



Rural Municipality of Meadow Lake #588 Policy

Policy #TCA-001

Policy Title: Tangible Capital Asset Policy

Policy Objective:

To give direction to the Council and Staff on the implementation and entry of the Tangible Capital Assets for the RM of Meadow Lake #588

Authority:

Council Resolution #279/19

Dated: December 12, 2019

1. 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:

- a. The recognition of the assets.
- b. The determination of their carrying amounts and amortizations charges, and
- c. 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.

2. SCOPE:

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

3. DEFINITIONS:

Amortization - This is an accounting concept in which the recorded cost of a capital asset less estimated residual value (if any) (amortization base) is distributed over its estimated useful life in a systematic and rational manner. It is a process of allocation, not valuation.

Assets, Tangible Capital - Assets having physical substance that;

- a. Are used on a continuing basis in the RM'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 previously assessed 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.

CAO – Shall mean the Chief Administrative Officer, of the Rural Municipality of Meadow Lake acting under the authority of the *Municipalities Act Section 110*.

Capital Lease - A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the RM. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met;

- a. There is reasonable assurance that the RM will obtain ownership of the leased property by the end of the lease term.
- b. The lease term is of such a duration that the RM will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.
- c. 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

Council - Shall mean the Reeve and Council members of the Rural Municipality of Meadow Lake #588.

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.

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 with one combined value. Although recorded in the financial systems as a single assets, 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.

Residual Value - Residual Value is the amount the RM expects to be able to realize on disposal of a capital asset at the end of its useful life to the RM. As a general rule, it is assumed the residual value of all assets is Nil.

RM - Shall mean the Rural Municipality of Meadow Lake #588

Straight-line Method - This is a method of amortization in which the periodic charge is computed by dividing the amortization base by the estimated number of periods of service life.

Temporary Structure - This refers to buildings that are not expected to last 40 years.

4. POLICY STATEMENTS:

a. 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. civil infrastructure systems (built assets such as roads, bridges, sewers, water, transit, parks, etc.)

b. Capital Asset Categories – See Schedule A

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

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c. 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.

- i. Purchased assets
 - a. 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.
 - b. Cost of land includes purchase prices 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.
 - c. 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.
- ii. Acquired, Constructed or Developed assets
 - a. Cost includes all costs 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.
 - b. Capitalization of carrying costs ceases when no construction or development is taking place or when the tangible capital asset is ready for use.
- iii. Capitalization of Interest costs
 - a. 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.
 - b. 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 assessed for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.
- iv. Donated or Contributed assets
 - a. 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.
- v. Inflation

- a. Inflation value shall be calculated in accordance with the average of the years inflation rates from 2014 to 2019 which were:
 - 2014 – 1.95%
 - 2015 – 1.13%
 - 2016 – 1.44%
 - 2017 – 1.61%
 - 2018 – 2.30%Averaged to 1.69%

d. 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 than 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.

e. 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 shortest of the asset’s physical, technological, commercial or legal life.

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

f. Disposal

Disposal of tangible capital assets that are moveable personal municipal property is the responsibility of the Administrator unless delegated to operating departments. Department heads should notify the Administrator when assets become surplus to operations.



Disposal of real property will be the responsibility of the Council of the RM of Meadow Lake.

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

g. Capital Leases

Account for capital lease as acquiring a capital asset and incurring a liability. Account for a lease as an operating lease when the net present value of the future minimum lease payments of fair value, whatever is less.

5. DISCLOSURE

The method and rates of amortization of capital assets will be disclosed in the financial statements.

The amortization charge in the current period, the accumulated amortization, and the gross and net asset balances will be disclosed in the financial statements.

6. RESPONSIBILITY

The Administrator will ensure capital assets are set up in the Public Works program with the proper useful lives and depreciation start dates. The Depreciation start date will be the first day of the month following the month the invoice was entered.

The Council will periodically review the useful life estimates and make any changes, if necessary.

7. COSTS ASSOCIATED WITH THE IMPLEMENTATION IN PUBWORKS PROGRAM.

Refer to Policy Manual GG-006

The Council for the RM of Meadow Lake #588 require information to be implemented into the "Pubworks" program as purchased through Munisoft Computer systems. This program tracks the costs, by the hour, for various projects on roads within the RM.

8. POLICY ON ADDING BETTERMENTS

a. ROADS and FEATURES (bridge/culvert)

i. When adding a "betterment" we will set the original cost for the new road, if unknown, at \$1.01 and the start year will be the year in which the road was discovered (present day) with a useful life as per the classification on Schedule B.

ii. The scrap value for all roads will be set to **\$1.00**.

iii. When adding a betterment enter the present date and start depreciating the road as of the first day of the following year.

1. Betterment will be the cost of the road or feature as per:

a. Contractor costs

- b. Material costs
- c. RM Equipment/Employee costs will be exempt.

b. EQUIPMENT/VEHICLES

- i. When entering in new equipment and vehicles, please refer to Schedule B.
- ii. Amortize 50% on the first year.

