purposes or for the development, construction, maintenance, or repair of other tangible capital assets;
- are not for resale in the ordinary course of operations.

2.11. Useful Life is the asset's expected physical, technological, municipal, or legal life.

3. Responsibilities

3.1. Town Council to:

3.1.1. Approve by resolution this policy and any amendments.

3.1.2. Consider the allocation of resources for successful implementation of this policy in the annual budget process.

3.2. Chief Administrative Officer to:

3.2.1. Implement this policy and approve procedures.

3.2.2. Ensure policy and procedure reviews occur and verify the implementation of policies and procedures.

3.3. Director of the Department to:

3.3.1. Ensure implementation of this policy and procedure.

3.3.2. Ensure that this policy and procedure is reviewed every three years.

3.3.3. Make recommendations to the Chief Administrative Officer of necessary policy or procedure amendments.

3.4. Supervisors to:

3.4.1. Understand, and adhere to this policy and procedure.

3.4.2. Ensure employees are aware of this policy and procedure.

3.5. All Employees to:

3.5.1. Understand and adhere to this policy and procedure.

4. Policy Details

4.1. Asset classifications (major & minor) and thresholds

The following table shows asset classes and capitalization thresholds:

Major Asset Class	Minor Asset Class	Capitalization Threshold
Land	▪ Raw Land ▪ Land with improvements	Capitalize only
Construction in Progress		Capitalize only
Land Improvements	▪ Fences and landscaping ▪ Outdoor arena ▪ Outdoor lighting ▪ Parking lots ▪ Pathways	$ 5,000.

	▪ Playfields ▪ Playground structures ▪ Ponds ▪ Retaining walls ▪ Skatepark ▪ Tennis courts	
Buildings		$25,000.
Engineered Structures	▪ Roadway System	$25,000.
	▪ Water System	$25,000.
	▪ Wastewater System	$25,000.
	▪ Stormwater System	$25,000.
Leasehold Improvements		$25,000
Machinery & Equipment	▪ Machinery / Equipment ▪ Technology Assets	$5,000.
Vehicles		$5,000.
Cultural & Historical		Disclose only in audited statements

Capitalization thresholds are established to determine whether expenditures are to be capitalized as assets and amortized or treated as current year expenditures.

4.2. Recording betterments

Expenditures that are betterments should be capitalized accordingly. Any other expenditures should be considered repair or maintenance and should be expensed in the period.

4.3. Elements of cost

The cost of a tangible capital asset (Public Sector Accounting Board PSAB 3150.05b) is the gross amount of consideration directly attributable to the acquisition, construction, development, or betterment of a tangible capital asset.

4.4. Amortization method to be used:

The cost of a TCA less any residual value should be amortized over its useful life in a rational and systematic manner. Appendix A shows the maximum expected life for all major TCA's.

For all TCA's, except land, cultural and historic assets, the Town will use straight line amortization which assumes that the asset's economic usefulness is the same each year.

In the year an asset is acquired and the year of disposal, an amount equal to 50% of the annual amortization expense will be expensed.

Construction projects not completed at the end of the fiscal year will be recorded as construction in progress and will not be amortized until they have been put in service.

4.5. Residual value will only be included in calculating amortization if residual value exceeds $10,000.

4.6. Pooled assets

Long term assets that are homogeneous in terms of their physical characteristics, usage, and useful lives and have an individual unit value below the capitalization threshold will be pooled, capitalized, and amortized, if the value of assets acquired in the fiscal year exceeds $25,000.

4.7. Tangible Capital Asset review

- The existence of recorded assets in the TCA register will be verified annually on a test basis by Manager of Financial Services.
- The TCA register forms an integral part of the Town's financial system and must capture additions, deletions, and amortization or writedowns of assets in a timely manner. The TCA register is to be reviewed quarterly by the Director of Corporate Services.

5. Special Situations

5.1. Donated or contributed assets

5.1.1. Governments may receive contributions of tangible capital assets. The cost of a contributed asset is considered equal to its fair value at the date of contribution. For subdivision developments, the date of contribution is when the Town issues the Final Acceptance Certificate. Prior to this date the asset is assumed to be in progress by the developer with none of its useful life consumed. Fair value of a contributed tangible capital asset may be estimated using engineering replacement cost estimates, assessment values, or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset would be recognized at nominal value.

5.1.2. Municipal reserve lands will be valued on July 1 in the year of land title registration date using assessment values provided by the Town's assessors.

5.1.3. Land under roads

All land is to be capitalized because of the permanent nature of land. Land under roads is not titled, however given that the Town manages the road infrastructure upon the land, it is considered to belong to the Town and is to be recorded at a nominal value. Land under roads has no developable value as its sole purpose is for a road. The Town will value land under roads at $1 per km of road.

5.2 Construction in Progress

Work or construction in progress represents the costs incurred to date on a project in which the Town of Cochrane has not issued the certificate of initial acceptance. Examples might include road, water and sewer infrastructure or custom-developed computer software systems that have not reached substantial completion (i.e. 90%) or the asset has not been placed into use.

Work in progress for assets under development or construction must be recorded on the financial statements for the accounting period. All costs associated with these assets that are in the construction phase are to be capitalized. Work in progress is not amortized.

Work in progress balances must be reconciled and the appropriate transfers from work in progress made to completed assets or written off to ensure that only active and incomplete work in progress is carried forward to the next period. The reconciliation should be done quarterly or at a minimum must be done annually.

