

TOWN OF WADENA

POLICY: Tangible Capital Asset (TCA) Policy		COUNCIL RESOLUTION: Res # 054-19, Feb 11, 2019
DEPARTMENT: Administration	POLICY NUMBER: # P2019-002	Amended Date:

PURPOSE

The objective of this policy is it to outline the accounting and reporting requirements for tangible capital assets.

SCOPE

This policy applies to all Town departments, boards and commissions, agencies and other organizations falling within the reporting entity of the Town of Wadena.

DEFINITIONS

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

Betterments & Improvements are enhancements to the service potential or life of a capital asset such as:

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

Capital-type Expenses are costs for assets that meet the definition of a capital asset but are less than the thresholds and not amortized. These assets are expensed in the year in which they are purchased, but often still tracked as an asset for financial planning purposes.

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. This number can often be determined using information obtained from the builder or manufacturer.

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.

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

Tangible Capital Asset (TCA) is a significant economic resource managed by governments and a key component in the delivery of many government programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges. TCA's are non-financial assets having physical substance that:

- are held for use 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 economic lives extending beyond an accounting period;
- are to be used on a continuing basis; and
- are not for sale in the ordinary course of operations.

Threshold is the minimum cost an individual asset must have before it is recorded as a tangible 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. 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.

POLICY

Legislation

1. *The Municipalities Act*, section 185; 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 upon passing in a resolution of Wadena Town Council.

Department Responsibilities

3. A department generally has 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. The department is responsible for maintaining accounting records and assist in preparing reports for capital assets.
4. For capital assets under their stewardship, departments are required to:
 - a. manage them to provide effective, efficient and economical program delivery;
 - b. establish and maintain systems to collect, record and report information; and
 - c. establish and maintain adequate internal control systems to ensure the accuracy and reliability of information and reports.
 - d. ensure accurate logs and condition assessments are completed regularly and reported to administration.

Tangible Capital Asset Categories

5. TCA's should be assigned to the categories outlined in Schedule A based on their nature, characteristics and useful life these include the following:
 - a. Land – includes land purchased or acquired for value for building sites, parks, infrastructure, recreational use, etc. But DOES NOT INCLUDE LAND HELD FOR RESALE. This also includes road allowances and rights-of-way.
 - i. Land Improvements – All improvements of a PERMANENT nature to land such as parking lots, landscaping, lighting, pathways, fences, signage, etc.
 - b. Buildings – Building structures such as offices, shops, garages, warehouses, recreation facilities, lift stations, etc. intended to shelter persons, goods, machinery, equipment and working space.
 - i. Betterments – A betterment of an asset will be considered in most cases for our purposes to be a significant work that increases the remaining useful life of the asset. Most often these are structural such as a new roof, support beams, etc.
 - ii. Improvements – An improvement is a significant work that will extend or enhance the service potential of the facility but may not affect the overall useful life of the original structure. Such things include heating and cooling systems, new flooring, replacement of lighting fixtures, etc. For this purpose, improvements are added as a feature attached to the original structure (but not part of it) and amortized over their own individual life span.
 - c. Engineered Structures – These are permanent structures such as roads, bridges, canals, water and sewer systems, etc. There are multiple minor sub classifications under this major classification.

- i. Roadways: Assets intended for the direct purpose of vehicle or pedestrian travel or to aid in such travel. Includes roads, bridges, ramps, parking structures, lights, sidewalks, signage, etc.
 - ii. Water & Wastewater: System for the treatment and provision of water and collection, treatment and management of wastewater. This is normally comprised of assets such as intake, distribution, mains, pumps, lift stations, plants, fire hydrants, lagoons, storm drains, etc.
 - iii. Airport: This includes the runway and other engineered structures.
 - iv. Other: This may include engineered structures that do not fall under another category.
- 6. Machinery & Equipment: This includes heavy equipment, operating equipment, electronics /small equipment and furniture. Each item must be able to stand on its own as an individual asset and may not be grouped together to meet thresholds, as each item may be replaced individually rather than as a whole (i.e. computer station is separate from monitor, six chairs cannot be one asset, each chair must meet the threshold on its own).
 - a. Operating Equipment: Includes items such as shop equipment, mowers, snow blowers, ice maintenance equipment, sanders, plows, trailers, utility equipment (quad, Skidsteer, etc.)
 - b. Heavy Equipment: Includes items such as graders, front end loaders, backhoe, tractor, packer, etc.
 - c. Electronics / Small Equipment: Includes items such as SCADA system, tools, meter reading equipment, photocopier, sorter/mailer, computer hardware, computer software, etc.
 - d. Furniture: Includes items such as Desk, conference table, counter, etc.
- 7. Vehicles: Rolling stock that is used primarily for transportation purposes (trucks, etc.) and are required to be licensed/registered.
- 8. Cultural and Historical Assets: Works of art and historical treasures that have cultural, aesthetic or historical value that are worth preserving perpetually. These assets are not always recognizable as tangible capital assets in the financial statements; however the existence of such property should be disclosed and tracked in a schedule. Buildings declared as heritage sites may be included in this asset classification.
- 9. Where departments are uncertain as to which category a capital asset belongs, or where no appropriate category exists, they should contact administration.

