

MUNICIPAL DISTRICT OF FAIRVIEW NO. 136

TANGIBLE CAPITAL ASSETS POLICY

PURPOSE: To provide direction for recognizing, recording and reporting of Tangible Capital Assets on a consistent basis and in accordance with the Public Sector Accounting (PSAB) Handbook Section 3150 – Tangible Capital Assets.

A number of recommendations for TCA recording and reporting have been established by Alberta Municipal Affairs & Housing (AMAH). When appropriate and relevant, these recommendations may be adopted by the municipality.

POLICY: This policy applies to all municipal departments, boards, committees, and other organizations that fall within the Municipal District of Fairview No. 136 boundaries. To promote efficiency, Administration is authorized to make minor, non-procedural changes to this policy without Council's prior approval. Council must be informed of all amendments as they occur.

DEFINITIONS:

Tangible 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 for resale in the ordinary course of operations.

Betterments are subsequent expenditures on a recorded TCA that result in;

- 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.

Any other expenditures should be considered a repair or maintenance and should be expensed in the period.

Capital Lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the Municipality. In order to meet these terms one or more of the following conditions must be in effect;

- There is reasonable assurance that the Municipality will obtain ownership of the leased property by the end of the lease term.
- A bargain purchase price at the end of the lease period is agreed upon.

- The lease term is of such 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 lifespan.
- The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.

Capitalization Threshold is the value above which assets are capitalized and reported in the financial statements.

Component is a part of an asset with a cost that is significant in relation to the total cost of that asset. Component accounting recognizes that each part might have a different useful life and requires separate accounting for each component that has a different useful life than the whole asset does.

Networked Assets are assets with a single value but comprised of identifiable segments, each separately recorded, valued and reviewed. The individual values are combined to establish a value of the single asset. Networking of like assets, such as roads, is beneficial for condition review purposes and evaluating useful life while maintaining manageable accounting records.

Single Asset is one unit asset even if the asset is comprised of a number of significant components or segments.

Grouped or pooled assets are assets that have a unit value below the capitalization threshold but have a material value as a group.

1. ASSET CLASSIFICATION:

Tangible capital assets are to be categorized in three classes, major, minor and subclass.

- **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 within a minor class that may be required due to unique tangible capital asset criteria, applications, methodologies and asset lives.

Major Classification Definitions:

Land includes land purchased or acquired for value for parks and recreation, building sites, infrastructure and other program use, but does not include land held for resale. Existing municipal land under the roads and sidewalks are considered to have a nominal value of \$1.

Land Improvements include improvements of a permanent nature such as parking lots, parks, playgrounds, landscaping, fences and airport runway and tarmac.

Buildings include permanent, temporary and portable structures with a cost exceeding the capitalization threshold.

Engineered Structures include Minor Classes of:

- Roads with subclasses of bridges, curb and gutter, and sidewalks;
- Water Systems with subclasses of distribution system, reservoirs, plants and facilities and subclasses of structures and treatment equipment;
- Wastewater Systems with subclasses of collection system, lagoons, pump, lift and transfer stations, plants and facilities with subclasses of structures and treatment equipment;
- Storm Systems with subclasses of collection system, catch basins, retention ponds, pump, lift and transfer stations and treatment facilities
- Fibre Optics
- Electrical Systems

Machinery and Equipment includes heavy equipment, fuelling systems, communication equipment such as radios and telephone systems, operating equipment and tools, meters, office furniture and equipment and computer systems including hardware and software. Capitalized computer software includes initial software purchases above the capitalization threshold. Annual enhancement plan costs are considered betterments and will be capitalized. Annual support plan costs are considered maintenance and will be expensed at the time of purchase.

This class does not include fixed machinery within any engineered structure.

Vehicles include light, medium and heavy duty pickup trucks and fire trucks.