For major projects, work in progress should be transferred to a tangible capital asset once the architect, engineer or consultant has issued the certificate of substantial completion (PSAB 3150.18) or for other projects when the Town of Cochrane has issued the certificate of initial acceptance. Either certificate will provide evidence that the asset has met engineering and safety standards and is ready to be placed into use. If an incomplete project is terminated or put on hold indefinitely, any costs currently recorded as work in progress must be expensed unless there is an alternative use for the asset. When a project has distinct, multiple, completely self-contained phases that will be brought into production or use at different points of time, the Director of Corporate Services shall use professional judgment to determine the appropriate timing for transfers from work in progress to capital assets.

5.3 Cultural and Historical Assets

Cultural and historic (heritage) assets are works of art and historical treasures considered irreplaceable and preserved in trust for future generations. Collections or individual items of significance (i.e. public statues, murals, paintings) that are owned by the Town of Cochrane and not held for financial gain but rather for public exhibition, education or research in furtherance of public service may be considered heritage assets. Heritage assets will not be recognized as tangible capital assets in financial statements, but the existence of such property should be disclosed.

6. Appendices

6.1 Recommended Maximum Useful Life of Assets

7. End of Policy

Appendix 6.1: Recommended Maximum Useful Life of Assets

ASSET TYPE	**ESTIMATED USEFUL LIFE**
Land	Capitalize only
Construction in Progress	Capitalize only
Land Improvements	
Parking lots	20 years
Playfields, skatepark, tennis courts, outdoor arena, ponds, retaining walls, irrigation systems	20 years
Pathways, fences, outdoor lighting, and landscaping	20 years
Playground structures	15 years
Buildings	40 years
Leasehold Improvements	Over term of lease
Infrastructure	
Water System	
Water mains	
PVC Pipe	75 years
Non PVC Pipe	45 years
Water facilities and reservoirs	45 years
Water meters	40 years
Water network excluding mains, facilities, meters	75 years
Wastewater System	
Wastewater mains	
PVC Pipe	75 years
Non PVC Pipe	45 years
Wastewater facilities	45 years
Wastewater network excluding mains, facilities	75 years
Stormwater System	75 years
Roadway System	
Land under roads	Capitalize only
Paved road system	43 years
Unpaved road system	43 years
Sidewalks, curbs, gutter network, signs	43 years
Streetlights, traffic signals and controls, railings	30 years
Machinery & Equipment	
General Equipment, furniture and fixtures	10 years
Heavy Construction Equipment	10 years
Vehicles	
Cars, Light Trucks, and Heavy Duty	10 years
Fire Trucks	25 years
IT Infrastructure	
Hardware and software	5 years
Telephone systems	5 years
Fibre optic cable	30 years

TOWN OF COCHRANE
Procedure

Policy No.:	2201-02
Policy Title:	Tangible Capital Assets Accounting Policy
Department:	Corporate Services

Policy Statement

The Town of Cochrane follows generally accepted accounting principles for recording, tracking, and accounting for its tangible capital assets.

Procedures Table of Contents **PAGE**

1. Reason for Procedures

1.1. The purpose of these procedures 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) 3150. A number of recommendations for TCA established by Alberta Municipal Affairs (AMA) and suggested by the accounting profession are incorporated into these procedures.

2. Scope of Tangible Capital Assets

2.1. These procedures, effective January 1, 2009, address the following:

- Asset classifications (major & minor)
- Capitalization threshold for each asset classification
- Amortization method to be used

2.2. Tangible capital assets are non-financial assets with physical substance that are acquired, constructed or developed and:

- Held for use in the production or supply of goods and services;
- Have useful lives extending beyond an accounting period;
- Are intended to be used on a continuing basis; and
- Are not intended for sale in the ordinary course of operations.

2.3. Tangible capital assets are a significant economic resource and a key component in the delivery of programs and services. The benefits from capitalizing tangible capital assets include:

- Maintain appropriate accountability for government-owned tangible capital assets;
- Ensure accounting consistency across the organization;
- Ensure efficient and effective use of assets; and
- Provide information that will support measuring the cost of programs and services.

3. Definitions

3.1. Accumulated amortization is the cumulative use of a recorded TCA.

3.2. Amortization is a non-cash charge to operations representing a portion of the useful life of a recorded TCA. Amortization is an accounting concept in which the recorded cost of an asset is distributed in a systematic and rational manner over its estimated useful life and matches the cost of that asset to the periods in which service is derived from the asset on a straight-line basis. Amortization is normally based on the total cost of the asset less its residual value. It is assumed that the

tangible capital asset will be held for an extended period of time and the residual value will be immaterial. The start date will be the first day of the month following the month the asset is placed into service.

3.3. Betterments are subsequent expenditures on a recorded TCA that meet any one of the following criteria:
- increase output or service capacity;
- increase the service life;
- lower associated operating costs;
- improve the quality of the output.

3.4. Capitalization is recording a tangible capital asset on the Town's balance sheet as a long term asset.

3.5. Capital Lease is a lease with contractual terms that transfers substantially all of the benefits and risks of ownership in an asset to the Town of Cochrane.

3.6. Components are specific parts of an asset having independent physical or functional identity and having specific attributes such as different life expectancy and maintenance requirements.

3.7. Contributed Assets are capital assets such as developer constructed services in new subdivisions (i.e. water, sewer or roads infrastructure) acquired without cash outlay.

3.8. Depreciated replacement cost is the current cost of replacing an asset less deductions for physical deterioration.

3.9. Fair Value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties (buyer and seller) who are under no compulsion to act.

3.10. Historical cost of an asset is the amount of consideration given up to acquire, construct, develop or better an asset and includes all costs directly attributable to acquisition, construction, development or betterment of the asset including installing the asset at the location and in the condition necessary for its intended use.

3.11. Infrastructure is composed of linear assets and their associated specific components generally constructed or arranged in a continuous and connected network and may include transportation components like roads, bridges, tunnels, storm sewers, guide rails, traffic signals and signage or environmental asset components such as water distributions systems, waste water treatment systems.

