POLICY NUMBER –

Policy Subject / Title - Tangible Capital Assets

1.0 GENERAL STATEMENT OF POLICY

The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants requires that municipal financial statements be prepared in accordance with generally accepted accounting principles. This policy applies to all departments operating within the reporting entity of the Municipality.

2.0 OBJECTIVE

The objective of this policy is to prescribe the accounting treatment for tangible capital assets so that users of the financial report can discern information about the investment in property, plant and equipment and the changes in such investment. This policy will provide guidance for all departments to assist them in assessing their physical resources in order to provide the information necessary to prepare financial statements. The principal issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts, amortization charges and the recognition of any related impairment losses.

In addition, the policy covers procedures to:

a) protect and control the use of all tangible capital assets;
b) provide accountability over the tangible capital assets;
c) gather and maintain information needed to prepare financial statements.

3. DEFINITIONS

A. AMORTIZATION

Tangible Capital Assets are used to provide services to the public. Amortization of capital assets allocates an expense for the effective utilization and reduction in value of a capital asset during the course of a year's operations. This indicates writing off the cost of the capital asset over its expected life span.

B. BETTERMENTS

Subsequent expenditures on tangible capital assets that:

- increase the previously assessed physical output or service capacity.
- cause a reduction in associated operating costs.
- extend the estimated useful life.
- cause an improvement in the quality of output.

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

C. CAPITALIZATION

Tangible capital assets shall be capitalized (recorded in the fixed asset sub-ledger) according to the asset categories outlined in Schedule A.

D. CAPITAL LEASE

A capital lease is a lease with contractual terms that transfers substantially all the benefits and risks inherent in ownership of property to the Municipality. For substantially all of the benefits and risks of ownership to be transferred to the Municipality, one or more of the following conditions must be met:

a) there is reasonable assurance that the Municipality will obtain ownership of the leased property at the end of the lease term.
b) the lease term is of such a duration that the Municipality will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.

E. FAIR MARKET VALUE

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

F. TANGIBLE CAPITAL ASSETS

Assets having physical substance that:

- are held for use by the municipality in the production or supply of goods and services for the development, construction, maintenance or repair of other tangible capital assets;
- have useful lives extending beyond a year and are intended to be used on a continuing basis;
- are not intended for sale in the ordinary course of operations.

G. VALUATION

Tangible capital assets shall be recorded at cost, if cost is available, plus all additional charges necessary to place the asset in its intended location and condition for use.

4. POLICY STATEMENTS

THRESHOLD

The threshold for each category represents the minimum cost an individual asset must have before it is to be recorded as a capital asset on the statement of financial position. Capital assets not meeting the threshold of $10,000 per year are expensed in the year in which they are purchased.

PURCHASED ASSETS

Cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc. It is net of any trade discounts or rebates.

Cost of land includes purchase price plus legal fees, land registration fees, transfer taxes, migration and survey costs. Costs would include costs to make the land suitable for intended use, such as pollution mitigation, demolition and site improvements that become part of the land.

When two or more assets are acquired for a single purchase price, it is necessary to allocate the purchase price to the various assets acquired. Allocation shall be based on the fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

ACQUIRED, CONSTRUCTED OR DEVELOPED ASSETS

Cost includes all costs directly attributable (e.g. construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Capitalization of general administrative overhead is not permitted.

Capitalization of carrying costs ceases when no construction or development is taking place or when the tangible capital asset is completed or ready for use.

CAPITALIZATION OF INTEREST COSTS

Interim financing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use shall be capitalized as part of the cost of that asset.

Capitalization of interest costs shall commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization shall be suspended during periods in which active development is interrupted. Capitalization interest shall cease when substantially all of the activities necessary to prepare the asset for its intended use are complete.

DONATED OR CONTRIBUTED ASSETS

The cost of donated or contributed assets that meet the criteria for recognition shall be valued equal to their fair market value at the date of construction or contribution. Fair market value for land will be based on land assessment value or appraised value, all other items shall be based on fair market value.

AMORTIZATION

The cost, less any residual value, of a tangible capital asset with a limited life will be amortized over its useful life in a rational and systematic manner appropriate to its nature and use. The amortization method and estimate of useful life of the remaining unamortized portion shall be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

Useful life is normally the shortest of the asset's physical, technological, commercial or legal life. Amortization shall begin in July of the year in which the costs were incurred. No amortization shall be recorded in the year an asset is disposed of. No amortization shall be recorded on a capital asset in progress or one that has been removed from service but not yet disposed of.

The Municipality shall use a straight-line method for calculating the annual amortization. A comprehensive list of useful lives and amortization is attached in schedule A.

DISPOSAL

When tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the department head or designate shall notify the finance department of the asset description and effective date. The finance department shall be responsible for adjusting the asset ledgers.

The disposal of a capital asset shall result in its removal from service as a result of sale, destruction or loss. When a capital asset is disposed of, the cost and the accumulated amortization shall be removed from the accounting records and any gain or loss recorded. Costs of disposal paid by the municipality shall be expensed. A gain or loss on disposal is the difference between the net proceeds received and the net book value of the asset and shall be accounted for as a revenue or expense in the period the disposal occurs.

CAPITAL LEASES

Capital leases shall be formally approved by Council. The department head or designate shall notify the finance department of any capital lease that will acquire an asset with a value of $10,000 or more. If equipment is acquired through a capital lease, then the finance department shall account for the capital asset and incur a liability.

ASSETS EXCLUDED FROM AMORTIZATION

Land shall be capitalized and not amortized. Works of art, historical treasures and intangible assets such as patents, copyrights and trademarks shall not be capitalized nor amortized.