



The Corporation of the Municipality of Red Lake

**FINANCIAL SERVICES AND CONTROL
POLICY MANUAL**

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|--|---|------------------------------|
| Subject: Tangible Capital Assets | Approval Date: January 19, 2015 | By-Law No. 02-2015 |
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4.11 TANGIBLE CAPITAL ASSETS

1. PURPOSE

The purpose of the policy is to provide direction for recognizing and recording tangible capital assets (TCA) on a consistent basis in accordance with Public Sector Accounting Board (PSAB) PS 3150.

2. TANGIBLE CAPITAL ASSETS

Tangible capital assets are non-financial assets having physical substance that:

- (a) 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;
- (b) Have useful economic lives extending beyond one year;
- (c) Are used on a continuing basis; and
- (d) Are not for resale in the ordinary course of operations.

The objective of the Tangible Capital Asset 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 Tangible Capital Assets and the changes in such investment.

The principal issues in accounting for Tangible Capital Assets are the recognition of the assets, the determination of their carrying amounts, and the amortization charges and the recognition of any related impairment or disposal losses.

3. DEFINITIONS

“Amortization”: is an accounting concept in which the recorded cost of an asset is distributed in a systematic and rational manner over its estimated useful life and matches the cost of that asset to the periods in which service is derived from the asset.

“Betterment”: is a subsequent expenditure on a tangible capital asset, in excess of the relevant threshold, that will do one or more of the following:

- Substantially increase the previously assessed physical output or service capacity;



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- Significantly lower associated operating costs (efficiency); or
- Substantially extend the useful life of the asset.

Any other expenditure would be considered a repair or maintenance and expensed in the period.

“Capital Lease”: is the lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the Municipality. For substantially all of the benefit and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met:

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

“Capital Project”: is an activity during which expenditures are incurred that result in the creation of a capital asset.

“Contributed Assets”: are tangible capital assets, such as developer constructed services in new subdivision (e.g. water, sewer or roads infrastructure) acquired without cash outlay.

“Control”: of an asset is achieved when the Municipality:

- a) Manages and operates the asset;
- b) Is responsible for the asset's performance, availability and maintenance;
- c) Has total use of the asset or can control access to the benefit the asset provides;
- d) Has legal responsibility and liability with respect to the asset;
- e) Is the beneficiary of all or nearly all the future economic benefits from the asset;
- f) Is responsible for renewal and replacement of the asset; or
- g) Bears all risk of obsolescence, environmental liability, uninsured damage or condemnation of the asset.



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“Fair Value”: it is the amount of the consideration that would be agreed upon in an arm’s length transaction between knowledgeable and willing parties (vendor and purchaser) who are under no compulsion to act. Fair value would be used to assign an amount to a donated asset received by the Municipality.

“Historical Cost”: of an asset is the amount of consideration given up to acquire, construct, develop or better an asset and includes all costs directly attributable to acquisition, construction, development or betterment of the asset including installing the asset at the location and in the condition necessary for its intended use. Historical cost is generally determined using the actual original cost. Where actual original cost information is not available, an estimated original cost may be used.

“Infrastructure”: is composed of linear assets and their associated specific components generally constructed or arranged in a continuous and connected network. Linear assets may include transportation components like roads, bridges and storm sewers or environmental asset components such as water distribution systems and waste water treatment systems.

“In Service Date”: is realized as the date at which an asset begins to be used by the Municipality. The calculation and recording of amortization will not begin until the “in service” date has been reached.

“Land”: is the surface or crust of the earth that is used to support structures and purchased or acquired for value, for building sites, infrastructure (roadways, bridges, water or sewer mains, etc.) and other program use but not land held for resale. Land normally has an unlimited life and is not amortized.

“Leasehold Improvements”: are improvements to leased assets that do not qualify under the definition of a capital lease.

“Maintenance”: is a recurrent expenditure, whether it be periodically or regularly required, that keeps an asset in a condition that helps maintain or ensure realization of the future economic benefits that are expected from the asset over its initially assessed useful life.

