



DRUMHELLER

COUNCIL POLICY



COUNCIL POLICY # C-08-07

CAPITALIZATION POLICY

THE PURPOSE OF THIS POLICY IS TO:

Achieve the consistent recording of tangible capital assets, and to help with the preparation of financial statements that will comply with generally accepted accounting principles. All departments are required to follow this policy.

POLICY STATEMENT:

To provide guidelines for the recording of tangible capital assets.

DEFINITIONS:

Tangible capital assets are non-financial assets having physical substance that:

- (i) 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;
- (ii) have useful economic lives extending beyond an accounting period;
- (iii) are to be used on a continuing basis; and
- (iv) are not for sale in the ordinary course of operations.

Betterments are subsequent expenditures on tangible capital assets that:

- increase previously assessed physical output or service capacity;
- lower associated operating costs;
- extend the useful life of the asset; or
- improve the quality of the output.

Any other expenditure would be considered a repair or maintenance and expensed in the period.

Cost is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Net book value of a tangible capital asset is its cost, less both accumulated amortization and the amount of any write-downs.

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

Useful life is the estimate of either the period over which a tangible capital asset is expected to be used by a government, or the number of production or similar units that can be obtained from the tangible capital asset by a government. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a government. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life. (Appendix A)

Major classification of tangible capital assets to be recorded will include:

- *Land*
- *Land improvements*
- *Buildings*
- *Engineered structures*
- *Machinery and equipment*
- *Vehicles*
- *Cultural and historical assets*

Definitions of major asset classifications:

Land

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 land 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 and/or goods, machinery, equipment and working space.

Engineered structures

Permanent structural works such as roads, bridges, canals, 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. This class does not include stationary equipment used in the engineered structures class.

Vehicles

Rolling stock that is used primarily for transportation purposes.

Cultural and historical assets

Works of art and historical treasures that have cultural, aesthetic or historical value that are worth preserving perpetually. These assets are not recognized as tangible capital assets in the financial statements, but the existence of such property should be disclosed. Buildings declared as heritage sites may be included in this asset classification.

Engineered Structures minor asset classifications

Minor classifications in the Engineered Structures major classification will be:

- Roadway system
- Water system
- Wastewater system
- Storm system
- Fibre optics

Buildings, and machinery and equipment, will be grouped in a subclass for the minor classes of water, light rail transit, wastewater, storm water, electric, gas and fibre optics. This treatment is an exception to the recommended approach to classifying tangible capital assets to better report the cost of distribution and transmission systems.

Definitions of Engineered Structures minor classes

Roadway system

Assets intended for the direct purpose of vehicle or pedestrian travel or to aid in vehicle or pedestrian travel. Includes roads, bridges, overpasses, ramps, parkades, lights, sidewalks and signage.

Water system

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.

Wastewater system

Wastewater is defined as water that has been used for household, 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 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, plants and equipment and lagoons.

Storm system

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.

Fibre optics

Fibre optics is defined as technology that uses glass or plastic threads (fibres) to transmit data. A fibre optic cable consists of a bundle of threads, each capable of transmitting messages modulated onto light waves. This system is comprised of the assets necessary to transmit data through a fibre optic cable.

RECORDING ASSETS

Tangible capital assets are to be recorded at cost. The cost of a tangible capital asset includes the purchase price of the asset and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties. The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. The activities necessary to prepare a tangible capital asset for its intended use encompass more than the physical construction of the tangible capital asset. They include the technical and administrative work prior to the commencement of and during construction.

The cost of each tangible capital asset acquired as part of a single purchase (for example, the purchase of a building and land for a single amount) is determined by allocating the total price paid for all of the tangible capital assets acquired to each one on the basis of its relative fair value at the time of acquisition.

Betterment

Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. In general, for tangible capital assets other than complex network systems, service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, the useful life of the property is extended or the quality of the output is improved.

