

MUNICIPALITY OF CROWSNEST PASS

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TANGIBLE CAPITAL ASSETS

PURPOSE

To establish a policy to achieve the consistent recording of tangible capital assets and help with the preparation of financial statements that will comply with generally accepted accounting principles for the Municipality of Crowsnest Pass.

POLICY

Set the overall direction for the management of tangible capital assets that is consistent with the regulations in Section 3150 of the Public Sector Accounting Handbook. This policy applies to all departments, boards and agencies and other organizations falling within the reporting entity of the Municipality of Crowsnest Pass and will provide Council and Administration with relevant information for sound decision making on the purchase, disposal and maintenance of tangible capital assets.

DEFINITIONS

Amortization is a rational and systematic manner of allocating the cost of an asset over its estimated useful life.

Betterments are enhancements to be the service potential of a capital asset such as:

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

Capital Assets are non-financial assets having physical substance that:

- are held for use by the municipality in the production or supply of goods and services, for rental to others, for administrative purposes or 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; and
- are not intended for sale in the ordinary course of operations.

Capital-type expenses are costs for assets that meet the definition of a capital asset but are less than the thresholds. These assets are expensed in the year in which they are purchased.

Cost is the amount of consideration given up to acquire, construct, develop or better a capital asset and includes all costs directly attributable to its acquisition, construction, development or betterment, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed capital asset is considered to be equal to its fair value at the date of contribution.

Disposal refers to the removal of a capital asset from service as a result of sale, destruction, loss or abandonment.

Estimated Useful Life is the estimate of the period over which a capital asset is expected to be used or the number of units of production that can be obtained from the asset. It is the period over which an asset will be amortized and is normally the shortest of the physical, technological, commercial or legal life.

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

Financial Assets are assets that are available to discharge existing liabilities or finance further operations and are not for consumption in the normal course of operations. Examples of financial assets are cash on hand, accounts receivable and inventories for resale.

Gain on Disposal is the amount by which the net proceeds realized upon an asset's disposal exceed the asset's net book value.

Hours of Production Method is an amortization method which allocated the cost of an asset based on its estimated hours of use or production.

DEFINITIONS – cont'd

Leased Capital Assets are non-financial assets leased by the municipality for use in the delivery of goods and services. Substantially all of the benefits and risks of ownership are transferred to the municipality without requiring the transfer of legal ownership.

Loss on Disposal is the amount by which the net book value of a capital asset exceeds the net proceeds realized upon the asset's disposal.

Net book Value is the capital asset cost less accumulated amortization and any write-downs. It represents the asset's unconsumed cost.

Non-financial Assets are assets that do not normally provide resources to discharge liabilities. They are employed to deliver municipal services, may be consumed or used up in the delivery of those services, and are not generally for sale. Examples of non-financial assets are capital assets and inventories held for consumption or use.

Repairs and Maintenance are ongoing activities to maintain a capital asset in operating condition. They are required to obtain the expected service potential of a capital asset over the estimated useful life. Costs for repairs and maintenance are expensed.

Residual Value is the estimated net realizable value of a capital asset at the end of its estimated useful life. A related term, salvage value, refers to the realizable value at the end of an asset's life. If the municipality expects to use a capital asset for its full life, residual value and salvage value are the same.

Service Potential is the output or service capacity of a capital asset.

Straight-Line Method is an amortization method which allocates the cost of a capital asset equally over each year of its estimated useful life.

Tangible Capital Assets are non-financial assets having physical substance that are used on a continuing basis in the operations and having a useful life extending beyond one year and, that are not held for re-sale in the ordinary course of operations.

Threshold is the minimum cost an individual asset must have before it is recorded as a capital asset on the statement of financial position.

Work in Progress is the accumulation of capital costs for partially constructed or developed projects.

Works of art and historical treasures are property that has cultural, aesthetic, or historical value that is worth preserving perpetually. Although these assets are recorded they are not capitalized as their service potential and expected future benefits are difficult to quantify.

Write-down is a reduction in the cost of a capital asset as a result of a decrease in the quality or quantity of its service potential. A write-down should be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

PROCEDURE

1. PS 3150 establishes the regulations under which the Municipality of Crowsnest Pass Tangible Capital Asset program will be governed.
2. PS 3150 establishes that tangible capital assets are recorded at the cost of obtaining the asset at acquisition, contributed assets at fair market value of the asset. Subsequent expenditures recorded on a tangible capital asset must:
 - a. Increase output or service capacity;
 - b. Increase the service life;
 - c. Lower associated operating costs;
 - d. Improve the quality of output.