“Pooled Assets”: are assets that have a value below the capitalization threshold when considered on an individual basis but that collectively make up a significant group of assets which exceeds the relevant threshold level (for example, computers, street lights, furniture, small moveable equipment, etc.). Pooled assets are recorded as a single asset with one combined value, although each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance.



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“Residual Value”: is the estimated net realizable value of a tangible capital asset at the end of its useful life.

“Site Improvements”: consist of betterments and site preparation that ready land for its intended use, such as parking lots, landscaping and fencing, and are usually exhaustible and amortized.

“Straight Line Method”: is the preferred method of amortization in which the periodic charge is computed by dividing the cost base of the asset by its estimated useful life.

“Threshold”: is generally a minimum cost that an individual asset must have before it is to be treated as a tangible capital asset. The threshold amount is to be used as a guide in addition to professional judgment.

“Useful Life”: is the estimate of either the period over which a tangible capital asset is expected to be used by the Municipality, or the number of production or similar units that can be obtained from the tangible capital asset by the Municipality. An asset will most likely be removed from service when it is no longer economically viable. Useful life is normally the shortest of the asset’s physical, technological, commercial or legal life.

4. RECOGNITION OF TANGIBLE CAPITAL ASSETS

Tangible capital assets are acquired, constructed, or developed assets and have the following characteristics:

- (a) Ownership and control clearly rests with the municipality; and
- (b) The asset is used to achieve municipal objectives.

The following will help determine whether an asset is a tangible capital asset:

- (a) Include land, buildings, infrastructure assets (roads and water network), vehicles, purchased computer software, in-house developed computer software, computer hardware, furniture, equipment, leasehold improvements, and assets required by capital leases or by donations;
- (b) Include heritage assets;
- (c) Do not include non-operational heritage assets such as museum and gallery collections, other works of art, archives, archaeological sites, ruins, burial sites, monuments, and statues; and



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- (d) Do not include intangible assets such as copyrights, trademarks, patents, easements and rights-of-way.

5. CAPITALIZATION THRESHOLDS

Only tangible capital assets that exceed the asset class threshold will be capitalized. The following are the thresholds that are being used to develop the initial tangible capital assets listing:

- (a) Any individual item that meets the definition of a tangible capital asset with a cost of \$5,000 or greater;
- (b) A pool of assets that meets the definition of a tangible capital asset, that was purchased in bulk and has a replacement cost of \$25,000 or greater in any given year;
- (c) Due to the nature of some assets, the threshold will be \$0. Examples are land, vehicles, roads, water pipe segments, etc. would be recorded;
- (d) Land with buildings situated on it shall be deemed part of the building asset and not valued separately; and
- (e) Assets should be recorded in a collective manner, not a componentized manner.

Once the initial tangible capital asset listing has been prepared, in subsequent years, it will be reviewed to determine whether or not the threshold should be raised.

6. VALUATION OF TANGIBLE CAPITAL ASSETS

Existing tangible capital assets shall be valued in the following manner:

- (a) Historical cost, if known;
- (b) If historical cost is not known, then by appraised value; or
- (c) If historical cost is not known, or the asset has not been appraised, then by insured value; and
- (d) Roads will be valued and recorded utilizing 2009 costs. This will take into consideration and make reasonable allowance for the periodic upgrades, additions and improvements since the asset was originally constructed.



