Mountain View Regional Waste Management Commission Policy

	Policy No: 31-16
Policy Title: FIXED ASSET CAPITALIZATION	Effective Dates: June 27, 2016
Rescinds: 11-14	Page 1 of 4

PURPOSE

The purpose this Capital Asset Management Policy is to maintain accurate records of physical assets whose value and useful life meet the definition for capital assets.

This document establishes procedures to ensure compliance with government regulations, accounting industry standards and to ensure accurate reporting of physical assets. This policy may evolve as administration becomes more familiar with the impact of assets on financial reporting and as asset management issues arise.

SCOPE

This policy applies to all property owned by the Mountain View Regional Waste Management Commission, either through purchase, donation or agreement that meets the definition of Capital Assets.

Tangible Capital Assets are non-financial assets having physical substance that:

- are held for use by the Commission 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 intended for sale in the ordinary course of operations

AUTHORITY

- PSAB 3150
- The *Municipal Government Act*, section 602.33 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 and 602.32 (2) any modification of the principles or any supplementary accounting standards or principles established by the Minister by regulation.

PRINCIPLES

Principles in this policy provide guidance for policy development and assist with interpretation of the policy once applied.

- The purpose of this policy is for the benefit of the Commission as a whole; for the users of the Commission's financial statements and managers of the Commission's Tangible Capital Assets
- The cost associated with data collection and storage is balanced with the benefits achieved by users of the data and reports
- Only capital items meeting the capital asset criteria in this policy will be budgeted as capital
- Compliance is with all legislation applicable to Commissions
- Financial, operational and information technology system limitations are considered
- Materiality is considered
- Reporting deadlines are met

POLICY

This policy establishes framework for the management and control of capital assets including proper recognition, measurement, thresholds, aggregation, segregation, amortization, reporting, safeguarding and disposal thereof.

Inventory Acquisition

- Tangible Capital Assets are recorded at historical cost.
- In order to recognize an item as a Tangible Capital Asset, two criteria must be met; a) it must meet the definition of a tangible capital asset; and b) it must have a cost or other value that can be reliably measured.
- Recognized as assets on date of receipt for capital goods or when the asset is put into use for capital projects.
- Capital Asset Inventory will identify the following: a) description of the asset; b) year of acquisition; c) expected useful life at time of acquisition; d) significant improvements made to the asset from acquisition date to inventory date, including date and useful life of the improvement; and e) service hours, production with mileage to date
- **Cost** is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset and includes all costs directly attributable to the asset's 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 tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset.
- **Fair Value** is defined as the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction who are under no compulsion to act.

Thresholds

- Thresholds establish minimum dollar value and the number of years of useful life.
- Thresholds help determine whether expenditures are to be capitalized as assets and depreciated or treated as a current year expense.
- All assets within a major asset class should have the same capitalization threshold.
- Active assets that are fully amortized should be recorded at original cost with full amortization until such time as the asset is no longer in use.
- The useful life is set at one year.
- Improvements are capitalized when they extend the useful life of an asset.

Asset Description	**Threshold**	**Estimated Useful Life**	**Amortization**
Land	All land, excluding land for resale, is to be capitalized.	Indefinite	NA
Land Improvements	$10,000	10-20 years	Straight Line
Buildings	$25,000	50 years	Straight Line
Building Improvements	$25,000	50 years	Straight Line
Construction in Progress	Capitalize only		
Machinery and Equipment	$5,000	10-15 years	Straight Line
Vehicles	$5,000	10 years	Straight Line

Classification, Aggregation & Segmentation

Land includes land purchased and acquired for value building sites, infrastructure and other departments use but does not include land available for resale.

Land Improvements are improvements of a permanent nature to land such as cells, parking lots, landscaping, lighting, and fences.

Buildings are permanent, temporary or portable building structures, such as offices, garages and warehouses intended to shelter persons and/or goods, machinery, equipment and working space.

Machinery and Equipment is equipment that is heavy equipment for constructing infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware/software.

Vehicles include rolling stock that is primarily used for transportation purposes.

Cultural and Historical Assets include 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 but the existence of this property should be disclosed. Buildings declared as heritage sites may be included in this asset classification.

AMORTIZATION

Amortization is calculated using the straight-line method based on the estimated useful life of each asset. The Commission has the option of using hours of production where that method is more appropriate, for example assets in the Heavy Equipment category.

Land has an unlimited estimated useful life and should not be amortized.

Amortization should be calculated based on the full cost of the capital asset. Where an asset's 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.

No amortization will be recorded on work in progress or capital assets which have been removed from service but not yet disposed of.

On all other assets, one-half a year's amortization will be recorded in the year of acquisition and disposal, regardless of when this event occurs in the fiscal year.

Annual amortization expense shall be estimated and included in the annual budget of each respective operating department. The actual amortization expense of any asset shall be offset by the dollar value of any principle payments made on loans, debentures or leases related to the acquisition of that asset. The net amortization expense shall be charged against the operating department most responsible for the use and maintenance of the asset and the funding provided to cover the net amortization expense shall be credited to a capital replacement reserve. This reserve shall be available to finance future replacements and betterments of tangible capital assets

HISTORICAL COST

Tangible Capital Assets are recorded at Historical Cost. When the actual historical cost of an asset is not known, calculation may be based on reproduction or replacement methods adjusted by a deflation factor linked to the in-service date of an asset.

