

Tangible Capital Assets and Amortization

Effective Date: September 1, 2009
Last Revised: November 5, 2024

1. Purpose

The purpose of this policy is to clearly articulate that the City will capitalize and amortize tangible capital assets in the annual financial statements beginning with the 2009 fiscal year. Tangible capital assets are a significant economic resource managed by the City, and a key component in the delivery of government services. The complete stock of City assets and associated amortization needs to be presented in the City's financial statements to demonstrate stewardship and the cost of using those assets to provide services.

2. Scope

This policy applies to the City's tangible capital asset categories as identified in the City's asset management plan.

3. Exclusions

City Assets that do not meet the definitions within this policy and that fall outside of the minimum threshold for capitalization.

4. Definitions

In this policy,

- (1) **Accretion Expense** – means the estimated increase in the carrying amount of an asset retirement obligation (ARO) due to the passage of time.
- (2) **Amortization** - is the process of allocating the cost of tangible assets, including asset retirement obligation (ARO), over a period of time, rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for amortization in each accounting period (accumulated amortization) will equal original cost less salvage value.



- (3) **Asset Cost** – means the historical cost paid for an asset either through purchase or construction or the fair value of a donated asset at the time of contribution. The cost of asset betterments (see below) are added to the cost of the related asset.
- (4) **Asset Retirement Obligation (ARO)** – a legal obligation that is associated with the retirement of a tangible capital asset such as the removal or cleanup of hazardous materials.
- (5) **Betterments** – a cost incurred to enhance the service potential of an asset. Service potential may be enhanced when there is an increase in service capacity, where associated operating costs are lowered, the useful life is extended or the quality of the output is improved.
- (6) **Estimated Useful Life** - means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased. It does not necessarily equate to physical life. An asset must have an estimated useful life greater than one reporting period to be considered for capitalization and amortization. Assets that are consumed, used-up, habitually lost or worn-out in one year or less should not be capitalized.
- (7) **Infrastructure Assets** - are long-lived capital assets that normally can be preserved for a significant greater number of years than most capital assets and that are normally stationary in nature. Examples include roads, bridges, tunnels, drainage systems, dykes and water and sewer systems. Infrastructure assets do not include buildings, drives, parking lots or any other examples given above that are incidental to property or access to the property.
- (8) **In-Service Date** – The date an asset is ready for productive use (generally when the acquisition or construction is substantially complete).
- (9) **Salvage Value** - is the value the asset is expected to have when it is no longer useful for its intended purpose. In other words, the salvage value is the amount for which the asset could be sold at the end of its useful life. This value may be based on (1) general guidelines from professional organizations such, (2) information from other governmental entities, (3) internal expertise, or (4) professionals such as engineers, architects, etc. Amortization is generally based on cost less salvage value.
- (10) **Tangible Capital Assets** - Includes: land, land improvements, buildings, building improvements, construction in progress, furniture, machinery and equipment, vehicles, infrastructure assets, and easements that have a useful

life greater than one year. Capital assets are generally purchased or constructed by the City or donated by developers.

5. Policy Statements

Reporting Tangible Capital Assets in the Annual Financial Statements

Tangible capital assets and the associated accumulated amortization will be reported in the Statement of Financial Position at historical cost (or fair value of donated assets). Accumulated amortization may be reported separately, or capital assets may be presented net of accumulated amortization on the statement. Capital assets that are not being amortized, such as land will be reported separately. Capital assets will be reported in greater detail, such as by major class of asset (for example, infrastructure, buildings and improvements, vehicles, machinery and equipment) in the notes to the financial statements.

Reporting Amortization Expense in the Annual Financial Statements

Good accounting and financial management practices require that the City of Pitt Meadows take both the cost expiration and the declining value of an asset into consideration when determining an appropriate amortization method and period. The cost expiration of the City of Pitt Meadows assets must be recognized if the cost of providing services is to be realistically reported.

Amortization expense will be reported in the notes to the financial statements. It will be allocated to the various functions the assets support on the Schedule of Segment Disclosure.