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7. ACCOUNTING TREATMENT

- (a) Existing tangible capital assets as at December 31, 2008 shall be recorded as a debit to the appropriate account in the General Ledger Asset Accounts;
- (b) Offsetting entries for existing tangible capital assets as at December 31, 2008 shall be recorded as a credit in the General Ledger Equity Account "Investment in Capital Assets";
- (c) Tangible capital assets acquired for fiscal year 2009 and subsequent fiscal years shall be recorded as a debit to the appropriate account in the General Ledger Asset Accounts;
- (d) Offsetting entries for tangible capital assets acquired for fiscal year 2009 and subsequent fiscal years shall be recorded as a credit in the General Ledger Equity Account "Investment in Capital Assets";
- (e) Accumulated amortization on existing tangible capital assets to December 31, 2008 shall be recorded as a credit to "Accumulated Amortization" in the appropriate General Ledger Asset Accounts;
- (f) Offsetting entries for accumulated amortization on existing tangible capital assets to December 31, 2008 shall be recorded as a debit in the General Ledger Equity Account "Accumulated Amortization of Capital Assets";
- (g) Amortization charged for fiscal year 2009 and subsequent fiscal years shall be recorded as a debit to the appropriate "Amortization of Capital Assets" account in the General Ledger Expense Accounts;
- (h) Offsetting entries for amortization charged for fiscal year 2009 and subsequent fiscal years shall be recorded as credit to the appropriate "Accumulated Amortization" account in the General Ledger Asset Accounts;
- (i) Any gain on disposal of tangible capital assets shall be recorded as a credit in the appropriate "Gain on Disposal of Capital Assets" account in the General Ledger Revenue Accounts;
- (j) Any loss on disposal of tangible capital assets shall be recorded as a debit in the appropriate "Loss on Disposal of Capital Assets" account in the General Ledger Expense Accounts; and



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(k) After year end is completed, revenue and expense account balances in the tangible capital assets ledger shall be closed to the General Ledger Equity Account "Accumulated Amortization of Capital Assets".

8. CONTENTS (EQUIPMENT, FURNITURE AND FIXTURES)

Contents, being the equipment, furniture and fixture forming a part of, or contained within buildings and facilities shall be recorded at the lump sum insured value. Contents will not be individually listed due to the labour intensity, time constraints and costs incurred to create and maintain such lists. Content values shall be adjusted on an annual basis and due to the short life and on-going disposal and replacement of such assets, will not be subject to amortization charges.

9. ADDITIONS

Additions of all new tangible capital assets for subsequent fiscal years shall be added to the appropriate asset category at cost.

10. BETTERMENTS

The costs of betterments may be added to the historical cost of the specific tangible capital asset (TCA) and amortized accordingly. Where required, the useful life of the asset may be changed to reflect the betterment. To be recorded as betterment, the value of the expenditure must meet the threshold for the asset category to which the tangible capital asset subject to the betterment belongs.

11. REPAIRS AND MAINTENANCE

Repairs and maintenance on tangible capital assets shall not be capitalized.

12. CAPITALIZATION OF INTEREST COSTS

The Municipality shall not capitalize interest costs incurred during the construction or development of tangible capital assets.

13. ESTIMATED USEFUL LIFE

Expected useful life is normally the shortest of the asset's physical, technological, commercial and legal life and is based on its use by the Municipality.

In determining an asset's useful life the present condition, intended use, construction type and maintenance policy will be considered, including how long the asset is expected to meet service demands and the Municipality's experience with similar assets.



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14. AMORTIZATION

The cost of a tangible capital asset with a limited life will be amortized over its useful life using the straight line method. The amortization method and estimate of useful life of the remaining unamortized portion may be reviewed on an annual basis and revised when the appropriateness of a change can be clearly demonstrated.

Amortization shall commence in the year of acquisition or "In Service", and shall be charged at one half the regular rates during year of asset acquisition.

Leasehold improvements shall be amortized over the term of the applicable lease.

15. TRANSFERS OF ASSETS

Transfers of tangible capital assets between departments will not be recorded.

Transfer of assets from outside the Municipality to the Municipality will only be capitalized as a tangible capital asset when the agreement provides for the transfer of ownership.

16. DISPOSAL OF ASSETS

When tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the Operating Department must notify the Treasury Department of the asset description and effective date of the disposal, and subject to the terms and conditions of the Procurement By-Law.

Assets will be retired from the accounts of the Municipality when the asset is disposed of. A gain or loss on disposal will be calculated as the difference between the proceeds received and the net book value of the tangible capital asset. The gain or loss on disposal will be recorded in the accounts of the Operating Department.

17. CAPITAL LEASES

Subject to the provisions of Clause 7, a lease will be recorded as a tangible capital asset and an offsetting liability when it exceeds the Municipality's threshold for definition of a tangible capital asset.



