MUNICIPAL DISTRICT OF PEACE NO. 135

REVISED BY: Doug Cooke **REVIEWED BY:** Brian Allen	**ADOPTED BY:** COUNCIL	**NUMBER:** ADM-19
TITLE: Tangible Capital Assets	**DATE:** December 10, 2024 **REVISED**: October 13, 2026	

PURPOSE OF THIS POLICY: To define and classify tangible capital assets as per Public Sector Accounting Board Handbook Section 3150, to prescribe the accounting treatment for tangible capital assets, to determine amortization methods and rates, and to set criteria for the disposal of tangible capital assets.

POLICY STATEMENT

1. DEFINITION:

1.1 Tangible capital assets are assets having physical substance that:

- are used on a continuing basis in the M.D.'s operations,
- have useful lives extending beyond one year, and
- are not held for re-sale in the ordinary course of operations.

1.2 All tangible capital assets shall be budgeted, financed and reported as such in the financial records of the Municipality as of January 1, 2009.

2. CAPITALIZATION & VALUATION:

2.1 Tangible capital assets will have a minimum threshold value of $5,000 except for buildings and engineered structures, which will have a minimum threshold value of $10,000. Assets that have a unit value below $5,000. but have a material value as a group will be recorded as a single asset with one combined value. Each unit value may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance.

2.2 Tangible capital assets shall be recorded at cost, including directly attributable acquisition, construction, and development expenses. Assets shall be capitalized on the day the asset goes into service or the date ownership/control is transferred to the Municipality.

2.3 Capital grants received are not netted against the cost of the related tangible capital asset.

2.4 A subsequent expenditure to an existing asset will be considered betterment (and thus added to the value of the asset) if the physical output or service capacity is increased, the operating costs are decreased, the useful life is extended, or the quality of output is improved (see clause 4.5 for the procedure to follow when capitalizing upgrades). Otherwise, the expenditure will be considered maintenance or repairs and will be an operating expense.

2.5 The cost of a contributed tangible capital asset is its fair value at the date of the contribution. In unusual circumstances where the fair value cannot be reasonably be determined, the tangible capital asset is recorded at nominal value.

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3. CLASSIFICATION:

3.1 Land - used for recreation, buildings, infrastructure, and other program use, but not for resale.

3.2 Land Improvements - improvements of a permanent nature (e.g. parking lots, paths, fences, gas, water, electrical services, streetlights, some playground structures).

3.3 Buildings - structures used for the operations of the Municipality.

3.4 Engineered Structures - permanent structural works, including stationery equipment Minor Classifications of Engineered Structures: Roadway System, Water System, Wastewater System.

3.5 Machinery & Equipment - all moveable equipment (that is not a vehicle) used in the operations of the Municipality.

3.6 Vehicles - rolling equipment used mainly for transportation purposes including light, medium and heavy-duty pickup trucks and fire trucks.

4. COMPONENTIZATION:

4.1 Tangible capital assets may be accounted for using either the network, or component approach.

4.2 The network approach views an asset as one unit even if the respective asset is comprised of a number of significant components. This is the simplest form of recording assets.

4.3 The component approach identifies major, significant components of an asset. Each component, with a unique historical cost, useful life or amortization method is recorded separately.

4.4 The MD of Peace follows the network approach, capitalizing assets at their combined historical cost.

- Brownvale water & sewer mains have one combined historical cost.
- Municipal roads and undeveloped road allowances will be valued at $1. per mile, excepting where improvements have been recently made and costs are known.
- Future road construction/improvement will be valued at actual cost/mile.

4.5 When the MD completes significant upgrades to an existing asset that will extend the useful life of the asset, the associated costs should be added to book value of the asset at the time of upgrade. The entire asset should then be assessed toward determining an appropriate remaining useful life for the asset as a whole. Once the remaining useful life is determined, the combined cost of the asset (historical cost to purchase plus the costs of the upgrade) should then be amortized using straight line amortization over the revised useful life of the building.

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4.5.1 For example, the Public Works shop was built in 1972. In 1972 the cost to build the shop was capitalized and amortized over 50 years. In 2007 the MD installed a new roof on this shop costing $47,618. The new roof was capitalized but inappropriately was amortized over a 50-year period, as if the new roof was a stand-alone asset. The roof cannot exist on its own, it is a part of the building. Therefore, what should have happened when the new roof was installed is that the cost of the roof should have been added to the undepreciated cost of the building (building book value). Then an estimate should have been made of the new remaining useful life of the building and the new book value of the building (with the cost of the roof) should then have been amortized over the newly determined remaining useful life of the building.

5. AMORTIZATION:

5.1 Amortization method will be straight-line, except for land which will be recorded at cost and not amortized. Amortization amount will be determined by dividing the asset's original cost by its maximum useful life.

5.2 With the exception of assets purchased with a guaranteed trade-in agreement, tangible capital assets shall be deemed to have no residual value for the purposes of calculating amortization. Any eventual recovery may be applied against the replacement purchase (trade-in) or recorded as a "gain on sale of asset" if disposed of by sale or auction.

