# TANGIBLE CAPITAL ASSETS POLICY

## PURPOSE

The purpose of this policy is to establish formal guidance and direction for the application of Public Sector Accounting Standards, Section PS 3150 – Tangible Capital Assets and Section PS 3280 – Asset Retirement Obligations.

## 1.0 DEFINITIONS

1.1 ***Tangible Capital Assets (TCA)*** are assets (including betterments) that are held for use in the production or supply of goods and services, having a useful life that extends beyond one fiscal year, are used on a continual basis, and are not held for resale in the ordinary course of operations.

1.2 ***Betterments*** are the subsequent expenditures on the tangible capital assets that enhance their service potential. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where the associated operating costs are lowered, the useful life is extended, or there is an improvement to the quality of the output.

1.3 ***Useful life*** is the estimate period that an asset is determined to be useable within normal repair and maintenance, for the purpose that it was acquired. It is usually measured in years and is normally the shortest of the physical, technological, commercial, or legal life.

1.4 ***Amortization*** is the preferred term for expensing of the cost of the asset over the asset's useful life. The asset is to be amortized over the useful life of the asset in a rational and systematic manner appropriate to its nature and use for operations.

1.5 ***Asset Retirement Obligations (ARO)*** are legal obligations associated with the retirement of a tangible capital asset. PS 3280.09 outlines the criteria for recognition and explains that a liability for asset retirement would be recognized when all of the following are met at the financial reporting date:

i. There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
ii. The past transaction or event giving rise to the liability has occurred;
iii. It is expected that future economic benefits will be given up; and
iv. A reasonable estimate of the amount can be made.

## 2.0 PROCEDURE – TANGIBLE CAPITAL ASSETS (TCA)

Vulcan County will follow Public Sector Accounting Standards, Section PS 3150 – Tangible Capital Assets when accounting for and reporting tangible financial capital assets in its financial statements.

2.1 Tangible capital assets are recorded at cost, which includes all amounts that are directly attributed to the acquisition, construction, development, or betterment of the asset. Contributed tangible capital assets are recorded at the estimated fair value at the date of the contribution.

2.2 Assets are capitalized as tangible capital assets if they meet the definition of a tangible capital asset AND the asset meets or exceeds the following capitalization thresholds:

| Category | Capitalization Threshold |
| --- | --- |
| Land | N/A (all land capitalized) |
| Land Improvements | $ 5,000 |
| Buildings | $ 25,000 |
| Engineered Structures | $ 25,000 |
| Machinery & Equipment | $ 5,000 |
| Vehicles | $ 5,000 |
| Betterments | $ 5,000 |

Tangible capital assets that do not meet the capitalization threshold are expensed in the fiscal year that they are acquired / constructed. These are still assets of the County and should be tracked, controlled, maintained and managed for County operations.

2.3 The costs of the tangible capital assets (less any residual value) are to be amortized on a straight-line basis over the estimated useful life of the asset; commencing on the date the asset was acquired or the date that the asset was brought into service. Assets that are under construction are not amortized until the asset is available for productive use. Land normally has an unlimited life and as such is not amortized. The estimated useful lives of the assets are as noted in Appendix A.

## 3.0 PROCEDURE – ASSET RETIREMENT OBLIGATIONS (ARO)

Vulcan County will follow Public Sector Accounting Standards, Section PS 3280 – Asset Retirement Obligations when accounting for and reporting asset retirement obligations in its financial statements.

3.1 Asset Retirement Obligations (ARO) are implemented using the Modified Retroactive Approach (PS 3280.69).

i. Present Value (PV) techniques such as discounted cash flow calculation will be used to estimate the measure of the ARO liability. The PV term will be based on the month of service for date the legal obligation was incurred (when asset was acquired/built) and for related timing of future reclamation.

ii. Adjustments to opening accumulated surplus will be attributed to the "Equity in Tangible Capital Assets" (within the Accumulated Surplus).

3.2 The Estimated Reclamation Costs are the projected/estimated value for the reclamation costs at the end of the asset's useful life (undiscounted expected cashflows).

i. The County may utilize independent experts to support in the valuation of reclamation costs and are highly recommended if the estimates are outside of the scope of County Administration.

ii. Inflationary factors may be used to project the costs in future years if the factors can be reasonably determined.

3.3 The Discount Rate reflects the time value of money and the risks specific to the liability for asset retirement obligations, for which future cash flow estimates have not been adjusted.

i. As the County has the ability to either take debt/debentures and/or self-fund the reclamation costs, the Discount Rate may take into account either the rate of borrowing or the effective loss in investment income (should the costs be self-funded).

ii. Rate of Borrowing should typically relate to the long-term capital borrow rates available to the County, due to the long-term nature of AROs. Averaging of Borrowing Rates may be applicable if high variations in rates are being applied from year-to-year.

iii. The Discount Rate Applied should be internally consistent.

iv. Should an inflationary factor be used in the Estimated Reclamation Costs (Section 3.2), the discount rate shall also incorporate the same inflation assumptions for those specific assets utilizing the inflationary factor.