Excluded Assets

- 10. The following assets should not be capitalized and amortized:
 - a. land (or other assets) acquired by right, such as Crown, forests, water and mineral resources;
 - b. works of art and historical treasures; and
 - c. intangible assets such as patents, copyrights and trademarks
 - d. assets not meeting the thresholds in a particular category
 - e. assets that are already past the recommended useful life of the asset when purchased.

Assets Held for Sale

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

Costs

12. 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.
13. 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).
14. 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.
15. Interest expense related to financing costs incurred during the time a capital asset is under construction or development can be included in the cost of the capital asset until the asset is put into service.
16. 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

17. The threshold for each category represents **the minimum cost an individual asset** must have before it is to be recorded as a tangible capital asset on the statement of financial position.
18. Capital assets not meeting the threshold are expensed in the year in which they are purchased. Costs for these assets are referred to as *capital-type expenses*.
19. **Thresholds should be applied on an individual asset or per item basis.**
20. *Schedule A* outlines the thresholds for each capital asset category.

Estimated Useful Life

21. 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.
22. All capital asset categories have predetermined estimated useful lives as outlined in Schedule A. The estimated useful lives shown here are intended to apply to assets in new condition.
23. **When used assets are acquired the estimated useful lives should be reduced based on the age and condition of the asset.**

Amortization

24. 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, for example assets in the Heavy Equipment and Aircraft categories.
25. Land has an unlimited estimated useful life and should not be amortized.

26. Amortization should be calculated based on the full cost of the capital asset. Where an assets *expected residual value* is expected to be significant in comparison to the asset's costs (20% or more), the amount would be deducted from the cost which calculating amortization. **The full cost does NOT include GST which is 100% refundable for municipalities.**
27. With the exception of the categories in the next paragraph, a full year's amortization should be recorded in the year of acquisition, construction or development and put into use, regardless of when this event occurs in the fiscal year.
28. For Roads/streets - construction, Roads/streets - repaving, Bridges - construction, Bridges - upgrades, Culverts, Airports - runways, Airports - navigational aids, Roads/Streets - other, Ferries - vessels and towers and Ferries - upgrades, amortization should begin in the year following the year in which the costs were incurred.
29. No amortization should be recorded in the year an asset is disposed of. This does not apply to deemed disposals.
30. No amortization should be recorded on works in progress or capital assets which have been removed from service but not yet disposed of.

Disposals

31. This disposal of a capital asset results in its removal from service as a result of sale, destruction, loss or abandonment.
32. 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.
33. Costs of disposal paid by the municipality should be expensed.
34. 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

35. 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.
36. Conditions that may indicated 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-downs should be retained.
37. Write-downs of capital assets should be accounted for as an expense in the current period.
38. 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.
39. Regardless of any change in circumstances, a write-down should not be reversed.

Betterments & Improvements

40. Betterments and improvements are enhancements to the service potential of a capital assets, such as a significant:
 - a. increase in the previously assessed physical output or service capacity (*Improvement*);
 - b. reduction in associated operating costs (*Improvement*);
 - c. extension of the estimated useful life (*Betterment*); or
 - d. improvement in the quality of output (*Improvement*)

2. Repairs and maintenance which are necessary to obtain the expected service potential of a capital asset for its estimated useful life are not betterments. These costs should be expensed when incurred. They include:
 1. repairs to restore assets damaged by fire, flood, accidents or similar events, to the condition just prior to the event; and
 2. routine maintenance and expenditures, such as repainting, cleaning and replacing minor parts.
40. Where an improvement enhances the service potential of a capital asset without increasing its estimated useful life, the amortization period should remain the same and the item be entered as a separate feature attached to the original asset that amortizes and is able to be disposed of on its own as an individual asset.
41. ***Where a betterment increases the estimated useful life of a capital asset, the original TCA's useful life should be changed and the cost added as a betterment to the value of the TCA itself.***
42. Where a betterment involves the replacement of an identifiable component of a capital asset, the original cost of that component and the related accumulated amortization should be removed from the accounting records.

Capital Contributions & Grants

43. When the municipality received funds 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 should be recorded. The funds received should be recognized as revenue.

Donated Assets

44. 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 may be estimated using market or appraised value.

Capital Leases

45. Capital leases are a means of financing the acquisition of a capital asset where the lessee carries substantially all of the risks and benefits of ownership. Capital leases are recorded as if the lessee had acquired the asset and assumed a liability.
46. 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.)
47. Where at least one of the conditions in the preceding paragraph is not present, other factors may indicate that a capital lease exists.
48. 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.
49. 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.