SCHEDULE A

CAPITAL ASSET CATEGORIES

Capital Asset Category	Examples of Capital Assets	Examples of Capital Asset Costs
Land	<ul style="list-style-type: none"> • Land acquired for building sites such as office or shop, parks, gravel quarries • Fencing and gates, parking lots, paths, trails, landscaping 	<ul style="list-style-type: none"> • Purchase price • Professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys • Improvement and development costs such as land excavation, filling, grading, drainage, demolition of existing buildings (less salvage)
Buildings	<ul style="list-style-type: none"> • Buildings for the purpose of the Municipality such as office, shop, cold storage. • Major repairs that increase the value or useful life of the building such as structural changes, installation or upgrade of heating and cooling systems, plumbing, electrical, telephone systems 	<ul style="list-style-type: none"> • Original purchase prices/ completed project costs including basic costs of material and labour or costs of a contractor • Costs to remodel, recondition or alter a purchased building to make it ready to use • Preparation of plans, blueprints, and specifications • Cost of building permits, studies, tests • Professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys



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<p>Infrastructure</p>	<ul style="list-style-type: none"> • Roadways • Bridges/upgrades to bridges • Culverts 	<ul style="list-style-type: none"> • Original cost of the project in accordance with contractor, materials, engineering services • Direct costs of construction including tender construction costs, labour, materials, survey costs and project specific design costs • Construction and material costs related to overhead structures and signage • Salary and travel costs for employees assigned to the project for direct management duties
<p>Recreational</p>	<ul style="list-style-type: none"> • Consisting of docks 	<ul style="list-style-type: none"> • Original invoice or contract price • Installation charges (contractor only)
<p>Machinery and Equipment (heavy equipment)</p>	<ul style="list-style-type: none"> • Power and construction equipment such as graders, tractor, cranes, caterpillars, trucks one tonne and over 	<ul style="list-style-type: none"> • Original contract price or invoice prices • Freight charges • Sales taxes on acquisition • Installation charges • Charges for testing and preparation • Costs of reconditioning used items when purchased • Parts and labour associated with the construction of equipment
<p>Operating Equipment</p>	<ul style="list-style-type: none"> • Equipment specific to maintenance, shop such as forklifts, welding machines, welding machines, utility trailers, 	<ul style="list-style-type: none"> • Original contract price or invoice price • Freight charges • Sales taxes on acquisition • Installation charges

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	<ul style="list-style-type: none"> snow plows, radios, freezers, refridgerators, washers, defibrators 	<ul style="list-style-type: none"> Charges for testing and preparation Costs of reconditioning used items when purchased Parts and labour associated with the construction equipment
Vehicles	<ul style="list-style-type: none"> Used primarily for transportation purchases such as automobiles, trucks under one tonne, all terrain vehicles 	<ul style="list-style-type: none"> Original contract price or invoice price Freight charges Sales taxes on acquisition Costs of reconditioning used items when purchased
Other Infrastructure	<ul style="list-style-type: none"> Landfills 	<ul style="list-style-type: none"> Costs that support infrastructure but are not included in any other category



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**SCHEDULE B
CAPITAL ASSET THRESHOLDS AND ESTIMATED USEFUL LIVES**

The tables below outlines the threshold and estimated useful life applicable to each capital asset category. A threshold of ALL means that all capital asset purchase, regardless of cost, are recorded.

Capital Asset - Land

Asset Name	Threshold	Life (Years)
Land	ALL	Indefinite
Land improvements	\$10,000.00	15 years

Capital Asset - Buildings

Asset Name	Threshold	Life (Years)
Permanent Structure	\$50,000.00	25-60 years
Temporary Structure	\$25,000.00	20 years

Capital Asset - Infrastructure

Asset	Threshold	Life (years)
Roads		
-Class 1	\$10,000.00	40
-Class 2	\$10,000.00	40
-Class 3	\$10,000.00	40
-Class 4	\$10,000.00	40
-Class 5	\$10,000.00	40
-Class 6	\$10,000.00	40
-Class 7	\$10,000.00	40
-Trail	\$10,000.00	40
-Seasonal	\$10,000.00	40
-Pavement	\$10,000.00	15
-Seal Coat	\$10,000.00	15
Streets	\$10,000.00	40
Bridges	ALL	60
Culverts	ALL	35
Signs	ALL	5
Street Lighting	ALL	20

Capital Asset - Machinery/Equipment/Vehicles/Operating Equipment

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Asset Name	Threshold	Life (Years)
Graders	\$30,000.00	10 years
Scrapers/Buggy	\$30,000.00	10 years
Cat/Crawler	\$30,000.00	10 years
Trackhoe	\$30,000.00	10 years
Backhoe	\$10,000.00	10 years
Skid Steer	\$20,000.00	10 years
Wheel Loaders	\$20,000.00	10 years
Cap Mulcher	\$20,000.00	15 years
Rotary Shark	\$10,000.00	10 years
Rock Picker	\$5,000.00	15 years
Tractor(Farm)	\$15,000.00	20 years
Mowers	\$15,000.00	10 years
Light Trucks	\$10,000.00	10 years
Heavy Trucks	\$20,000.00	15 years
Trailers		
-Gravel Trailer	\$20,000.00	20 years
-Lowbed Trailer	\$20,000.00	20 years
-Fire Trailer	\$10,000.00	20 years
-Dump Trailer	\$10,000.00	20 years
-Cargo Trailer	\$10,000.00	20 years
-Mower Trailer	\$10,000.00	20 years

Capital Asset - Furniture/Equipment

Asset Name	Threshold	Life (Years)
Computer/Software	\$10,000.00	3 years
Computer hardware	\$10,000.00	3 years

Recreational Asset

Asset Name	Threshold	Life (Years)
Docks	\$20,000.00	5 years

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