3.12. Land is the surface or crust of the earth that is used to support structures and purchased or acquired for value, for building sites, infrastructure (roadways, bridges, water or sewer mains, etc.)

3.13. Leasehold improvements are additions, alterations, or renovations performed on a leased property.

3.14. Maintenance is a recurrent expenditure, periodically or regularly required as part of the anticipated schedule of works required ensuring that the asset achieves its useful life. It is an expenditure that keeps an asset in a condition that helps maintain or ensure realization of the future economic benefits that are expected from the asset over its initially assessed useful life.

3.15. Net Book Value (NBV) is original cost of a TCA less accumulated amortization. NBV reflects the remaining life and historic cost of a recorded TCA.

3.16. Pooling of assets refers to assets of value below the materiality threshold when considered on an individual basis but collectively make up a significant group of assets that exceeds the threshold level (i.e. computers, valves, hydrants, furniture, water meters).

3.17. Residual value is the estimated net realizable value of a tangible capital asset at the end of its useful life.

3.18. Service Potential is the anticipated future benefits to be obtained from an asset.

3.19. Site improvements consist of betterments and site preparation that ready land for its intended use such as parking lots, landscaping and fencing and are usually exhaustible and amortized.

3.20. Straight-line method is the preferred method of amortization in which the periodic charge is computed by dividing the cost base of the asset by its estimated useful life.

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

- Are held for use in the production or supply of goods and services;
- are used on a continuous basis by the Town;
- have useful economic lives extending beyond one year;
- are not for resale in the ordinary course of operations.

3.22. Threshold is generally the minimum cost that an individual asset must have before it is to be treated as a tangible capital asset.

3.23. Useful life is the asset's expected physical, technological, municipal, or legal life.

4. Responsibilities

4.1. Director, Corporate Services to:

4.1.1. Ensure compliance with Policy 2201-01 and related procedures.

4.1.2. Approve tangible capital asset accounting entries prepared by Financial Services staff.

4.1.3. Approve semi-annual tangible capital asset reports prepared by Financial Services staff for Council information.

4.2. Managers to:

4.2.1. Understand, and adhere to this policy and procedure.

4.2.2. Ensure employees are aware of this policy and procedure.

4.2.3. Ensure asset disposals are documented in accordance with section 5.10 of these procedures

4.3. All Employees to:

4.3.1. Understand and adhere to this policy and procedure.

4.4. Planning and Engineering division is responsible for

4.4.1. Updating FAC/CCC database for all completed areas and notifying the GIS team when changes have occurred and where.

4.4.2. Providing Information Services with coversheets at the CCC stage in AutoCAD and PDF format.

4.5. Information Services division is responsible for

4.5.1. Updating GIS records of assets acquired from as-built AutoCAD drawings submitted from Engineering. These records will be updated as quickly as possible upon receipt of the data taking into account current workload and priorities within the GIS team.

4.6. Financial Services division is responsible for

4.6.1. Collecting required data from staff acquiring and disposing of tangible capital assets

4.6.2. Maintaining an accurate and complete tangible capital asset inventory

4.6.3. Calculating amortization expense in accordance with this policy

5. Accounting for tangible capital assets

5.1. Accounting

All tangible capital assets and amortization must be identified and valued using historical cost. Departments should consider reasonableness and materiality in their approach.
Tangible capital asset cost and amortization information should be generated and maintained at the major program, responsibility centre and activity levels.
Land must always be separately identified, recorded and reported.

5.2. Recognition

A tangible capital asset shall be recognized when it is probable that future benefits associated with the asset will be obtained, there is an appropriate basis of measurement and a reasonable estimate of the amount can be made. The recognition and valuation of an asset is based on its service potential. The acquisition date of an asset is the earliest of the date on which the asset being constructed is complete and the asset has been accepted for productive use (i.e. in the case of subdivision water/sewer development, the date of final acceptance by Cochrane).

5.3. Recording January 1, 2009 opening inventory balances

Physical inventory quantities are to be gathered for all assets that fall within Tangible Capital Assets Policy 2201-01. Infrastructure assets that are not visible will be recorded using information from the Town's Geographic Information System (GIS).

Where practical and cost effective, tangible capital assets acquired before January 1, 2009 will be valued using depreciated replacement cost unless original costs are readily obtained. Then the proportion of the useful life of the asset that has already been consumed will be recorded by establishing a provision for accumulated amortization. When estimating costs, departments may use appraised or some appropriate measure of replacement value and extrapolate back to estimate historical cost using

relevant price/cost index (Public Sector Accounting Board, PSAB, 3150.47).

5.4. Elements of cost

The cost of a tangible capital asset (PSAB 3150.10) is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset and includes direct construction or development costs (such as materials and labour) and overhead costs directly attributed to the acquisition, construction or development of the asset.

These costs may include but are not limited to:

- Amounts paid to vendors;
- Handling and storage charges;
- Direct design/production costs such as labour, equipment rentals, materials and supplies;
- Engineering, architectural and other outside services for designs, plans, specifications and surveys;
- Acquisition and preparation costs of buildings and other facilities;
- Fixed equipment and related installation costs required for activities in a building or facility;
- Direct costs of inspection, supervision and administration of construction contracts and work;
- Legal and recording fees and damage claims;
- Fair values of land, facilities and equipment donated;
- Appraisal costs;
- Advertising costs;
- Application fees;
- Site preparation costs;
- Transportation insurance costs; customs and duty charges;
- Interest charges during acquisition, construction or development

5.5. Betterments versus maintenance

Expenditures that are betterments should be capitalized accordingly. Any other expenditures should be considered repair or maintenance and should be expensed in the period. Examples of betterments and maintenance expenditures are included in Appendix 7.2.

