

TANGIBLE CAPITAL ASSET POLICY – 2008

This policy is not intended to be comprehensive, but rather “live” in its ongoing usage. Hence, it shall be on a regular basis.

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 such assets. The determination of their carrying amounts, and amortization charges and the recognition of related impairment losses.

In addition, this policy covers policy and procedures to:

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

Scope: This policy applies to all Village of Viscount areas of responsibility – those legislated by the Municipalities Act and also those developed by council through the administration of statutes and bylaws.

DEFINITIONS:

Tangible Capital Assets: - assets having a physical substance that:

- a) Are used on a continuing basis by the Village of Viscount
- b) Have useful lives that normally extend beyond one year
- c) Are not held for resale in the ordinary course of operations
 - i.e. – not inventory for resale or operations.

Betterments (improvement costs) – are expenses for improvements that increase the physical output, or the service capacity; lowers operating costs; extends the longevity ; or improves the quality of the assets operations. Repairs or maintenance costs are not included in this area for they are expenses annually.

Group Assets - tangibles that have a unit value below the capitalization cash threshold, but have material value as a group. Normally recorded as a single asset, each unit can be recorded in a sub-ledger for monitoring and control of its use and maintenance. For example a computer system made of the separate units, office furniture, etc.

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

Capital Lease – is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the Village. For lease to be considered as such it must meet one of the following conditions.

- a) There is reasonable assurance that the Village will obtain ownership of the leased property at the end of the lease.
- b) The lease is of such duration that the Village will receive substantially all the economic benefits of the leased property expected to be derived over the life span of the lease.
- c) The lessor would be assured of recovering the investment as a result of the lease agreement.

CAPITALIZATION

Policy Statements:

A. **Capitalization** – capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:

- a) all land
- b) all buildings
- c) civil infrastructure systems with unit costs of \$ 25 000 or more
- d) all others with unit cost of \$5 000 or more

** Different thresholds shall be set by the administrator. Improvements will be added to the capitalized costs once they have exceeded the threshold.

B. **Categories** – the Village of Viscount shall use the following list of categories for capitalizing the assets.

- 1) land
- 2) buildings
- 3) equipment
- 4) roads
- 5) water
- 6) sewer
- 7) transfer station
- 8) communications systems
- 9) vehicles
- 10) furniture or fixtures
- 11) computer systems

C. **Valuation** - tangible capital assets shall be recorded at cost ancillary charges necessary to place the asset in its intended location and condition for use.

1. Cost is the gross amount – this includes taxes, delivery charges, freight, set up/installation less discounts or rebates.
2. Cost of land is the acquisition cost plus legal fees, taxes, etc. This also includes the cost of preparing/cleaning the property.

Note: if fair value is not readily determined, a reasonable approach shall be used to determine the value of the asset as soon as it is required.

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 as 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.

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 or 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 allocated the cost of a capital asset equally over each year of its estimated useful life.

Threshold is the minimum cost an individual asset must have before it is recorded as a capital asset on the accumulation of capital costs for partially constructed or developed projects.

Works of art and historical treasures are property that has culture, aesthetic, or historical value that is worth preserving perpetually. These assets 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 it expected to be permanent.