RM of Loon Lake #561

Policy Type:	General Government
Policy Title:	TCA Policy
Policy Number:	100-06

Authority:	
Council Resolution #	*314/20*

ACCOUNTING FOR TANGIBLE CAPITAL ASSET POLICY

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 capital tangible assets are the recognition of any related impairment losses.

In addition the policy covers policy and procedure 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.

SCOPE:
This policy applies to all departments, boards and commissions, agencies and other organizations falling within the reporting entity of the Rural Municipality.

DEFINITIONS:
Tangible Capital Assets:
Assets having physical substance that:
a) are used on a continuing basis in the Rural Municipalities 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:
a) increase previous assessed physical output or service capacity;
b) lower associated operating costs;
c) extend the useful life of the assets; or
d) 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 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 computer, 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.

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) land improvements with unit cost of $5,000 or greater;
c) buildings and engineered structures with a cost of $10,000 or greater;
d) machinery and equipment with a cost of $5,000 or greater;
e) vehicles with a cost of $5,000 or greater;
f) office and computer equipment with a cost of $2,000 or greater;
g) infrastructure systems (built assets such as roads, bridges, sewers, water, parks, etc.) with unit cost of $5,000 or greater;
h) all other with unit cost of $5,000 or greater.
i) Utility infrastructure $5,000 or greater.

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

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

a) land
b) building
c) equipment
d) roads
e) bridges
f) communication networks
g) furniture and fixtures
h) computer systems (hardware and software).
i) Utility Infrastructure

Valuation:
Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the assets 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 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, etc. Costs would include any costs to make the land suitable for intended use, such as pollution mitigation, demolition and site improvement 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 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 costs directly attributable (e.g., construction, architectural and other
professional fee) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, administrative overheads is not allowed.

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

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 of the activities necessary to prepare the asset for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

1.4 Donated or Contributes 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. 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.

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

Factors to consider when determining whether to use a component approach include:

a) Major components have significantly different useful lives and consumption patterns that the related tangible capital asset.
b) Value of components in relation to the related tangible capital asset.

Civil infrastructure systems should use 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 or 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 shortest of the asset's physical, technological, commercial or legal life.

Generally, the municipality uses a straight-line method for calculating the annual amortization. A comprehensive list of estimated useful lives of assets and amortization rates is attached. Municipal departments, boards and commissions, agencies and other organizations are responsible to establish and utilize an appropriate amortization methodology and rate for assets acquired. Municipal departments, boards and commissions, agencies and other organizations are responsible for establishing and utilizing an appropriate estimated useful life for those assets.

Amortization shall commence the year following the year in which asset was purchased or completed.

Disposal
Disposal of tangible capital assets that are moveable personal property is the responsibility of the Administrator unless delegated otherwise.

Disposal of real property will be the responsibility of Council and the Administrator.

When other constructed tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the Administrator must note the asset description and effective date. Administration is then responsible for adjusting the asset registers and accounting records recording a loss/gain on the disposal.

ESTIMATED USEFUL LIFE OF ASSETS

Capital Asset Class & Category	Threshold	Estimated Useful Life
Land & Improvement		
Land	All	Indefinite
Land Improvements	$5,000	15 years
Buildings		
Buildings	$10,000	40 years
Building Improvements	$10,000	40 years
Engineered Structures	$10,000	40 years
Machinery & Equipment		
Heavy Equipment except Maintainers	$5,000	10 years/hours of production
Heavy Equipment Maintainers	$5,000	6 years
Operating Equipment	$5,000	10 years
Office & Information Technology		
Computer Hardware	$2,000	3 years
Computer Software	$2,000	3 years
Office Furniture & Equipment	$2,000	3 years
Infrastructure		
Roads – Construction	$5,000	40 years
Roads – Resurfacing	$5,000	15 years
Bridges- Construction	$5,000	40 years
Bridges- Upgrades	$5,000	15 years
Culverts	$5,000	35 years
Infrastructure – Other	$5,000	15 years
Utility		
Lagoon	$5,000	50 years

Effective Date/Repeal

This policy will came into effect on July 31, 2019 unless otherwise specified and shall be implemented as outlined in this policy. This policy repeals and replaces all resolutions and any policies pertaining to Accounting for Tangible Capital Asset Policy that have been consolidated into this policy and replaces all past practices. This policy may only be amended or repealed by resolution of Council.