These expenditures are classed as betterments and capitalized accordingly. Any other expenditure should be considered repairs or maintenance and should be expensed in the period.

3. Tangible Capital Assets should be classified under one of the following major classifications. Review #5 Capital Asset Classification Procedure below.
 - a. Land
 - b. Land Improvements
 - c. Buildings
 - d. Engineered Structures
 - e. Machinery & Equipment
 - f. Vehicles
 - g. Cultural & Historical Assets
4. The cost less any residual value of a TCA with a limited life is amortized over its useful life in a rational and systematic manner.
5. The amortization method and estimate of useful life of the remaining unamortized portion will be reviewed regularly and revised when the appropriateness of the change is clearly demonstrated. Amortization method and useful life will be established on an asset by asset basis.
6. Guidelines for capitalization thresholds, amortization method, and timelines for review are specified in the Tangible Capital Asset Procedure.
7. When conditions indicate that the net recorded value of a TCA is greater than the true value, the recorded value will be adjusted to reflect the true value of the asset.
8. Disposal of a TCA should be done in a way that will maximize the net sales value and minimize the net disposal cost.
9. When a TCA is disposed of that has an expected net sale value above the recommended capitalization threshold, the asset shall be disposed of through a public process.

PROCEDURE – cont'd

Legislation

1. The *Municipal Government Act*, Section 276(1) requires the municipal financial statement to be prepared in accordance with generally accepted accounting principles for municipal governments recommended by the Canadian Institute of Chartered Accountants.
2. The policy is effective *January 1, 2009*.

Department Responsibilities

3. Title or ownership of capital assets held by departments rests with the Municipality of Crowsnest Pass. Departments maintain stewardship of a capital asset if the department provides for its operation and maintenance and controls the ability to change the asset's future service potential.
4. For capital assets under their stewardship, departments are required to:
 - manage effectively for efficient and economical program delivery;
 - work with the Finance Department to establish and maintain accounting records and report information; and
 - establish and maintain adequate internal control systems to ensure the accuracy and reliability of information and reports.

Capital Asset Classification

5. Major, minor and subclasses of tangible capital assets will be defined as:
 - a. Major – A group of tangible capital assets that is significantly different in design and use.
 - b. Minor – A classification within a major class that has unique characteristics.
 - c. 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.
 - d. Major classifications and minor classifications for tangible capital assets under Engineered Structures are recommended by Alberta Municipal Affairs and Housing and should be consistently used for financial reporting. Decisions on level of detail remain with the municipality. Factors determining further classification are:
 - Different useful life;
 - Variable timing of construction for example a road may have segments constructed at different time intervals;
 - Better data for costing, determining user fees and analyzing performance of departments, divisions or business units.
 - e. Confer with the Director of Finance if proper asset category is undeterminable.

Assets Held for Sale

6. Assets held for sale which otherwise would have been reported as capital assets may be required to be reported as financial assets.

PROCEDURE – cont'd

Costs

7. The cost of a capital asset includes the purchase price of the asset and other acquisition costs, such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation, insurance costs and duties.
8. The cost of a constructed asset includes direct construction or development costs such as materials, including inventories held for consumption or use, and labour and overhead costs directly attributable to the construction or development activity. Capitalization of administrative costs should be limited to salaries, benefits and travel for staff directly involved with project delivery (e.g., project management or construction).
9. Where several capital assets are purchased together, the cost of each asset is determined by allocating the total price paid in proportion to each asset's relative fair value at the time of acquisition.
10. Interest expense related to financing costs incurred during the time a capital asset is under construction or development will be included in the cost of the capital asset until the asset is put into service.
11. If the construction or development of a capital asset is not completed to a usable state, the costs that would otherwise be capitalized should be expensed.

Thresholds

12. The threshold for each category represents the minimum cost each individual asset must have before it is to be recorded as a capital asset on the statement of financial position.
13. Capital assets not meeting the threshold are expensed in the year in which they are purchased.
14. Thresholds should be applied on an individual asset or per item basis. Schedule "B" outlines the thresholds for each capital asset category.

Estimated Useful Life

15. The estimated useful life is the period over which a capital asset is expected to provide services. An asset's useful life can be estimated based on its expected future use, effects of technological obsolescence, expected wear and tear from use or the passage of time, the level of maintenance and experience with similar assets.
16. Determining estimated useful life of capital assets will be done on an asset by asset basis.
17. The estimated useful lives are intended to apply to assets in new condition. When used assets are acquired guidelines set by Alberta Municipal Affairs will be used for valuation purposes.