DISPOSALS

This disposal of a capital asset results in its removal from service as a result of sale, destruction, loss or abandonment.

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.

Costs of disposal paid by the Commission should be expensed.

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

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.

Conditions that may indicate 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, functional, economic, technological advances which render the asset obsolete or other factors such as physical damage which reduce the asset's service potential. Documentation for write-down should be retained.

Write-downs of capital assets should be accounted for as an expense in the current period.

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.

Regardless of any change in circumstances, a write-down should not be reversed.

BETTERMENTS

Betterments are enhancements to the service potential of capital assets, such as:

- 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

Betterments which meet the threshold of the applicable capital asset category are capitalized. Otherwise, they are expensed.

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:

- repairs to restore assets damaged by fire, flood, accidents or similar events, to the condition just prior to the event; and
- routine maintenance and expenditures, such as repainting, cleaning and replacing minor parts.

Where a betterment enhances the service potential of a capital asset without increasing its estimated useful life, the amortization period should remain the same.

Where a betterment increases the estimated useful life of a capital asset, its useful life should be changed.

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

When the Commission receives 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

If a capital asset is donated to the Commission, 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

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.

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 Commission 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 Commission 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.)

Where at least one of the conditions in the preceding paragraph is not present, other factors may indicate that a capital lease exists.

For example, a capital lease may exist if:

- the Commission owns or retains control of the land on which a leased asset is located and the asset cannot be easily moved;
- the Commission contributes significant assistance to finance the cost of acquiring or constructing the asset that it will lease; or
- the Commission bears other potential risks, such as obsolescence, environmental liability, uninsured damage or condemnation of the asset and any of these are significant.

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.

If the arrangement is a capital lease, the Commission should apply the thresholds of the appropriate capital asset category.

If the thresholds are not met, an expense and a liability should each be recorded for the present value of the minimum lease payments.

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 A.

Executory and maintenance costs should be excluded when calculating minimum lease payments. The discount rate should be the lesser of the Commission's incremental borrowing rate or the interest rate implicit in the lease, if determinable.

STUDIES AND OTHER INITIATIVES

Studies and other initiatives that do not relate directly to the acquisition of a Tangible Capital Asset shall not be capitalized but shall be expensed in the year in which they occur.

WORK IN PROGRESS

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.

Identify these costs as work in progress for any interim and year-end reporting.

The Commission should not record amortization on work in progress.

A work in progress account should be established to allow work in progress capital costs to be tracked separately from assets subject to amortization.

Examples of work in progress are the engineering, design and construction of a new cell 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.

ESTIMATED USEFUL LIFE

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 functional, economic or technological obsolescence, expected wear and tear from use or the passage of time, the level of maintenance and experience with similar assets.

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.

When used assets are acquired the estimated useful lives should be reduced based on the age and condition of the asset.

ANNUAL REVIEWS

General accounting procedures for tangible capital assets will require the following reconciliations and reviews:

- regular reconciliation of the asset register to general ledger balances;
- annual management checks for existence, continuing use, remaining life and obsolescence;
- annual reviews for impairment;
- regular reviews of useful lives;
- regular review to ensure that all asset additions have been identified and recorded;
- regular review to ensure that asset sales, write-offs and disposals are managed and recorded

	DATE:	RESOLUTION
APPROVED	June 27, 2016	#132-16
AMENDED		
AMENDED		

Schedule A:

Recommended Maximum Useful Life

Asset Classes **Major** ○ **Minor** • Subclass One ⇒ Subclass Two ❖ Subclass Three	**Maximum Useful Life (number of years)**
Land	
○ Right-of-way	
○ Undeveloped right-of-way	
○ General	
Land Improvements	
○ Parking lot	
• Gravel	15
• Asphalt	25
○ Landscaping	25
○ Fences	20
○ Retaining walls	20
○ Outdoor lighting	20
○ Landfill	
• Pits	Volume
• Pads	Volume
• Transfer stations	25
Construction in progress	
Buildings	
○ **Permanent Structures**	
• Frame	50
• Concrete	50
• Metal	50
○ **Portable Structures**	
• Metal	25
• Frame	25
○ Leasehold improvements	Variable
○ Construction in progress	

Schedule A:
Recommended Maximum Useful Life

Asset Classes **Major** ○ **Minor** • Subclass One ⇒ Subclass Two ❖ Subclass Three	**Maximum Useful Life (number of years)**
Machinery and Equipment	
○ Heavy construction equipment	Variable
○ Fueling stations	15
○ Communications	
• Radios	10
• Telephone systems	10
○ Tools, shop and garage equipment	15
○ Scales	15
○ Bins	15
○ Office Furniture & Equipment	
• Furniture	20
• Office equipment	10
• Audiovisual	10
• Photocopiers	5
○ Computer Systems	
• Hardware	5
• Software	10
• Construction in progress	
Vehicles	
○ Light duty	10
○ Medium duty	10
○ Heavy duty	10
○ Construction in progress	

Reference: www.menet.ab.ca TCA: Implementation Toolkit