5.5.1. Determining if a cost is maintenance or a betterment

Maintenance expenditures are costs to keep the condition of an asset at its expected operating standard. These expenditures are usually incurred on a more or less continuous basis. Costs that do not increase the original assessed useful life, service capacity or quality of

output would be expensed as incurred. For example, regular maintenance activities prescribed by the manufacturer of a new heating, ventilation and air conditioning system (HVAC) would normally be required to ensure that the asset is able to provide service at a level and quality as originally intended by the manufacturer (i.e. lubrication of motor and compressors, replacement of filters). Performance of regular maintenance may also be required as part of the product warranty provided by the manufacturer.
Betterments (PSAB 3150.19) are considered to be capital asset additions for the assets to which they relate when any one of the following criteria is met:

- increases output or service capacity;
- increases the service life;
- lowers associated operating costs;
- improves the quality of the output.

If the expenditure is a betterment it should be capitalized. Otherwise, the cost should be recorded as a repair and maintenance expense within the department.

5.5.2. Betterments – Replacements

Replacements involve removal of component parts and substitution of a new part or component of essentially the same type and performance capabilities. If the component being replaced had been previously segregated in the accounting records as a distinct asset for amortization over its specific expected useful life, then the new component is capitalized and the old component is retired with its residual net book value removed from the accounts. If on the other hand, the component being replaced was not significant enough to be previously segregated from the whole property as a distinct asset, then the replacement is normally considered a repair and the costs are expensed as incurred.
If the replacement of the component results in an enhancement of the service potential of the property as a whole, the replacement is considered betterment and the costs are capitalized. Enhancements to service potential only result from replacements which extend the useful life of the property as a whole, increase the capacity or useage of the property, improve the quality of the property to a higher building class or improve the overall operating efficiency of the property.

5.5.3. Betterments - Additions

Additions are made to an existing asset to extend, enlarge or expand the existing asset. Examples include adding an extra wing or room to a building or the addition of a lane to an existing roadway. As additions

increase service capacity or physical output of a property, they are betterments. The costs of additions should be capitalized. The key consideration is increase of quantity of service or output.

5.5.4. Betterments - Upgrades

Upgrades involve the removal of a major part or component of an asset and the substitution of a different component having significantly improved performance capabilities beyond the property's original design standard. Refer to "Disposal" section for financial implications. An upgrade increases the overall efficiency (i.e. increasing utilization, lowering operating costs, or increasing output of service), quality (i.e. transforms the asset into a higher class property) or extends expected service life of an asset. The costs of upgrades are capitalized.
The following examples would have characteristics of an upgrade:

- Installing air conditioning in a building that was previously not air-conditioned increasing the service quality of the property;
- Replacing existing lighting with energy saving lighting reducing future operating costs;
- Substituting a tile roof for wooden shingle increasing the expected useful life of the building beyond its currently estimated life;
- Replacing an elevator with a new high speed elevator improving the building class of the overall property; or
- Replacing a furnace with a high efficiency furnace decreasing future operating costs.

5.5.5. Betterments – Re-arrangements

Re-arrangements are the re-installation, re-routing of asset components to achieve greater service efficiency or effectiveness of the asset. It is a change in the internal arrangement or other physical characteristics of an existing asset so that it may be effectively used. Examples include increasing the number of partitions in the office area to increase office space (i.e. better utilization of office space), re-routing the wires in the building to increase the number of computer workstations connections. Re-arrangements of the building that increase service capacity or physical output meet the definition of betterment and should be capitalized as part of the building. The cost of a highway realignment to achieve a more efficient traffic flow would be capitalized provided the efficiency gain is measurable and documented.

5.6. Asset classifications and thresholds

5.6.1. Asset classifications

Assets are to be classified into major and minor classifications. A major class is a group of tangible capital assets that are significantly different in design and use. A minor class is a tangible capital asset within a major class that has unique characteristics.

5.6.2. Capitalization thresholds

Capitalization thresholds relate to the minimum dollar value that is used to assist in determining which expenditures will be capitalized as assets and amortized and which expenditures will be treated as current year expenses. The capitalization threshold has an impact on the size of the asset inventory and the complexity of managing subsequent acquisitions and disposals. The capitalization threshold levels established are a balance between the accurate presentation of information for decision making and the cost of acquiring and maintaining such information.

5.6.3. Asset classifications and capitalization thresholds

The following table shows asset classifications and capitalization thresholds:

Major Asset Class	Minor Asset Class	Capitalization Threshold
Land	▪ Raw Land ▪ Land with improvements	Capitalize only
Construction in Progress		Capitalize only
Land Improvements	▪ Fences and landscaping ▪ Outdoor arena ▪ Outdoor lighting ▪ Parking lots ▪ Pathways ▪ Playfields ▪ Playground structures ▪ Ponds ▪ Retaining walls ▪ Skatepark ▪ Tennis courts	$5,000.
Buildings		$25,000.
Leasehold Improvements		$25,000

Engineered Structures	▪ Roadway System	$25,000.
	▪ Water System	$25,000.
	▪ Wastewater System	$25,000.
	▪ Storm System	$25,000.
Machinery, Equipment, & Information Technology Infrastructure	▪ Machinery/ Equipment ▪ Technology Assets	$ 5,000.
Vehicles	▪ Cars, Light Trucks, and Heavy Duty ▪ Fire Trucks	$5,000.
Cultural & Historical		Disclose only in audited statements

5.6.4. Asset classification descriptions

a) Land
Land purchased or acquired for value for parks and recreation, building sites, highways, dams, bridges, and other program use.

b) Land Improvements
Improvements of a permanent nature to land, such as pathways, fences, playgrounds, and parking lots.