For complex network systems, therefore, the following basic distinctions will be used to identify maintenance and betterments:

- (a) Maintenance and repairs maintain the predetermined service potential of a tangible capital asset for a given useful life. Such expenditures are charged in the accounting period in which they are made.
- (b) Betterments increase service potential (and may or may not increase the remaining useful life of the tangible capital asset). Such expenditures would be included in the cost of the related asset.

CAPITALIZATION THRESHOLDS

The minimum per item value for capitalization is:

Asset	
Land	n/a
Land Improvements	5,000
Buildings	25,000
Engineered Structures	25,000
Machinery & Equipment	5,000
Vehicles	5,000

AMORTIZATION METHOD

All assets, with a limited life, will be amortized on a straight-line method, with only 50% of the annual amortization recorded in the year of acquisition.

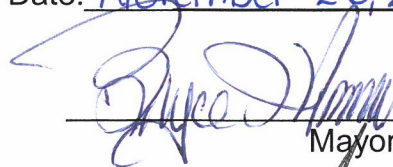
The amount to be amortized is the cost less residual value.

Should betterment increase the useful life, the net book value plus the cost of the betterment less residual value will be amortized over the new useful life.

A review of useful life will occur every five years, starting in 2015.

Adopted by Council

Date: November 26, 2007



Mayor of Drumheller



Chief Administrative Officer

APPENDIX A

Major Minor Sub-class One Sub-class Two Sub-class Three	Maximum Useful Life
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Recommended Maximum Useful Life

Land

- Right-of-way
- Undeveloped right-of-way
- Parks
- General

Cultural & Historical Assets

- Public art
- Historical
- Heritage site

Land Improvements

Parking lot	
Gravel	15
Asphalt	25
Playground structures	15
Landscaping	25
Fences	20
Sprinkler systems	25
Golf courses	45
Tennis courts	20
Fountains	20
Lakes/ponds	25
Retaining walls	20
Running tracks	15
Outdoor lighting	20
Airport runways	10
Soccer pitch – outdoor	20
Bike/jogging Paths	
Gravel	15
Asphalt	20
Landfill	
Pits	Volume
Pads	Volume
Transfer stations	25

Buildings

Permanent Structures

Frame	50
Metal	50
Concrete	50

Portable Structures

Metal	25
Frame	25
Leasehold improvements	Variable

Construction in progress

Engineered Structures

Roadway system

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	30

Guard rails

Ramps	30
Sidewalks & para-ramps	30

Light rail system	65
Construction in progress	

(* subject to weather conditions)

Water system

Distribution system	
Mains	75
Services	75
Pump, lift and transfer stations	45
Plants and facilities	
Structures	45
Treatment equipment	
Mechanical	45
Electrical	45
General	45
Pumping equipment	45
Hydrants/fire protection	75
Reservoirs	45
Construction in progress	

Wastewater system

Collection system	
Mains	75
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	45
Construction in progress	

Storm system

Collection system	
Mains	75
Services	75
Pump, lift and transfer stations	45
Catch basins	75
Outfalls	75
Wetlands	75
Retention ponds	75

Treatment facility	45
Construction in progress	
Fibre optics	30
Machinery and Equipment	
Heavy construction equipment	Variable
Stores	25
Food services	10
Fire equipment	12
Police special equipment	10
Aircraft	Variable
Boats	25
Fitness and wellness	10
Control systems	5
Communication links	20
SCADA system	10
Fuelling stations	15
Laboratory	10
Communications	
Radios	10
Telephone systems	10
Tools, shop and garage equipment	15
Scales	15
Bins	15
Meters	
Electrical	20
Cumulative	20
Interval	20
Gas	20
Water	40
Parking meters and splitters	20
Turf equipment	10
Ice re-surfacer	10
Office Furniture & Equipment	
Furniture	20
Office equipment	10
Audiovisual	10
Photocopiers	5
Computer Systems	
Hardware	5
Software	10
Construction in progress	20

Vehicles

Light duty	10
Medium duty	10
Heavy duty	10
Transit buses	20
Fire trucks	25
Light rail transit cars	40