



Department Name: **Administration**

Department # 12

Policy No.

24

Policy Title: **Accounting for Tangible Capital Assets Classification /Capital Threshold/Amortization**

Status:

Approved

Res. #

592/07

Date

December 5/07

Policy Statement: The Village of Alex recognizes the necessity of a policy to Account for Tangible Capital Assets Classification /Capital Threshold/Amortization to conform with the Public Sector Accounting Board (PSBA) 3150.

PURPOSE:

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. The principal issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts and amortization charges and the recognition of any related impairment losses.

In addition, the policy covers policy and procedures to:

- a) Protect and control the use of all tangible capital assets.
- b) Provide accountability over tangible capital assets.
- c) Gather and maintain information needed to prepare financial statements.

The policy is in accordance with the Public Sector Accounting Board (PSAB) 3150.

EFFECTIVE DATE:

In accordance with PSAB 3150 the effective date for the reporting and recording of the Village of Alex tangible capital assets is January 1, 2009.

SCOPE:

This policy applies to Village and future boards and commissions, agencies and other organizations that will fall within the reporting entity of the Village.

DEFINITIONS:

Tangible Capital Assets:

Assets having physical substance that:

- a) Are used on a continuing basis in the Village's operations.
- b) Have useful lives extending beyond one year.
- c) Are not held for re-sale in the ordinary course of operations.

Betterments:

Subsequent expenditures on tangible capital assets that:

- increase previous physical output or service capacity;
- lower associated operating costs;
- extend the useful life of the asset; or
- improve the quality of the output.

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

Group Assets:

Assets that have a unit value below the capitalization threshold but have a material value as a group. Normally recorded as a single asset with one combined value. Although recorded in the financial systems as a single asset, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance. Examples could include personal computers, furniture and fixtures, small moveable equipment, etc.

Fair Value:

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

Capital Lease:

A capital lease is a lease with contractual terms that transfer substantially all the benefits and risk inherent in ownership of property to the Village. For substantially all of the benefits

and risks or ownership to be transferred to the Village, one or more of the following conditions must be met:

There is reasonable assurance that the Village will obtain ownership on the leased property by the end of the lease term.

The lease term is of such duration that the Village will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.

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.

POLICY STATEMENTS:

Capitalization

Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:

- a) all land;
- b) all buildings;
- c) Engineered Structures (built assets such as roads, bridges, sewers, water, transit, parks, etc.) with a unit cost of \$ 10,000 or greater;
- d) all others with a unit cost of \$ 2,000 or greater.

Different thresholds may be used for group assets. Capitalize betterments to existing assets when unit costs exceed the threshold.

Categories

A category of assets is a grouping of assets of a similar nature or function in the Village's operations. The following list of categories shall be used:

- Land;
- Buildings;
- Engineered structures;
- Equipment;
- Roads;
- Water;
- Sewer;
- Bridges;
- Communication networks;
- Motor vehicles;

- Cultural and Historical assets
- Furniture and fixtures;
- Computer systems (hardware and software)

Sub Categories

The following minor classification to further define Engineered Structures will be used:

- Roadway System
- Water System
- Wastewater System
- Storm/Drainage System

A classification system will be established to further define the asset categories in the fixed asset sub-ledger. The classification system will group assets having similar characteristics and useful lives.

Valuation

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use.

1.1 Purchased assets

Cost is the gross amount of consideration paid to acquire the asset. It includes all the nonrefundable 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, etc. Costs would include any 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 purpose price, it is necessary to allocate the purchase price to the various assets acquired. Allocation should 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.

1.2 Acquired, Constructed or Developed Assets

Cost includes all cost directly attributable (e.g., construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized. Capitalization of general administrative overheads is not allowed.

1.3 Capitalization of Interest Costs

Borrowing 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 should be capitalized as part of the cost of that asset.

Capitalization of interest costs should 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 should be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all the activities necessary to prepare the asset for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all the activities are complete.

1.4 Donated or Contributed Assets

The cost of donated or contributed assets that meet the criteria for recognition is equal to the fair value at the date of construction or contribution. Fair value may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost. Ancillary costs should be capitalized.

1.5 Componentization

Tangible capital assets may be accounted for using either the single asset or component approach. Whether the component approach will be used will be determined by the usefulness of the information versus the cost of collecting and maintaining information at the component level.

Consideration factors used to determine whether to use a component approach should include:

Major components have significantly different useful lives and consumption patterns than the related tangible capital asset, value of components in relation to the related tangible capital asset.

Infrastructure Systems would generally be valued using the component approach. Major components should be grouped when the assets have similar characteristics and estimated useful lives or consumption rates.

Amortization

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. The amortization method and estimate of useful life of the remaining unamortized portion should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

Useful life is normally the shorter of the asset's physical, technological, commercial or legal life.

Generally, the Village uses a straight - line method for calculating the annual amortization. A comprehensive list of estimated useful lives of assets and amortization rates are attached. See Appendix 'A' and Appendix "B".

Disposal

When tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling the asset registers and accounting records recording a loss/gain on disposal will be adjusted.

Disagreement

In the event of disagreement in the interpretation or implementation of these policies and procedures, the Chief Administrative Officer shall make the final decision, guided by the Public Sector Accounting Board (PSAB) 3150.

Mayor

CAO

Date

APPENDIX "B"

To be provided by Municipal Affairs & Housing.