c) Buildings
Permanent, temporary or portable building structures such as offices, garages, warehouses, and recreation facilities intended to shelter persons and/or goods, machinery, and/or equipment and working space.

d) Engineered Structures
Permanent structural works such as roadway, water, wastewater, and storm water systems, including plants. Buildings and equipment used in conjunction with and unique to engineered systems will be considered engineered structures and will be included in a subclass for the minor classes of roadway, water, wastewater, and storm.

i. Roadway system includes assets intended for the direct purpose of vehicle or pedestrian travel. Includes roads, sidewalks, signage, traffic lights, overpasses, and guardrails.

ii. Water system includes systems for the provision of water through pipes and is normally comprised of assets for the intake, distribution, storage, and treatment of safe potable water. It may also comprise assets required to distribute

non-potable water. Includes mains, services, pump and lift stations, plants and equipment, reservoirs, and fire hydrants.

iii. Wastewater system includes assets used for collection and treatment of non-potable water intended for return to a natural water system or other originating water source or used for other environmentally approved purposes. Includes mains, services, pump and lift stations, plant and equipment, and lagoons.

iv. Storm system includes assets used for the collection, storage, and transfer of water as a result of rain, flood or other external source to a natural water system. Includes mains, services, catch basins, pump and lift stations, outfalls and retention ponds.

e) Machinery, Equipment, and IT Infrastructure
Equipment that is heavy equipment for constructing infrastructure, small equipment, computer hardware and software and fibre optic cable network

f) Vehicles
Mobile assets such as cars/trucks are used primarily for transportation purposes and/or for emergency services such as fire protection.

g) Cultural and Historical
Works of art and historical treasures that have cultural, aesthetic, or historical value that are worth preserving perpetually.

5.7. Pooled assets

Long term assets that are homogenous in terms of their physical characteristics, usage, and useful lives and have an individual unit value below the capitalization threshold will be pooled, capitalized, and amortized if the value of assets acquired in the fiscal year exceeds $50,000. Examples of assets that may require pooling include water meters and fire fighting equipment.

5.8. Networks

Many tangible capital assets consist of a number of components with differing useful lives. The Town has an option to account for the components individually or to combine them into one asset network. For example, a building has numerous connected components such as the exterior envelope, roof, heating system, electrical, plumbing, and site works. If these components are combined into one asset network, then the building is accounted for as a single asset and amortized over the expected life of the entire structure.

5.8.1. Component

Under the component approach, different components are individually capitalized and amortized.
The component approach does not mean that each and every item is separately identified. A component can comprise assets of similar useful lives and consumption patterns. The major components are then accounted for as separate assets. For example, the Town can use a component approach for the water system where water mains constructed with PVC pipe can be one separate component and water facilities can be a different component.

5.8.2. Selection of network or component approach
Either approach is equally acceptable. Staff should be aware of the impact that the network approach might have. The amortization period is the same for the network, even if specific components have differing useful lives.
For networks such as roads, expenditures on annual resurfacing may be considered maintenance. On the other hand, if the road system is accounted for on a component basis, where pavement is a separate component, the expenditures on resurfacing would be treated as a betterment and the replaced pavement would be accounted for as a disposal and removed from asset listings. Expenditures to widen the road will expand the capacity of the road system and are considered betterments to be capitalized.
Additional factors that may influence the choice of method include:

- Significance of amounts;
- Quantity of individual asset components (volume);
- Availability of information with respect to specific components;
- Specific information needs of management for decision-making and asset control purposes.

5.8.3. Assets to be networked

- Buildings
- Pathways
- Road surfaces and subsurfaces excluding signals
  - Guardrail network
  - Sidewalks included within road network
  - Signs network
- Water assets excluding mains
  - Water facilities
  - Water hydrants network
  - Water meters network
  - Water valves network
  - PR valves network
  - Water services network
- Wastewater assets excluding mains/force mains

        - Manholes network
        - Wastewater services network
    - Stormwater assets excluding mains, outfalls, storm culverts
        - Catch basins network
        - Manholes network
        - Catch basin leads network

    Assets to be networked shall be reviewed with the Director of Corporate Services on an annual basis.

Tangible capital asset classifications that were historically established on a network approach may be recorded using a component approach on a go-forward basis.

5.9. Capital Leases

A capital lease is accounted for as though the asset had actually been purchased. The lease would normally transfer substantially all the benefits and risks of ownership from the lessor to the lessee when, at the inception of the lease, one or more of the following conditions are present:

- There is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term or when the lease provides for bargain purchase option. A bargain purchase option is a provision allowing the lessee an option to purchase the leased property for a price that is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable that, at the inception of the lease, exercise of the option appears to be reasonably assured.
- The lease term is of such duration that the lessee will receive substantially all the economic benefits expected to be derived from the use of the leased property over its life span. This condition is considered to be met if the lease is for a term equal to or greater than 75% of the economic life of the leased property.
- The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. This condition would exist if the present value at the beginning of the lease term, of the minimum lease payments is equal to 90% or more of the fair value of the leased property. In calculating the present value of the stream of lease payments, at the inception of the lease, the discount rate used by the lessee would be the interest rate implicit in the lease.

At the inception of a capital lease, an asset and a liability must be recorded at the lesser of:

the present value of the minimum lease payments, and
the property's fair value at the beginning of the lease.

The capitalized value of an amortizable asset under a capital lease is amortized over the lease term.
Assets leased under a capital lease must be disclosed separately to distinguish between assets that the government owns and those that it only has the right to use.

All other leases are to be accounted for as operating leases, where rental payments are expensed as incurred.

5.10. Amortization method to be used:

The cost of a TCA should be amortized over its useful life in a rational and systematic manner. Appendix 7.1 shows the maximum expected life for all major TCA's.