Amortization

18. Amortization is calculated using the straight-line method based on the estimated useful life of each asset. The municipality has the option of using hours of production where that method is more appropriate.

PROCEDURE – cont'd

19. Land has an unlimited estimated useful life and should not be amortized.
20. Amortization is calculated based on the full cost of the capital asset. Where an assets expected residual value is expected to be significant in comparison to its cost (50% or more) the amount would be deducted from the cost when calculating amortization.
21. A half ($\frac{1}{2}$) year's amortization will be recorded in the year of acquisition, construction or development and put into use, regardless of when this event occurs in the fiscal year. Some exceptions may apply and will be assessed on a case by case basis.

Disposals

22. Disposal of a capital asset as a consequence of sale, destruction, loss or abandonment results in its removal from service.
23. When a capital asset is disposed of, the cost and the accumulated amortization should be removed from the accounting records and any gain or loss recorded.
24. Costs of disposal paid by the municipality should be recorded as a reduction in gain or increase in loss.
25. A gain or loss on disposal is the difference between the net proceeds received and the net book value of the asset and should be accounted for as a revenue or expense respectively, in the period the disposal occurs.

Write-downs

26. A capital asset should be written down when a reduction in the value of the asset's service potential can be measured and the reduction is expected to be permanent.
27. Conditions that may indicate that a write-down is required include an expectation of providing services at a lower level than originally planned, a change in use for the asset, technological advances which render the asset obsolete or other factors such as physical damage which reduce the asset's service potential. Documentation for write-down should be retained.
28. Write-downs of capital assets should be accounted for as an expense in the current period.
29. Annual amortization of an asset that has been written down should be calculated using the net book value after the write-down and the remaining estimated useful life.
30. Regardless of any change in circumstances, a write-down should not be reversed.

Betterments

31. Betterments are enhancements to the service potential of a capital assets, such as:
 - an increase in the previously assessed physical output or service capacity;
 - a reduction in associated operating costs;
 - an extension of the estimated useful life; or
 - an improvement in the quality of output

PROCEDURE – cont'd

32. Betterments which meet the threshold of the applicable capital asset category are capitalized, otherwise they are expenses.
33. Repairs and maintenance which are necessary to obtain the expected service potential of a capital asset for its estimated useful life are not betterments and should be expensed when incurred. They include:
 - repairs to restore assets damaged by fire, flood, accidents or similar events, to the condition just prior to the event; and
 - routine maintenance and expenditures, such as repainting, cleaning and replacing minor parts.
34. Betterments enhance the service potential of a capital asset without increasing its estimated useful life, the amortization period will remain the same.
35. A betterment that increases the estimated useful life of a capital asset, its useful life will be changed.
36. A betterment that involves the replacement of an identifiable component of a capital asset, the original cost of that component and the related accumulated amortization will be removed from the accounting records.

Capital Contributions

37. When funds are received from a third party such as the provincial or federal government to assist with the construction or purchase of a capital asset, the full cost of the asset will be recorded and the funds received recognized as revenue.

Donated Assets

38. If a capital asset is donated to the municipality, the cost is its fair value at the date of contribution. Fair value of a donated capital asset will be estimated using market or appraised value.

Capital Leases

39. Capital leases are recorded as if the lessee had acquired the asset and assumed a liability.
40. If one or more of the following criteria exists, the lease should be accounted for as a capital lease:
 - There is reasonable assurance that the municipality will obtain ownership at the end of the lease. (Transfer of ownership occurs at the end of the lease or the lease has a bargain purchase option.)
 - The municipality will receive substantially all of the economic benefits of the assets. (These lease term is 75% or more of the economic life of the asset).
 - The lessor is assured of recovering the investment in the asset and earning a return. (The present value of the minimum lease payment is 90% or more of the fair value of the asset.)