Budget Implications

Capitalizing and amortizing tangible capital assets for the purposes of annual financial statements is an accounting procedure based on matching recorded expenses with asset use. Section 165 of the Community Charter requires that a municipality budget be based on expenditures of funds. For the purposes of adequately providing for timely lifecycle replacement of tangible capital assets, the City will make efforts to ensure that the annual provision directed to its reserves per the reserve policy will cover the annual amortization and accretion expense.

5.1. Roles and Responsibilities

- (1) The finance department is responsible for capitalizing TCA expenditures and related ARO liabilities, recording amortization and accretion expense.
- (2) Asset Managers are responsible for asset disposals in accordance with the Disposal of Surplus Assets policy C013.

5.2. Procedures and Guidelines

Inventory Records

The City of Pitt Meadows will keep an inventory of all capital assets with costs greater than the tracking and inventory thresholds noted later in this document. Each inventory record should include: description, year of acquisition, cost or estimated cost, salvage value, and estimated useful life. The inventory record will also need to identify the functional areas that use the asset.

Recording Assets

Land

Land is to be capitalized but not amortized. It is recorded at historical cost and remains at that cost until disposal. If there is a gain or loss on the sale of land, it is reported in the notes to the financial statements.

Land Improvements

Land improvements include items such as excavation, non-infrastructure utility installation, playing fields, outdoor pools, playgrounds, dykes, trails, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, outdoor lighting, and other non-building improvements intended to make the land ready for its intended purpose.

Land improvements can be further categorized as non-exhaustible and exhaustible:

Non-Exhaustible - Expenditures for improvements that do not require maintenance or replacement, expenditures to bring land into condition to commence erection of structures, expenditures

for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible and therefore not amortized.

Exhaustible - Other improvements that are part of a site, such as parking lots, landscaping and fencing, are usually exhaustible and are therefore amortized. Amortization of site improvements is necessary if the improvement is exhaustible.

Buildings

Buildings should be recorded at either their acquisition cost or construction cost. The cost of new construction should be carefully evaluated. Usually projects consist of major components such as land, land improvements, building construction (including professional fees and permits), furniture, fixtures and equipment. In addition, buildings include components (e.g., roof, air conditioner system, etc.) that should be recorded separately when significant because these building components have different useful lives. The value of each component needs to be determined and placed within its own category.

Purchased Buildings - At the time of purchase, an estimate will be made of the useful life of the building. The building will be amortized over the lesser of this estimate and the otherwise applicable amortization period.

Building Improvements

Building improvements (betterments) that extend the useful life should be capitalized. Examples of building improvements include roofing projects, major energy conservation projects, or remodeling and replacing major building components.

Construction in Progress (work-in-progress)

Construction in progress should be capitalized and not amortized and are included in the notes to the financial statements.

Furniture and Equipment

Assets such as furniture, machinery and equipment (that meet threshold levels) should be identified and inventoried. Some assets, individually, may fall below the capitalization threshold but may be purchased in large quantities. Examples include desktop and laptop computers. The City of Pitt Meadows will aggregate such assets and consider the materiality and significance of them and if material or significant capitalize such items either individually or in the aggregate.

Vehicles

Vehicles should be identified, inventoried, and amortized.

Easements and Rights of Way

An easement or right of way is an interest in land owned by another that entitles its holder to a specific limited use or enjoyment (right to use the land). Easements are not required to be reported in the financial statements unless the City of Pitt Meadows paid for the easement.

Infrastructure Assets

The City's GIS system will be the source of the detailed inventory records for infrastructure assets. Each component as defined in the GIS system will be valued, capitalized, and amortized.

Threshold Levels

The City of Pitt Meadows does not need to capitalize every asset with a useful life greater than one year. To do so is an unnecessary burden and will not materially affect financial results. The City of Pitt Meadows capitalization threshold is set at \$5,000.

Depreciable Life

Depreciable (useful) life, and therefore amortization period, should consider the asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service demands. Useful lives can be based on (1) internal expertise; (2) general guidelines from professional organizations; (3) information from other governmental entities; (4)

professionals such as engineers, architects, etc.