50. If the arrangement is a capital lease, the municipality should apply the thresholds of the appropriate capital asset category.
51. If the thresholds are not met, an expense and a liability should each be recorded for the present value of the minimum lease payments.
52. 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 as outlined in Schedule B.
53. Executory and maintenance costs should be excluded when calculating minimum lease payments. The discount rate should be the lesser of the municipality's incremental borrowing rate or the interest rate implicit in the lease, if determinable.

Work in Progress

54. Where the construction or development of a capital asset occurs over several years, capital costs should be accumulated until the asset is ready for use.
55. Identify these costs as work in progress for any interim and year-end reporting.
56. The municipality should not record amortization on work in progress.
57. A work in progress account should be established to allow work in progress capital costs to be tracked separately from assets subject to amortization.
58. Examples of work in progress are the construction of a new road or building or the development of an asset which occurs over several years. Work in progress would also include down payments and deposits which are to be applied to the cost of a capital asset.

Schedule A

The value or cost of an item to determine the threshold contains the purchase price, material, labour, surveys, permits, studies, reports, remodeling, and other costs used in making the asset ready to use minus any residual value assigned.

Review Schedule: The amortization method and estimate of useful life should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated. The following table shows the classes, capitalization thresholds and amortization method to be used. Bulk purchases of like assets with unit costs below the threshold will not be capitalized as each asset on its own is not of significant value. Staff is authorized to review and revise Schedule 'A' when warranted, and no less than every 5 years to ensure the schedule remains reasonable and relevant.

Tracking: Although not capitalized as an asset or amortized, all assets that cost \$1000 or more on an individual basis, and cultural or historical assets that are not considered a TCA, and other assets considered by staff to be of value as an asset, are to be kept track of on a schedule (in whatever form staff deems appropriate) for reference, reporting and tracking purposes.

ASSET CLASS <i>Examples/Description</i>	Capitalization Threshold	Est. Useful Life	Amortization Method
LAND <i>(rights of way, undeveloped road allowances, parks, reserves, general)</i>	ALL	Indefinite	N/A
Land – Improvements <i>(playground, landscaping, fences, sprinkler, parking lot, path, outdoor rink, outdoor lighting, signage, transfer station, field.)</i>	\$5,000	15 yrs	Straight Line
BUILDINGS <i>(Office, shop, garage, fire hall, recreation, lift station, etc.: these may be high, medium, average or low quality of construction, or short term facilities such as storage buildings. Based on the quality, age and condition of the asset the useful life amount may be reduced accordingly.)</i>	\$10,000	40 years <i>(new)</i> 20 years <i>(medium-average)</i> 10 years <i>(low-short term)</i>	Straight Line
Buildings – Betterments <i>(Major repairs that extend the life of an asset such as a new roof, new windows, etc. which are not a building, but extend the life of the main structure.)</i>	\$10,000	adds 10-20 years to main structure useful life	Straight Line
Buildings - Improvements <i>(increase the value or services offered (structural, system upgrades, etc. such as heating, cooling, flooring, and other upgrades, etc. These must meet the threshold as its own item and entered as a feature of the main building)</i>	\$5,000	variable	Straight Line
ENGINEERED STRUCTURES	\$10,000	variable <i>(see below)</i>	Straight Line
<u>Roadways</u>			
Paved <i>(paved, including sub base)</i>	\$10,000	40 years <i>(construct)</i> 15 years <i>(re-surface)</i>	Straight Line
Gravel	\$10,000	25 years <i>(construct)</i> 10 years <i>(re-surface)</i>	Straight Line
Sidewalks, Curb, Gutter	\$10,000	10-25 years	Straight Line
Bridges	\$10,000	Variable	Straight Line
Culverts <i>(installed)</i>	\$10,000	25 years	Straight Line

<u>Water & Wastewater Systems</u>			
Linear Asset – Distribution Mains	\$10,000	40 years	Straight Line
Linear Asset – Sewer Mains	\$10,000	20 years	Straight Line
Lagoon	\$10,000	40 years	Straight Line
Storm Sewers <i>(Collection, ponds, catch basin, manholes, etc.)</i>	\$10,000	25 years	Straight Line
<u>Airport</u>			
Runway	\$10,000	15 years	Straight Line
Navigational Aids	\$10,000	15 years	Straight Line
<u>Other Infrastructure</u> <i>(landfill, helipad, marina, etc.)</i>	\$10,000	15 years	Straight Line
MACHINERY & EQUIPMENT			
Operating Equipment <i>(shop equipment, mowers, snow blowers, ice maintenance equipment, sanders, plows, trailers, utility equipment (quad, skidsteer, etc.)</i>	\$5,000	5 years	Straight Line
Heavy Equipment <i>(graders, front end loaders, backhoe, tractor, packer, etc..)</i>	\$5,000	10-15 years	Straight Line
Electronics / Small Equipment <i>(SCADA system, tools, meter reading equipment, photocopier, sorter/MAILER, computer hardware, computer software, etc.)</i>	\$5,000	Variable	Straight Line
Furniture <i>(Desk, conference table, counter, etc.)</i>	\$5,000	Variable	Straight Line
Vehicles	\$5,000	10 years	Straight Line