For all TCA's, except land, cultural and historic assets, the Town will use straight line amortization which assumes that the asset's economic usefulness is the same each year. Residual value will only be included in calculating amortization if residual value exceeds $10,000.

In the year an asset is acquired and the year of disposal, an amount equal to 50% of the annual amortization expense will be expensed.

5.10.1. Useful life

Useful life (PSAB 3150.28) is the estimate of the period over which a tangible capital asset is used. The economic or physical life of an asset may extend beyond the useful life of an asset. Depending on the nature of the asset, useful life may be expressed in terms of time (years or machine hours) or output (production or service units). Estimating useful lives of assets is a matter of judgment based on experience and should be applied on a consistent basis. Factors to be considered in estimating the useful life include:

- Expected future usage;
- Technical obsolescence;
- Expected wear and tear through the passage of time;
- Maintenance program; and
- Condition of existing comparable items.

The service potential of an asset is normally consumed through usage. Factors such as obsolescence, excessive wear and tear or other events could significantly diminish the service potential that was originally anticipated from the asset. The estimated useful life of an asset category and remaining useful life of individual assets should be reviewed on a regular basis and revised when

appropriate. The rationale supporting the decision to revise useful life estimates of an asset should be documented. Significant events that may indicate a need to revise the estimated useful life of an asset may include:

- Completion of a major betterment;
- Change in extent that the asset is used;
- Change in manner that the asset is used;
- Removal of asset from service for extended period of time;
- Physical damage or destruction;
- Significant technological developments;
- Change in law, environment or public preferences that affects usage and time periods over which asset is used.

A number of factors may trigger the need for a review of the expected useful life of an asset or its components such as major investments including upgrades to critical components:

- Significant changes in the market value;
- Pattern of differences in rate of wear and tear compared to that previously expected;
- Pattern of differences in levels of maintenance compared to that previously expected;
- Results from engineering testing indicating higher than expected rates of structural deterioration;
- Major changes in technology increasing the rates of obsolescence for critical components;
- Major changes in government programs impacting the expected use of assets;
    - Major changes in government regulations, policies or standards impacting expected use of assets; and
    - Major damage to an asset.

5.10.2. Calculation of straight-line amortization

The straight-line method is calculated by dividing an asset's original cost by its estimated life in years yielding a constant annual amortization amount each year. For example, a building that costs $3,000,000 has an estimated useful life of 40 years would yield annual amortization of $75,000 ($3,000,000 / 40 years) and $37,500 in the first and last year of the asset's life.

Amortization should start as soon as an asset is completed and ready for use. This would be the case even if the decision were made to delay placing the asset into service. Where construction of an asset is comprised of distinct, multiple and self-contained phases, amortization must begin for the distinct phases that are completed. The start date will be the first day of July in the year the asset is placed into service.

5.10.3. Land normally has an indefinite useful life that exceeds the useful lives of the buildings, roads or structures situated on the land. The cost of acquired land is separated from the other costs of an asset and maintained as a component. The cost of the acquired land is not amortized as land normally maintains its value over time.

5.11. Recording asset disposals

The Town will dispose of surplus assets in a manner that is open and transparent and that ensures integrity, fairness, economy, efficiency and protection of the environment. The Town will dispose of surplus assets in a manner which obtains maximum value for the goods including:

i) transfer to other Town departments
ii) return to supplier for refund or credit
iii) sale by auction
iv) sale by consignment to third party agent or dealer
v) sale by advertised public tender
vi) trade-in on the purchase of replacement goods
vii) sale or gift to other public sector agencies
viii) direct scrap

5.11.1. Disposal procedures

Disposal procedures will take into consideration the following factors:

i) net value
ii) efficiency of method of disposal
iii) ethics, appropriateness, optics
iv) environmental issues
v) safety

Under no circumstances will a Town staff member, or any related individual, take direct possession for any personal use any goods or materials that have been designated as salvage, scrap, surplus or obsolete. Town surplus assets that are directed to auction, consignment or public tender may be purchased from those agencies by staff members.

The Town shall, whenever possible, avoid selling any surplus asset directly to another party. It is generally in the Town's best interest to dispose of assets through a third party to avoid potential problems with warranties, safety concerns and ethical issues.

For assets being disposed of, staff must ensure that the asset is reduced to a form whereby it is of no use or value to any other party

prior to discarding the object to ensure that information protected under privacy legislation is properly safeguarded.

Assets that can be recycled, such as electronics, cell phones, metals, plastics, glass, should be taken to the Recycling Depot. If the asset is too large or otherwise cannot be handled at the Depot, the staff deciding how best to dispose of the asset should discuss recycling options with the Solid Waste Manager and / or Recycling Coordinator before making a final decision.

Assets that may contain lubricants, fuel, oil or hazardous materials (CFCs, Freon, PCBs, etc.) should be handled by trained personnel. Options should be discussed with the Solid Waste Manager, Recycling Depot Coordinator, and / or Fire Department as required.

Construction, demolition, or renovation waste materials should be dealt with according to provincial policy and regulations, which are evolving rapidly. For up to date information, contact the Environmental Coordinator or Solid Waste Manager.

Staff will refrain from donating Town owned assets directly to any group, firm or organization. In the event that the donation of a Town owned asset is the preferred method of disposal, the donation must be approved by the CAO and documented appropriately by the owner department.

5.11.2. Trade-ins

A trade in occurs when an asset is disposed and replaced with a new asset through the same supplier in the same transaction. This transaction should be accounted for as two separate entries. The trade in value should be treated as proceeds of disposal and is used in calculating the gain or loss on the disposal of the assets being traded in. The new asset acquired is recorded at its full cost; trade in value for the old asset does not affect cost.