PROCEDURE – cont'd

41. Where at least one of the conditions in the preceding paragraph is not present, other factors may indicate that a capital lease exists. For example, a capital lease may exist if:
- the municipality owns or retains control of the land on which a leased asset is located and the asset cannot be easily moved;
 - the municipality contributes significant assistance to finance the cost of acquiring or constructing the asset that it will lease; or
 - the municipality bears other potential risks, such as obsolescence, environmental liability, uninsured damage or condemnation of the asset and any of these are significant.
42. Operating leases are leases in which the lessor does not transfer substantially all the benefits and risks of ownership. If the arrangement is an operating lease, lease payment should be expensed and no liability recorded.
43. If the arrangement is a capital lease, the municipality should apply the thresholds of the appropriate capital asset category.
44. If the thresholds are not met, an expense and a liability should each be recorded for the present value of the minimum lease payments.
45. If the thresholds are met, a capital asset and a liability should each be recorded for the present value of the minimum lease payments. The leased asset should be amortized over the lesser of the lease term or estimated useful life for similar capital assets.
46. Executory and maintenance costs should be excluded when calculating minimum lease payments.

Work in Progress

47. Where the construction or development of a capital asset occurs over several years, capital costs will be accumulated until the asset is ready for use. Costs will be identified as 'works in progress' for any interim and year-end reporting.
48. "Works in progress" capital costs will be tracked separately from assets subject to amortization. Works in progress include down payments and deposits which are to be applied to the cost of a capital asset.

SCHEDULES

Schedule “A” – Major Capital Asset Categories

The “Major” category of tangible capital assets delineates assets that are significantly different in design and use. Further classification to “Minor” and “Subclasses” may be required and is based on the assets unique characteristics, tangible capital asset criteria, applications, methodologies and asset lives.

Major Capital Asset Category	Description	Examples of Contributing Costs
Land	<ul style="list-style-type: none"> land acquired for parks and recreation, conservation purposes, building sites and other programs land purchased for construction of road surface, drainage areas and allowances or future expansions Does not include land held for resale 	<ul style="list-style-type: none"> Purchase price Professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys Improvement and development costs such as land excavation, filling, grading, drainage, demolition of existing buildings (less salvage)
Land Improvements	<ul style="list-style-type: none"> Fencing and gates, parking lots, paths and trails, lighting, landscaping and playgrounds 	<ul style="list-style-type: none"> Original purchase price or completed project costs including costs of material and labour or costs of a contractor
Buildings	<ul style="list-style-type: none"> Permanent, temporary or portable building structures, such as offices, garages, warehouses and recreation facilities, libraries, fire stations, etc. intended to shelter persons and/or goods, machinery, equipment and working space 	<ul style="list-style-type: none"> original purchase price or completed project costs including basic costs of material and labour or costs of a contractor costs to remodel, recondition or alter a purchased building to make it ready to use for the acquired purpose preparation of plans blueprints, and specifications costs of building permits, studies, tests (pre-acquisition costs) professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys operating costs such as temporary buildings used during construction
	<ul style="list-style-type: none"> building improvements - major repairs that increase the value or useful life of the building such as structural changes, installation or upgrade of heating and cooling systems, plumbing, electrical, telephone systems 	<ul style="list-style-type: none"> complete project costs including basic costs of material and labour or costs of a contractor preparation of plans, blueprints, and specifications cost of building permits, studies, tests, professional fees for architect, legal, engineering, appraisals, environmental surveys operating costs such as temporary

SCHEDULES – cont'd

Major Capital Asset Category	Possible Examples	Examples of Capital Asset Costs
	<ul style="list-style-type: none"> leasehold/occupancy improvements - that increase the functionality of leased or similar accommodations (refer to "building improvements" category) 	<ul style="list-style-type: none"> costs similar to those listed under the "building improvements" category
Engineered Structures	<ul style="list-style-type: none"> Permanent structural works such as roads, bridges, culverts, dams, water and sewer and utility distribution and transmission systems, including plants and substations Pavement, bridges, tunnels, embankments, slopes, rock shelters, retaining walls light systems (traffic, outdoor, street), new signage initiative, rumble strips and aggregate pit acquisition costs water infrastructure – dams and diversion structures, pipelines, tunnels, canals, drainage facilities, docks, sewer systems, sewage lagoons, reservoirs, pumping facilities, tanks and associated infrastructure and emergency equipment, landfills, dump stations 	<ul style="list-style-type: none"> 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 original purchase price installation charges charges for testing and preparation parts and labour associated with construction and installation direct costs of construction including labour and materials salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control costs that support infrastructure but are not included in any other category