Suggested useful lives are as follows:

Asset Type	Examples	Amortization Period in Years
Furniture, office equipment	Desks, chairs, modular walls	5
Computer Hardware	Monitors, desktops, laptops, printers, tablets, notebooks, smart phones	4
Computer Software	Operating Business Systems	5
	Cloud-based and Subscriptions as a Service (SaaS)	No amortization
Telephone Equipment		10
Fleet	Cars and light trucks	5
	Heavy Construction Equipment, Backhoes, Trucks, front end loaders	5-10
	Fire Trucks	15-20
	Grounds Equipment	15
Buildings – Temporary	Portables	20
Buildings – Permanent	Structure and components	20-50
Firefighting Equipment		10
Traffic Control Equipment	Stoplights	10
Recreational/Athletic Equipment	Weight machines, treadmills	10
Outdoor Equipment	Playground Equipment	20
Land		No amortization
Land Improvements – structure	Parking lots, sidewalks, fencing	20
Land Improvements – ground work	Ball field, park landscaping	30
Drainage Systems	Pipe, pumps, service connections	20-100
Dikes and Ditches		No amortization
Water Systems	Pipe, hydrants, service connections	50-100
Sanitary Sewer System	Pipe, service connections, lift stations	25-100
Roads	Base, surface, curbs, street lights	50-100
Bridges		50-100

Amortization Method

The City will use the straight line method to calculate amortization. The straight-line method is the simplest and most commonly used for calculating amortization. It can be used for any depreciable property. Under the straight-line amortization method, the cost of the asset is written off evenly over the useful life of the asset. The same amount of amortization is taken each year. In

general, the amount of annual amortization is determined by dividing an asset's cost (less salvage value) by its estimated life.

The total amount amortized can never exceed the asset's historic cost less salvage value. At the end of the asset's estimated life, the salvage value will remain.

For example, a \$5,000 copier is placed in service on January 2, 2008. It has an estimated life of five years and a salvage value of \$1,000. The amortization calculation for the straight-line method would be:

Original cost	\$5,000
Salvage value	<u>(1,000)</u>
Adjusted basis	\$4,000
<u>Estimated life</u>	<u>5</u>
<u>Amortization per year</u>	<u>\$800</u>

Amortization at the in-service date

Amortization of an asset should begin at the in-service date. To avoid the complications of depreciating each asset from the specific date on which it was placed in service, GAAP supports guidelines that assume various assets are placed in service or disposed of at designated dates throughout the year. These guidelines are called averaging conventions.

The City of Pitt Meadows will use the monthly convention for assets where amortization calculated by this method is not materially different than if calculated from the in-service date. Under a monthly convention, amortization begins the first of the month of the in-service date. Where this method would result in materially different amortization, the City will calculate amortization from the in-service date.

Asset Retirement Obligation Measurement

As of fiscal year 2023, the City implemented the new public sector accounting standard PS3280 Asset Retirement Obligation to account for future liabilities arising from the disposal of assets requirement the removal of hazardous materials.

The City applied the modified retroactive method on initial implementation of the accounting standard which required the restatement of prior year comparative balances in the financial statements.

Every year, the ARO liability measurement is adjusted based on the estimated cost of removal of hazardous materials and the discount rate applied as at December 31st of the ending fiscal year.

Asset Disposal and Settling an Asset Retirement Obligation

Disposals of tangible capital assets may occur by asset sale, destruction, or abandonment. The cost and accumulated amortization of a disposed asset will be removed from the asset inventory and the difference between the net proceeds on disposal and the net book value (cost less accumulated amortization) will be accounted for as revenue or expense on the statement of financial activities.

The final adjustment to the ARO liability is the settlement of the ARO liability that arises upon the completion of the legal obligation at the time of disposal when the ARO liability is paid out.

5. Related Policies

Other related policies include:

- (a) Asset Management Policy A036
- (b) Purchasing and Procurement Policy C012
- (c) Disposal of Surplus Assets Policy C013.