



PROCEDURE

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TITLE: Asset Classification

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POLICY: Tangible Capital Assets
Policy 351

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**RESPONSIBLE
DEPARTMENT:** Finance

Major, minor and subclasses of tangible capital assets will be defined as:

- **Major** A group of tangible capital assets that is significantly different in design and use.
- **Minor** A classification within a major class that has unique characteristics.
- **Subclass** A further classification that may be required due to unique tangible capital asset criteria, applications, methodologies and asset lives. There is the option to classify further into subclass one, subclass two, subclass three, etc.

Tangible capital assets recorded in the **Major classification** 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.

There is no minimum threshold for land. Land has an unlimited life and is not amortized.

The recorded cost of land includes purchase price, fair market value (FMV) if the land was donated, or FMV if the land was purchased at a bargain purchase option, plus any ancillary costs at the time of acquisition. Ancillary costs include, but are not limited to:

- Legal and title fees;
- Professional fees of engineers, legal counsel, appraisers, financial advisors, surveys, etc.;
- Costs related to demolition of unwanted structures; and
- Site-preparation costs (clearing, filling, levelling, grading and drainage).

If management's intent, at the time of acquisition of land containing a building, is to demolish the building (razing), then the cost of demolition would be included in the capitalized value of the land.

"Land Held for Resale," either purchased or obtained through tax foreclosure, is considered inventory for accounting purposes. Land, either purchased or obtained through tax foreclosure, intended to be retained for government use, is capitalized as Land.

Land Improvements

This account reflects acquisition costs of depreciable improvements of a permanent nature, other than buildings, which adds value to land. Examples of such improvements are:

- Fences and gates;
- Retaining Walls;
- Pavement, such parking lots and airport runways;
- Landscaping, lighting, pathways, playground and picnic equipment; and
- Monuments.

Cost includes purchase price, contract price, or job order cost, professional fees of architects, site preparation costs and any other expenditure necessary to place the improvement into its intended state of operation. If these costs are for an existing land improvement the criteria relating to betterment must be applied.

Expenditures on land improvements where land is being returned to its natural state are not capitalized. Some examples are reforestation projects, contaminated land clean-up projects and mining reclamation projects.

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.

When buildings are purchased, the cost should include the purchase or contract price of all permanent building structures plus any ancillary costs of acquisition such as legal fees, appraisers, and financial advisors, and other expenditures necessary to put a building into its intended state of operation.

If a building is being constructed, the 'Construction in Progress' account will contain the current value of construction costs. After the building is constructed, the building asset is created and the 'Construction in progress' asset is deleted.

If a building is acquired by gift or bargain purchase, the building account should reflect the FMV at the date of acquisition. Note: a bargain purchase is a purchase priced significantly lower than the accepted FMV.

If land has existing structures and these structures are demolished (razing), it is management's intent, at the time of acquisition that will determine how to record the demolition cost.

- The intent, at the time of acquisition, is to demolish the building - capitalize the demolition cost as part of the land;
- The intent, at the time of acquisition, is to keep the building and a future decision is made to demolish the building - if constructing a new building, then the demolition cost is capitalized as a component of the new building; otherwise, it is an indirect expense and considered a period cost (expensed immediately).

Engineered Structures

Permanent structural infrastructure assets are long-lived, capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. The following items are examples of infrastructure assets (this list is not meant to be exhaustive):

- Roads;
- Bridges;
- Tunnels;
- Drainage Systems;
- Water and Sewer Systems;
- Dams;
- Lighting Systems;
- Outdoor Swimming Pools;
- Radar and Radio Towers;
- Incinerators;
- Recreation Structures.

Capital costs include the direct costs of construction including tender construction costs, labour, materials, survey costs, and project specific design costs. Construction and material costs related to overhead structures and signage. Salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control.

Machinery and Equipment

Equipment that is used for the construction and maintenance of infrastructure (one-ton and larger trucks with dual rear wheels; dump trucks, tractors, graders, etc.), smaller equipment in buildings and offices, furnishings, mainframe computer hardware, servers and related software. This class does not include stationary equipment used in the engineered structure class.

An apparatus, tool, device, implement or instrument that likely uses energy (e.g. human, electrical, hydraulic fuel, or thermal) to facilitate a process, function or completion of a task. It may be installed within a building, but is generally capable of being moved and reinstalled at a different location, if need be (that is, it is not permanently affixed to or integrated into the building or structure in which it resides).

When equipment is purchased, the cost should include the amount of money ultimately paid, including ancillary charges such as transportation, installation, extended maintenance/warranty contracts and any other expenditure required to place the asset in its intended location and condition for use.

Vehicles

This category includes trucks (under one-ton), cars, vessels and other rolling stock that is used primarily for transportation purposes. The cost includes the purchase cost, expenditures for significant improvements and any other necessary expenditure required to place the asset into its intended state of operation. Working equipment, such as bulldozers, are considered equipment, not vehicles.

Cultural and Historical Assets

Works of art and historical treasures that have cultural, aesthetic or historical value that is 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.

Minor Asset Classifications:

Minor classifications in the Engineering Structure 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, wastewater and storm water. This treatment is an exception to the recommended approach to classifying tangible capital assets in order 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 to aid in vehicle or pedestrian travel. Includes surface systems such as roads, sidewalks, bridges, overpasses, ramps, parkades, street lights, and signage.

Water System

Systems for the provision of water for human consumption through pipes or other constructed convey. It is comprised of assets for the intake, distribution, storage and treatment of safe 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. 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.