5.11.3. Disposal approval form

A disposal approval form is to be completed by employees disposing of any assets (example form below). The form will include a description of the assets being disposed of, method of disposition, number of units being disposed of, and expected proceeds from disposal. The disposal form will be approved by the Director of the particular department and sent to Manager of Financial Services for updates to the Town inventory and insurance records.

Asset name and description (or attach detaled list and reference back to this sheet)	Asset ID / Serial # (if applicable)	# units for disposal	Disposal date (mm/dd/yy)	Disposal method (sale / trade-in / recycled)	$ Proceeds on trade-in val
Contact person name (print)	Contact person phone #			Date	
Manager name (print)	Signature of manager			Date	
TCA Register Update Control:					
Name (print)	Signature			Date	

5.11.4. Disposal entries

On disposal of an asset, the historical cost and accumulated amortization must be removed from the books. The disposal shall be documented and accounting entries approved by the Director of Corporate Services. The difference between the net proceeds on disposal and the net book value must be recorded in the Statement of Operations as a gain or a loss for the accounting period (PSAB 3150.38).

Any asset record in the Geographic Information System (GIS) will have its status changed from active to inactive. Asset records in GIS are not to be deleted.

6. Special Situations

6.1. Donated or contributed assets

Governments may receive contributions of tangible capital assets. The cost of a contributed asset is considered equal to its fair value at the date of contribution. For subdivision developments, the date of contribution is when the Town of Cochrane issues a Final Acceptance Certificate (FAC). Prior to this date the asset is assumed to be in progress by the developer with none of its useful life consumed.

Municipal reserve lands will be valued on July 1 in the year of land title registration date using assessment values provided by the Town's assessors. All land is to be capitalized because of the permanent nature of land. Land under roads is not titled, however given that the Town manages the road infrastructure upon the land, it is considered to belong to the Town and is to be recorded at a nominal value. Land under roads has no developable value as its sole purpose is for a road. The Town will value land under roads at $1 per km of road.

Fair value of a contributed tangible capital asset may be estimated using engineering replacement cost estimates, assessment values, or appraisal values.

In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset would be recognized at nominal value.

6.2. Maintaining contributed assets

When is infrastructure within the Town our responsibility to maintain?

A brief overview on the process is as follows. The developer of a new subdivision installs the infrastructure necessary to service the area. This includes but is not limited to water mains, hydrants, sanitary and storm sewer infrastructure, roads, sidewalks, pathways, park areas, storm ponds, lift and booster stations, reservoirs, sound attenuation walls and swales drainage swales. Once these have been installed the Engineering Department signs a Construction Completion Certificate (CCC), accepting that they have been completed in accordance to the proposed design. This begins a maintenance period where the developer is still responsible for any work or maintenance associated to the infrastructure. These periods vary in length from 1 to 3 years

depending on the utility. Once this maintenance period expires the Town performs a final inspection and if the infrastructure in acceptable condition, a Final Acceptance Certificate (FAC) is issued to the developer relieving them of all maintenance obligations. It is at this point that the Town accepts ownership and is responsible to maintain the assets.

6.3. Construction in progress

Work or construction in progress represents the costs incurred to date on a project in which the Town of Cochrane has not issued the certificate of initial acceptance. Examples might include road, water and sewer infrastructure or custom-developed computer software systems that have not reached substantial completion (i.e. 90%) or the asset has not been placed into use.

Work in progress for assets under development or construction must be recorded on the financial statements for the accounting period. All costs associated with these assets that are in the construction phase are to be capitalized. Work in progress is not amortized.

Work in progress balances must be reconciled and the appropriate transfers from work in progress made to completed assets or written off to ensure that only active and incomplete work in progress is carried forward to the next period. The reconciliation should be done quarterly or at a minimum must be done annually.

For major projects, work in progress should be transferred to a tangible capital asset once the architect, engineer or consultant has issued the certificate of substantial completion (PSAB 3150.18) or for other projects when the Town of Cochrane has issued the certificate of initial acceptance. Either certificate will provide evidence that the asset has met engineering and safety standards and is ready to be placed into use. If an incomplete project is terminated or put on hold indefinitely, any costs currently recorded as work in progress must be expensed unless there is an alternative use for the asset. When a project has distinct, multiple, completely self-contained phases that will be brought into production or use at different points of time, the Director of Corporate Services shall use professional judgment to determine the appropriate timing for transfers from work in progress to capital assets.

6.4. Cultural and Historical Assets

Cultural and historical assets are works of art and historical treasures considered irreplaceable and preserved in trust for future generations. Collections or individual items of significance (i.e. public statues, murals,

paintings) that are owned by the Town of Cochrane and not held for financial gain but rather for public exhibition, education or research in furtherance of public service may be considered heritage assets. Heritage assets will not be recognized as tangible capital assets in financial statements, but the existence of such property should be disclosed.

6.5. Asset writedowns

A write down is used to reflect a partial impairment in the value of an asset (PSAB 3150.31). A write off is used to reflect total impairment in the value of an asset. Capital assets are written off in instances where they are destroyed, stolen, lost, sold or obsolete. The write off of an asset requires approval by Director, Corporate Services. Any abandoned or indefinitely postponed projects must be written down to their net realizable value and charged to the period in which the abandonment or indefinite postponement occurs. When the reduction in the value of the asset can be objectively estimated and it is expected to be permanent, the asset must be written down. Conditions that indicate a write down is necessary may include a change in the manner or extent to which the asset is used:

- 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 decision to halt construction of the asset before it is complete or in useable or saleable condition; or
- A change in the law or environment affecting the extent to which the asset can be used.