5.3 when calculating amortization for assets purchased through a regulated buy back program (our buy-back agreement with Finning Cat is an example of a regulated buy-back program) with a guaranteed buy back price, the buy-back price shall be considered the residual value. The residual value will be subtracted from the purchase price and the resulting value will be divided by the asset's useful life (as per the Maximum Useful Life schedule below) to get the yearly amortization amount.

5.4 Annual amortization expense shall be estimated and included in the annual budget of each respective operating unit. **The actual amortization expense shall be charged against the operating unit, and the funding provided to cover amortization shall be credited to a capital replacement account for the operating unit.** This account shall be available to finance future replacements and betterments of tangible capital assets by the operating unit.

5.4.1 As of October 8th, 2024 amortization expense is estimated and added to the annual budget of each operating unit. However, the total amortization expense is then deducted from cash requirements to determine total funding required from property taxes. Council acknowledges that article 5.4 should be implemented. However, as implementation would increase taxation requirements by approximately 20%, they have directed Administration to implement this article incrementally over the course of the next five years (2025-2029).

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5.5 It is recognized that amortization based on historical cost will usually be insufficient to finance replacement or betterment of tangible capital assets, and that additional financing will likely be required for maintaining and sustaining the Municipality's tangible capital assets.

5.6 Amortization on capital assets in the year of acquisition or disposal will be recorded at 50% of the annual amortization amount. Therefore, calculation of amortization for year one and year two will be as follows:

5.6.1 Any residual value (see s. 5.3) is subtracted from the purchase price of the asset and the resulting value is divided by the asset's useful life (per Maximum Useful Life Schedule below), to get the yearly amortization.

5.6.2 The yearly amortization amount calculated in step one is multiplied by 50% to get the first year's amortization amount. The remaining 50% of the first year's amortization is added back to the undepreciated cost of the asset and the calculation is repeated for year two as is illustrated in the following example:

Example: purchased a cat for $700,000 with a $100,000 guaranteed buy-back amount

1. $700,000 – $100,000 = $600,000 divided by 6 years = $100,000/year
2. Year one amortization = $100,000 x.5 = $50,000.
3. Which leaves a remaining book value of $550,000
4. Year two amortization = 550,000 divided by 5 (remaining useful life) = $110,000/year for year 2, 3, 4, 5 & 6

6. MAXIMUM USEFUL LIFE:

6.1 Land not amortized

6.2 Land Improvements

- Gas & Electrical 60 years
- Water Systems 60 years
- Grandstands 30 years
- Fences 20 years
- Lighting 20 years
- Playground Structures 15 years (may be equipment depending on type)

6.3 Buildings 50 years

- Portable Structures 10 years

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6.4 Engineered Structures:

- Roads gravel 40 years
  cold mix 10 years
  hot mix 20 years
- Bridges variable
- Guard Rails 30 years
- Sidewalks 30 years
- Water System 60 years (includes hydrants/mains/lines/wells)
- Wastewater System 60 years (includes mains/lines/lagoons)
- Erosion Control Structures 60 years

6.5 Machinery & Equipment:

- Heavy Construction Equipment - Variable:
  - Graders - 6 years (our graders are purchased through a buy back agreement and the guaranteed buy back amount must be considered as residual value when calculating amortization).
  - Loaders - 12 years (or 6000 hrs),
  - Backhoes - 10 years (or 6500 hours),
  - Trackhoe - 12 years (or 8000 hours),
  - Dozers - 12 years (or 6000 hrs)
- ASB tractors -10 years
- ASB mowers – 7 years
- Skidsteer – 10 years
- Quads – 8 years
- Light Trailers - 15 years
- Heavy Trailers – 10 years
- Riding mowers (recreation) - 5 years
- Fire Equipment - 12 years
- Fueling Stations - 15 years
- Communications - 10 years (radios, telephones)
- Tools, Shop Equip. - 15 years
- Office Furniture - 20 years
- Audiovisual Equip - 10 years
- Photocopiers 5 years
- Computer hardware 5 years
- Computer software 10 years
- Playground Equipment 10 years (may be land improve. depending on type)

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6.6 Vehicles:

- ½ ton truck & ¾ ton truck – 7 years
- 1 ton truck – 10 years
- Fire Engines/Pumpers - 15 years Tenders/Tankers

6.7 The maximum useful life of any asset, is the maximum amount of time that a particular asset is expected to be operational. Therefore, if the asset is not new when it is put into service then the maximum useful life should be adjusted to reflect it's remaining useful life.

6.7.1 For example, a half ton truck purchased when it is five years old, only has a remaining useful life of five years and should not be amortized over ten years (as is indicated in the above schedule).

6.7.2 Using an incorrect estimate of remaining useful life when calculating amortization will likely create a situation where the MD has to recognize a loss on disposal when the asset is eventually disposed of.

7. DISPOSAL:

7.1 All asset disposals shall be approved by Council. The CAO must ensure that when Council approves an asset disposal either by sale, trade-in, donation, destruction, loss or obsolescence, that the Director of Finance is notified in a timely manner to ensure amortization for the disposed item is stopped and the asset is taken out of service and removed from insurance policies. See also Policy ADM-28 Disposal and/or Replacement of Capital Equipment.

8. MAINTAINING RECORDS:

8.1 Records will be updated and maintained annually as purchases/disposals occur.