Cultural and Historical Assets includes works of art and historical treasures that have cultural, aesthetic or historical value that are worth preserving perpetually. These assets are not recognized as tangible capital assets in the financial statements, but the existence of such property shall be disclosed. Heritage sites may be included in this asset classification.

A complete listing of asset classifications can be found in Appendix "A" attached to this policy.

2. CAPITALIZATION THRESHOLDS:

The Municipality will use the following table outlining the capitalization thresholds to determine which assets shall be recorded as tangible capital assets;

Asset Description	Class	Capitalization Threshold
Land	Major	No threshold
Land Improvements	Major	5,000
Buildings	Major	20,000
Engineered Structures	Major	50,000
Machinery & Equipment	Major	5,000
Vehicles	Major	5,000
Cultural & Historical	Major	Disclosure Only
Operating equipment & tools including computer hardware and radios)	Minor	2,000

Capital assets not meeting the threshold are expensed in the year in which they are purchased.

The Finance department will review all purchases made and assess whether it qualifies for capitalization under this policy.

3. VALUATION:

Tangible Capital Assets will be recorded at actual cost and any other additional charges such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs and duties. Interest costs shall not be capitalized.

The cost of a constructed asset includes direct construction or development costs such as materials, including inventories held for consumption or use, labour and overhead costs directly attributable to the construction or development activity.

Costs of betterments are considered to be part of the cost of a tangible capital asset and are to be added to the recorded cost of the related asset. Expenditures incurred to maintain the originally anticipated service potential of an asset or to maintain its estimated useful life, are considered as maintenance and will not be capitalized.

Donated or Contributed Assets are to be recorded at fair market value at the date of construction or contribution or may be determined by an estimate of the replacement cost.

If the construction or development of a capital asset is not completed to a usable state at the end of the reporting period, the project shall be considered a "Work in Progress". Costs to the end of the reporting period will be capitalized but no amortization will occur until the year the asset is put into service. All "Works in Progress" shall be disclosed on financial statements as such.

Any fully amortized capital assets still in use shall be recorded for asset management purposes and disclosed on financial statements.

For implementation purposes:

Tangible Capital Assets will be recorded at historical cost plus the cost of any betterment less accumulated amortization. Where historical costs are unavailable, a consistent method of estimating the cost and accumulated amortization of an asset may be utilized to attain a current net book value.

Any capital assets still in use but without any unamortized cost remaining because of their age and the amortization period set for that type of assets shall be recorded for asset control purposes. If information to estimate the historical cost and accumulated amortization is available it shall be recorded in the accounting records. If this detailed information is not available the asset shall be disclosed at an initial value equal to its residual value where material and previously known. Otherwise it will be disclosed at a nominal value.

4. AMORTIZATION:

Amortization is an annual charge to expenditures for the use of a capital asset. The cost, less any residual value of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the municipality. Amortization of the costs of tangible capital assets shall be accounted for as expenses in the Statement of Operations. Net book value of an asset is its actual cost less accumulated amortization.

Amortization for all asset classes, except Land, will be calculated based on the straight-line method. As land is not a depreciable asset it will not be amortized. Amortization methods will be reviewed on an annual basis and revised when appropriate changes need to be made.

Maximum Useful Life for assets shall be determined as per the Recommended Maximum Useful Life table put forward by Alberta Municipal Affairs forming Appendix "A" of this policy with the exception of computer software. Taking into consideration the rate of technological obsolescence, computer software shall have a maximum useful life of five years. If it is necessary to estimate or re-evaluate the useful life of an asset, the following factors shall be considered:

- expected future usage;
- effects of technological obsolescence;
- expected wear and tear from use or the passage of time;
- the maintenance program;
- studies of similar items retired; and
- the condition of existing comparable items.

Residual Values will only be considered for heavy equipment for which there is a set buyback value at the time of purchase or for assets that at the time of purchase will be known to have a significant residual value. All other assets shall have a residual value of zero.