3.4 The Useful Life of the Capitalized ARO Costs shall be consistent with the useful lives of the related Tangible Capital Asset.

i. Should the related Tangible Capital Asset be fully amortized, the ARO costs would be amortized over the revised estimated useful life; whereas, the revised estimated useful life should be less than the Estimated Useful Lives as outlined in Appendix A.

ii. Should the related Tangible Capital Asset be on land assets (which are not amortized) such as with Gravel Pits, the ARO costs would be amortized over the estimated useful life until the estimated year of reclamation.

iii. The Capitalized ARO Costs should be amortized on straight-line basis in a rational and systematic manner.

3.5 Subsequent Measurement of the Asset Retirement Obligation (ARO), other than accretion expense, shall be recorded when the Estimated Reclamation Costs and/or the Estimated ARO Liability has changed by an amount greater than or equal to $5,000 for an individual asset and/or $10,000 in aggregate.

i. The subsequent remeasurement of the ARO will result in a current year change in the ARO liability.

a) If there is an increase in the ARO liability and the value is greater than the original value at implementation, the increase will result in an increase in the capitalized ARO Costs. The revised capitalized ARO costs would be amortized on a go-forward basis.

b) If the net changes (excluding accretion expense) result in the ARO liability being equal to or less than the original implementation, the changes in the ARO liability are recorded as revenues or expenses.

ii. The estimated cost of the ARO liability should be reconsidered at each financial reporting date, reviewing the factors included in the Present Value (PV) calculations.

## 4.0 <u>REFERENCES</u>

Legislative: Public Sector Accounting Standards (PSAS):

- *PS 3150 – Tangible Capital Assets*
- *PS 3280 – Asset Retirement Obligations*

County Policies: N/A

# APPENDIX A

## Tangible Capital Assets – Estimated Useful Lives

| ASSET CATEGORIES | | | | Estimated Useful Life (in years) |
|---|---|---|---|---|
| **Major** | | | | |
| | **Minor** | | | |
| | | **Sub-Class 1** | | |
| | | | **Sub-Class 2** | |
| **Land** | | | | |
| | General | | | N/A |
| **Land Improvements** | | | | |
| | Landscaping | | | 25 - 45 |
| | Fences & Enclosures | | | 20 |
| | Outdoor Fixtures and Furniture | | | 15 |
| | Parking Lots | | | |
| | | Gravel | | 30 |
| | | Paved | | 25 |
| **Buildings** | | | | |
| | Permanent Structures | | | |
| | | Structural (wood, steel, concrete) | | 30 - 50 |
| | | Interior | | 30 |
| | | Roof | | 30 |
| | | HVAC (electrical, mechanical) | | 20 - 30 |
| | Portable Structures | | | 20 - 25 |
| **Engineered Structures** | | | | |
| | Roads | | | |
| | | Gravel Roads | | 75 |
| | | Oiled Roads | | |
| | | | Oiled Surface | 5 - 10 |
| | | | Sub-surface | 75 |
| | | Paved Roads | | |
| | | | Paved Surface | 15 - 25 |
| | | | Sub-surface | 75 |
| | Bridges | | | |
| | | Standard Bridges | | 40 - 80 |
| | | Major Bridges | | 70 - 120 |
| | Culverts | | | |
| | | Steel | | 65 - 100 |
| | | Concrete | | 90 - 120 |

## APPENDIX A – Tangible Capital Assets – Estimate Useful Lives (continued)

| ASSET CATEGORIES | | | | Estimated Useful Life (in years) |
|---|---|---|---|---|
| **Major** | | | | |
| | **Minor** | | | |
| | | **Sub-Class 1** | | |
| | | | **Sub-Class 2** | |
| **Engineered Structures - Continued** | | | | |
| | Water Systems | | | |
| | | Distribution System | | 75 |
| | | Water Well Systems | | 25 |
| | | Reservoirs | | 75 |
| | | Plant and Facilities | | 40 - 50 |
| | Communication Towers | | | 38 |
| **Machinery & Equipment** | | | | |
| | Heavy Duty Equipment | | | 10 - 25 |
| | Light Duty Equipment | | | 10 - 25 |
| | Graders | | | 5 |
| | Trailers | | | 6 - 20 |
| | Storage Tanks | | | 10 - 15 |
| | Bunkhouse | | | 20 |
| | Electronic Data Processing | | | |
| | | Computer/Server Hardware | | 5 |
| | | Computer/Server Software | | 3 |
| | Fixtures and Furniture | | | 10 |
| **Vehicles** | | | | |
| | Heavy Duty Vehicles | | | 5 - 10 |
| | Light Duty Vehicles | | | 5 - 10 |
| | Fire Trucks | | | |
| | | Fire Apparatus | | 10 - 20 |
| | | Water Tanker | | 10 - 20 |