7. Appendices

7.1. Recommended Maximum Useful Life of Assets
7.2. Examples of betterment and maintenance expenditures
7.3. Detailed lists of assets

7.1 Recommended Maximum Useful Life of Assets	
ASSET TYPE	**ESTIMATED USEFUL LIFE**
Land	Capitalize only
Land under roads	
Construction in Progress	Capitalize only
Land Improvements	
Parking lots	20 years
Playfields, skatepark, tennis courts, outdoor arena, ponds, retaining walls	20 years
Pathways, fences, outdoor lighting, and landscaping	20 years
Playground structures	15 years
Buildings	40 years
Leasehold Improvements	Over lease term
Infrastructure	
Water System	
Water mains	
PVC Pipe	75 years
Non PVC Pipe	45 years
Water facilities	45 years
Water meters	40 years
Water network exc mains, facilities, meters	75 years
Wastewater System	
Wastewater mains	
PVC Pipe	75 years
Non PVC Pipe	45 years
Wastewater facilities	45 years
Wastewater network excluding mains, facilities	75 years
Stormwater System	75 years
Roadway System	
Paved road system	43 years
Unpaved road system	43 years
Sidewalks, curbs, gutters, and signs	43 years
Streetlights, traffic signals/controls, railings	30 years
Machinery & Equipment	
General Equipment , furniture and fixtures	10 years
Heavy Construction Equipment	10 years
Vehicles	
Cars, light trucks, and heavy duty	10 years
Fire Trucks	25 years
IT Infrastructure	
Hardware and software	5 years
Telephone systems	5 years
Fibre optic cable	30 years

7.2 Examples of Betterment and Maintenance Expenditures

Description	Betterment	Maintenance
Land Improvements	▪ New lighting for a path system ▪ Building new retaining walls ▪ Replacing playground equipment with structures that have longer asset lives.	Repairing fences to ensure the original life of the asset is maintained.
Roadway system	▪ New/re-construction of roadways and related environmental studies ▪ Street resurfacing ▪ Alteration of intersections, street capacity/design.	Routine repairs, patching, crack sealing.
Water system	Upgrade/replacement of existing distribution/collection main servicing several properties.	Emergency repair to broken main isolated to on specific location.
Buildings	▪ Expanding an existing building ▪ Installing new energy efficient heating systems.	Painting building interior or exterior surfaces.

7.3 Detailed Lists of Assets

Asset Classes **Major** ***Minor*** **Sub-class**	Maximum Useful Life
Land (record all land) *Raw land* *Land with improvments* *Land under roads*	
Cultural & Historical Assets (disclosure only) *Public art* *Historical* *Heritage site*	
Land Improvements *Parking lots* *Outdoor lighting* *Retaining walls* *Playfields* *Skatepark* *Tennis courts* *Outdoor arena* *Pathways* *Fences* *Ponds* *Landscaping* *Playground structures*	 **20** **20** **20** **20** **20** **20** **20** **20** **20** **20** **20** **15**
Buildings The components of each building are pooled with the building envelope to form single assets. Each building asset includes: Exterior envelope HVAC systems Roof Electrical/Plumbing/Fire Site works – asphalt, water and sewer lines	**40**
Leasehold Improvements Interior walls constructed and any other capital improvements to a space leased by Town of Cochrane.	**Over term of the lease**

Asset Classes **Major** ***Minor*** **Sub-class**	Maximum Useful Life
Engineered Structures	
Roadway system	
Bridges	
Vehicle	**43**
Pedestrian	**43**
Overpass/interchange	**43**
Curb & gutter	**43**
Parkades	
Roads & streets	**43**
Lanes/alleys	**43**
ACP - hot mix	**43**
Gravel	**43**
Nonconforming	**43**
Local/Collector/Arterial/Major Arterial	
Surface	**43**
Concrete	**43**
ACP - hot mix	**43**
ACP - cold mix	**43**
Chip seal	**43**
Oil	**43**
Gravel	
Subsurface	**43**
Road signs	**43**
Traffic control	
Information	**43**
Lights	**30**
Decorative	**30**
Street	**30**
Traffic	**30**
Guard rails	**30**
Ramps	
Sidewalks & para-ramps	

Asset Classes **Major** ***Minor*** **Sub-class**	Maximum Useful Life
Water system	
Distribution system	
Mains PVC Pipe	**75**
Mains Non PVC Pipe	**45**
Services	**75**
Pump, lift and transfer stations	
Plants and facilities	**45**
Structures	**45**
Treatment equipment	
Mechanical	**45**
Electrical	**45**
General	**45**
Pumping equipment	**45**
Reservoirs	**75**
Water Meters	**40**
Wastewater system	
Collection system	
Mains PVC Pipe	**75**
Mains non PVC Pipe	**45**
Services	**75**
Pump, lift and transfer stations	**45**
Plants and facilities	
Structures	**45**
Treatment equipment	
Mechanical	**45**
Electrical	**45**
General	**45**
Pumping equipment	**45**
Lagoons	**75**
Storm system	
Collection system	
Mains	**75**
Services	**75**
Catch basins	**75**
Outfalls	**75**
Wetlands	**75**
Retention ponds	**75**

Asset Classes **Major** ***Minor*** **Sub-class**	Maximum Useful Life
Machinery and Equipment	
Heavy construction equipment	**10**
Food services	**10**
Fire equipment	**10**
Police special equipment	**10**
Tools, shop and garage equipment	**10**
Scales	**10**
Bins	**10**
Turf equipment	**10**
Ice re-surfacer	**10**
Office Furniture & Equipment	
Furniture	**10**
Office equipment	**10**
Audiovisual	**10**
IT Infrastructure	
Hardware and software	**5**
Telephone systems/radios	**5**
Fibre optic cable	**30**
Vehicles	
Cars and light duty	**10**
Heavy duty	**10**
Fire trucks	**25**

End of Procedure

Approval

Julian deCocq, C.A.O.

June 7, 2010
Date