Amortization on capital asset additions will be at 100% of the annual amortization amount for the year they are put into service. No current amortization will be considered in the year of disposal of an asset.

5. REVIEWS AND WRITE-DOWNS

The Finance department shall ensure that condition, useful life and amortization methods of assets will be reviewed on an annual basis. These reviews are to be completed by the department manager for all assets under their care and control. When circumstances indicate that a write-down is appropriate, the finance department, the department manager and the CAO shall consult to determine the amount of reduction that is appropriate to reflect the decline in the asset's value.

Write-downs will be expensed in the year they occur.

6. DISPOSAL:

All asset disposals shall be on the advisement of Council. An asset may be deemed obsolete at Council's discretion only. Council will advise the CAO of the action to be taken to dispose of the asset.

When an asset is disposed of either by sale, trade-in, donation, destruction, loss or obseletion, the department manager shall be responsible to notify the finance department in a timely manner to ensure depreciation for the disposed item is stopped and the asset is taken out of service and removed from insurance policies..

Disposal documents must include the following information:

- Disposal date
- Method of disposal;
- Proceeds received
- Name of any involved parties
- Original cost and any betterments

A gain or loss on disposal shall be recorded as a revenue or expense in the statement of operations.

7. ASSET RECORDING AND MANAGEMENT SYSTEM:

The Administration/Finance Department will be responsible for recording and maintaining the asset registers. Asset registers include Asset Inventory Binders containing purchase/betterment/write-down/disposal documentation stored in the safe as well as asset registers maintained in computer software. Registers must be maintained in such a manner that allows for reporting by asset category as well as responsible department. It is the responsibility of department managers and staff members to ensure capital assets assigned to his or her custody are maintained and safeguarded.

All department managers shall ensure that notification and documentation is submitted to the Finance department immediately upon asset additions, improvements or reduction in value to an existing asset, asset retirement or disposal or write-downs. Information submitted must include:

- Completion of Asset Inventory Sheet, sample attached as Appendix "B"
- Order, purchase, construction and betterments cost details
- Details of reduction in value circumstances
- Details of asset retirement or disposal
- Proceeds received documentation

The Finance department will record the assets on the Asset Register which will include a minimum of the following information:

Unit Number	Purchase Date
Year	Supplier
Make	Cost
Model	Amortization Method
Serial Number	Useful Life Expectancy
Condition	Estimated Residual Value
Asset Class	Date of Disposal
Department	Disposal Method and Proceeds

Original purchase/betterment documentation shall be maintained in the Asset Inventory Binders under the care and control of the Administration Finance department. All disposal documentation shall be maintained in the Asset Disposal Binder also under the care and control of the Administration Finance department.

A detailed listing of all assets will be made available to the managers of each department annually. The department manager will be responsible to review the listings, verify asset inventory and advise the Administration Finance department of any updated asset information. These completed review listings shall be maintained in the Asset Inventory Binders.

PROCEDURE – ASSET PURCHASE / BETTERMENTS:

- a) Submit all original documents to Finance Officer, including purchase orders, invoices and warranty documents. Copies of warranty documents should also be in the possession of the department manager for their use. All invoices and purchase orders must be signed as per the signing authority policy.
- b) Finance Officer assigns Unit number and ensures that the asset is added to insurance policies.
- c) Finance Officer updates the Equipment Inventory List with details of the new asset and distributes this list to all department managers, accounts payable clerk and tangible capital asset accountant.
- d) Finance Officer codes general ledger allocation of purchase and submits copies of purchase documentation to accounts payable for payment.

- e) Finance Officer submits original documents to Tangible Capital Asset Accountant
- f) TCA accountant completes 'Asset Inventory Sheet'.
- g) TCA accountant inputs data to asset control spreadsheets and Fixed Asset Module software.
- h) TCA Accountant files all original documents in ASSET binders stored in the vault under the care of the Finance Dept.