Machinery & Equipment	<ul style="list-style-type: none"> • Heavy equipment - power and construction equipment such as graders, tractors, cranes, drill rigs, caterpillars, trucks one tonne and over, ambulances and firetrucks • equipment specific to construction and maintenance of infrastructure shop and sanitation, mobile and fire equipment, smaller equipment in buildings and offices, furnishings, computer hardware and software, forklifts, welding machines, utility trailers, parade floats, security systems, snowplow, radios, washers, freezers, refrigerators, meters, defibrators 	<ul style="list-style-type: none"> • original contract price or invoice price, freight charges • sales taxes on acquisition • installation charges • charges for testing and preparation • costs of reconditioning used items when purchased • parts and labour associated with the construction of equipment
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SCHEDULES – cont'd

Major Capital Asset Category	Possible Examples	Examples of Capital Asset Costs
	<ul style="list-style-type: none"> • Computer software - off the shelf software and related upgrades, software licenses after removing any maintenance or similar charges 	<ul style="list-style-type: none"> • purchase price of off the shelf software and related upgrades • sales taxes on acquisition • installation charges
	<ul style="list-style-type: none"> • Computer hardware - servers, voice logging equipment, scanners, printers, hard drives, modems, tape drives, and plotters 	<ul style="list-style-type: none"> • purchase price • installation charges • freight and transit charges • sales taxes on acquisition
	<ul style="list-style-type: none"> • System development - consultant fees, web site development and custom develop software 	<ul style="list-style-type: none"> • external direct costs of materials and services such as consultant fees • web site development costs • costs to acquire software and any custom development • salary and related benefits of employees directly associated with the application development stage • costs of upgrades that improve the functionality of the system
	<ul style="list-style-type: none"> • Office furniture and equipment - desks, tables, chairs, filing cabinets, fax machines, photocopiers, videoconferencing stations, projectors, and digital cameras 	<ul style="list-style-type: none"> • original contract price or invoice price • freight and installation charges • sales taxes on acquisition • costs of reconditioning used items when purchased • parts and labour associated with the construction of furniture

Vehicles	<ul style="list-style-type: none"> used primarily for transportation purposes such as automobiles, trucks under one tonne, vans, boats, all terrain vehicles, snowmobiles and motorcycles 	<ul style="list-style-type: none"> original contract price or invoice price freight charges sales taxes on acquisition costs of reconditioning used items when purchased
Cultural and Historical Assets	<ul style="list-style-type: none"> Public art, historical and heritage sites may be included in this asset classification 	<ul style="list-style-type: none"> Works of art and historical treasures that have cultural, aesthetic or historical value that are worth preserving perpetually are not recognized as tangible assets in financial statements but their existence should be disclosed

SCHEDULES – cont'd

Schedule “B” - Capital Assets Thresholds

Major and Minor Classes	Threshold	Amortization	Review Schedule
Land	All	N/A	Every 3 Years
Land Improvements	\$5,000	Straight-Line	Every 3 Years
Buildings	\$10,000	Straight-Line	Every 3 Years
Building Improvements	\$10,000	Straight-Line	Every 3 Years
Engineered Structures	ALL	Straight-Line	Every 3 Years
Road/Street - System	ALL	Straight-Line	Every 3 Years
Water System	ALL	Straight-Line	Every 3 Years
Wastewater System	ALL	Straight-Line	Every 3 Years
Storm System	ALL	Straight-Line	Every 3 Years
Electrical System	ALL	Straight-Line	Every 3 Years
Machinery and Equipment			
Heavy Equipment	\$5,000	Straight-Line or Usage (Hours of Production)	Every 2 Years
Operating Equipment	\$5,000	Straight-Line	Every 2 Years
System Development	\$10,000	Straight-Line	Every 2 Years
Computer Hardware	\$2,000	Straight-Line	Every 2 Years
Computer Software	\$2,000	Straight-Line	Every 2 Years
Office Furniture and Equipment	\$2,000	Straight-Line	Every 2 Years
Vehicles	\$5,000	Straight-Line	Every 2 Years

Cultural and Historical Assets	ALL	N/A	Every 5 Years
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NOTES:

1. "ALL" means all capital asset purchases regardless of cost are recorded.
2. Estimated useful life will be determined on an asset by asset basis.
3. Confer with the Director of Finance if proper asset category is undeterminable.
4. Factors determining further classification are different useful life, variable timing of construction, or better data for costing, determining user fees and analyzing performance of departments, divisions or business units.
5. "Guidelines on Valuation of Tangible Assets for PSAB 3150", "Cost Indices" and recommended Guidelines from the "Tangible Capital Asset Toolkit" will be used when determining Asset Classification, Useful Life and Amortization Methods and Capitalization Thresholds.