

TANGIBLE CAPITAL ASSET POLICY BYLAW #01-09

Purpose:

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

Scope:

This policy applies to all village departments, boards, and any other organizations falling within the reporting entity of the Village of Edenwold.

Definitions:

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

Betterments are enhancements to be the service potential of a capital asset such as:

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

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

- o are held for use by the municipality 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;
- o have useful lives extending beyond a year and are intended to be used on a continuing basis;
and
- o are not intended for sale in the ordinary course of operations.

Capital-type expenses are costs for assets that meet the definition of a capital asset but are less than the thresholds. These assets are expensed in the year in which they are purchased.

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 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.

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

Municipal Policy:

Legislation

1. The *Municipalities Act*, section 185; require 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 January 1, 2009.
3. The listing of assets includes all applicable assets as at December 31, 2008, owned by the village.

Attached is Schedule A and B and a complete listing of guidelines for the municipality to follow in procedure pertinent to this policy.

Adopted by council for the Village of Edenwold this ____ day of _____, 2009.

Mayor Administrator