PROCEDURE – ASSET DISPOSAL:

- a) Submit all documentation to Finance Officer for general ledger allocation of proceeds. A copy of any proceeds receipt must be submitted to the Finance Officer.
- b) Finance Officer removes original purchase/betterment documents from ASSET binders in the vault as well as the 'Asset Inventory Sheet'.
- c) Finance Officer records disposal information on the 'Asset Inventory Sheet'.
- d) Finance Officer deletes the asset from insurance policies.
- e) Finance Officer removes the asset from the Equipment Inventory List and distributes updated list to department managers, accounts payable clerk and tangible capital asset accountant.
- f) Finance Officer submits original documents to Tangible Capital Asset Accountant.
- g) TCA Accountant records asset disposal on asset control spreadsheets and Fixed Asset Module software.
- h) TCA Accountant files all original documentation (original purchase and also disposal) and completed 'Asset Inventory Sheet' in the ASSET DISPOSALS binder stored in the vault under the care of the Finance Dept.

8. PRESENTATION AND DISCLOSURE:

In total and for each major category of capital assets, financial statements will disclose the following in accordance with CICA Public Sector Guideline 7 (PSG-7):

- a) Cost at the beginning and end of the period;
- b) Additions in the period;
- c) Disposals in the period;
- d) The amount of any write-downs in the period;
- e) The amount of depreciation for the period;
- f) Accumulated amortization at the beginning and end of the period;
- g) Net book value at the beginning and end of the period;

Also in accordance with PSG-7, disclosure will include:

- a) The method used to determine the cost of each major category of TCA;
- b) The amortization method used, including amortization period or rate for each major capital category of TCA;
- c) The net book value of TCA's not being amortized because they are under construction or development or have been removed from service;
- d) The nature and amount of contributed TCA's received in the period;
- e) The nature and use of tangible capital assets disclosed at nominal value; and
- f) The nature of the works of art, heritage and historical treasures held by the municipality.

DATE APPROVED: Feb 3, 2009 Res#09-028
MINOR CHANGES PRESENTED: Feb. 23, 2010

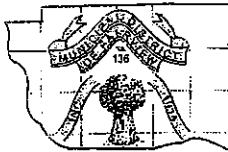
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Asset Classes		Maximum Useful Life
Major	Minor	
	Sub-class One	
	Sub-class Two	
	Sub-class Three	
Engineered Structures		
Roadway system		
	Bridges	Variable
	Overpass/interchange	60
	Curb & gutter	30
	Parkades	50
	Roads & streets	
	<i>Lanes/alleys</i>	
	ACP - hot mix	20*
	Gravel	15*
	Nonconforming	20*
	<i>Local/Collector/Arterial/Major Arterial Surface</i>	
	Concrete	30*
	ACP - hot mix	20*
	ACP - cold mix	10*
	Chip seal	10*
	Oil	5*
	Gravel	25*
	<i>Subsurface</i>	40*
	Road signs	
	<i>Traffic control</i>	30
	<i>Information</i>	30
	Lights	
	<i>Decorative</i>	30
	<i>Street</i>	30
	<i>Traffic</i>	30
	Guard rails	30
	Ramps	30
	Sidewalks & para-ramps	30
	Light rail system	65
	Construction in progress	
(* subject to weather conditions)		
Water system		
	Distribution system	
	<i>Mains</i>	75
	<i>Services</i>	75
	Pump, lift and transfer stations	45
	Plants and facilities	
	<i>Structures</i>	45
	<i>Treatment equipment</i>	
	Mechanical	45
	Electrical	45
	General	45
	<i>Pumping equipment</i>	45
	Hydrants/fire protection	75
	Reservoirs	45
	Construction in progress	

Major	Asset Classes	Maximum Useful Life
Minor	Sub-class One Sub-class Two Sub-class Three	
	Wastewater system	
	Collection system	
	<i>Mains</i>	75
	<i>Services</i>	75
	Pump, lift and transfer stations	45
	Plants and facilities	
	<i>Structures</i>	45
	<i>Treatment equipment</i>	
	Mechanical	45
	Electrical	45
	General	45
	<i>Pumping equipment</i>	45
	Lagoons	45
	Construction in progress	
	Storm system	
	Collection system	
	<i>Mains</i>	75
	<i>Services</i>	75
	Pump, lift and transfer stations	45
	Catch basins	75
	Outfalls	75
	Wetlands	75
	Retention ponds	75
	Treatment facility	45
	Construction in progress	
	Fibre optics	30
	Electrical System	
	Electrical generation	
	<i>Boilers</i>	30
	<i>Turbo generators</i>	30
	<i>Combustion turbines</i>	20
	<i>Condensate tanks</i>	10
	<i>Gas compressors</i>	20
	<i>Other</i>	10
	<i>Generation Wind/Turbine</i>	30
	<i>Construction in progress</i>	
	Electrical Transmission	
	<i>Structures & improvements</i>	35
	<i>Station & line equipment</i>	
	Transformers	40
	Switchgear	35
	Protection systems	20
	Insulators	60
	Other structures & equipment	35
	<i>Towers and fixtures</i>	38
	<i>Poles and fixtures</i>	38

Major	Asset Classes	
Minor	Sub-class One	Maximum Useful Life
	Sub-class Two	
	Sub-class Three	
	<i>Overhead (O/H) conductors & devices</i>	35
	<i>Underground (U/G) conductors & devices</i>	40
	U/G conduit	40
	U/G cable	40
	<i>Construction in progress</i>	
	Electrical Distribution	
	<i>Site development</i>	35
	<i>Station & line equipment</i>	
	Transformers	40
	Switchgear	35
	Protection systems	20
	Insulators	60
	<i>Towers and fixtures</i>	38
	<i>Poles and fixtures</i>	38
	<i>O/H conductors & devices</i>	35
	<i>U/G conductors & devices</i>	40
	U/G conduit	40
	<i>Construction in progress</i>	
	General Plant - Electrical	
	<i>Site development</i>	80
	Electrical substations	
	<i>Site development</i>	35
	<i>Station & line equipment</i>	
	Transformers	40
	Switchgear	35
	Protection systems	20
	Other structures & equipment	35
	<i>Towers and fixtures</i>	38
	<i>Poles and fixtures</i>	38
	<i>O/H conductors & devices</i>	35
	<i>U/G conductors & devices</i>	40
	U/G conduit	40
	U/G cable	40
	<i>Construction in progress</i>	
	Gas distribution system	
	<i>Structures</i>	75
	<i>Transmission</i>	75
	<i>Services</i>	75
	Medium pressure	36
	High pressure	36
	<i>Measurement</i>	35
	<i>Construction in progress</i>	

APPENDIX B



MUNICIPAL DISTRICT OF FAIRVIEW NO. 136
CAPITAL ASSETS INVENTORY FORM

Asset ID: _____

Date Recorded: _____

Asset Category: Major: _____
 Minor: _____
 Sub Class: _____

Asset Description: _____ Year: _____
(What is it?)

Make/Model: _____

Serial/Identification #: _____

License Plate #: _____ Location: _____

Department: _____ Unit #: _____

Condition of Asset: Poor Fair Good Excellent

Estimated Life of Asset Remaining: _____ Amortization Method: Straight Line

Comments: _____

Person(s) Recording: _____

Purchase Date	Supplier
Purchase Price \$ (Do not include GST)	Source
Estimated Useful Life (At the time of purchase)	Residual/Disposal Value
Current Market Value to Replace \$	Source

ASSET DISPOSAL INFORMATION

Disposal Date: _____

Disposal Proceeds: _____

Disposal Method: _____

Comments: _____

Person(s) Recording: _____

NOTE: Please attach invoices, pictures or any costing information that may be available.