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18. WRITE DOWNS

A write down is used to reflect a permanent partial impairment in the value of an asset. This impairment may be as a result of:

- (a) Removal of the asset from service;
- (b) Physical damage;
- (c) Significant technological developments;
- (d) A decline in or cessation of the need for the service provided by the asset;
and
- (e) A change in the law or environment affecting the asset usage

If the value of an asset is impaired, the cost of the asset will be written down to reflect the decline in the asset's value and its shorter useful life. This write down is considered a loss (expense) in the accounts of the Operating Department.

19. TRANSITION

Tangible capital assets in the Municipality will be inventoried and valued as of December 31, 2008. The tangible capital asset Continuity Schedule will be used to track 2009 additions and disposals. The accounting for tangible capital assets is effective January 1, 2009 at which time the tangible capital assets will be recorded in the Municipality's financial system.

In situations where year of acquisitions is unknown, in the case of assets with a model year, the model year will be deemed as year of acquisition.

In cases where no model year exists or no clear "In Service" date or date of construction or acquisition exists, July 1, 1998 represents the date the Township of Red Lake, the Township of Golden (Balmertown, Cochenour and McKenzie Island) and the Improvement Districts of Madsen and Starratt-Olsen were amalgamated to form the Municipality of Red Lake.

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APPENDIX "A"
CAPITAL ASSETS—MAXIMUM USEFUL LIFE

| ASSET CLASSES | | |
|------------------------|------------------------------------|-----------------------------------|
| MAJOR | MINOR | MAXIMUM USEFUL LIFE (In Years) |
| Automotive | Pick Up Trucks | 8 |
| | Vans | 8 |
| Buildings | Arena | 50 |
| | Columbarium | 50 |
| | Fire Halls | 50 |
| | Garages and Repair Shops | 40 |
| | Main Buildings | 50 |
| | Other Buildings | 30 |
| | Sewage Treatment Plants | 50 |
| | Storage Sheds | 20 |
| | Water Treatment Plants | 50 |
| Contents | General | 8 |
| | Library Books | 15 |
| | Museum Artefacts | Infinite |
| Docks | | 8 |
| Equipment | Construction Equipment Attachments | 12 |
| | Electric Powered Tools | Contents |
| | Fire Turnout Gear | Contents |
| | Gasoline Powered Tools | Contents |
| | Not Elsewhere Classified | Contents |
| | Other Fire Fighting | Contents |
| | Recreation Equipment | Contents |
| | Shop Equipment | Contents |
| | Shop Tools | Contents |
| Furniture and Fixtures | Bleachers | Contents |
| | Computer and Technical | Contents |
| | Dug Outs | Contents |
| | Library Books | Contents |
| | Not Elsewhere Classified | Contents |
| | Office Fixtures | Contents |
| | Office Furniture | Contents |
| Land | Playground Fixtures | Contents |
| | Cemeteries | Infinite |
| | General | Infinite |

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APPENDIX "A"
CAPITAL ASSETS—MAXIMUM USEFUL LIFE
ASSET CLASSES

| MAJOR | MINOR | MAXIMUM USEFUL LIFE (In Years) |
|------------------------|--|-----------------------------------|
| | Parks | Infinite |
| | Playing Fields and Courts | 25 |
| Land Improvements | Airport runways | 15 |
| | Fences | 20 |
| | Parking Lots | 20 |
| | Playing Fields and Courts | 25 |
| | Sewage Lagoon | 30 |
| | Walking Trails | 25 |
| | Waste Disposal Site | 30 |
| | | |
| Leasehold Improvements | | Term of Lease |
| | | |
| Mobile Equipment | Construction Equipment | 15 |
| | Fire Trucks | 20 |
| | Marine Vessels | 25 |
| | Ice Surfacing Equipment | 15 |
| | | |
| Roads | Bridges | 30 |
| | Culverts | 15 |
| | Curbs | 20 |
| | Fire Hydrants | 30 |
| | Road Signs | 5 |
| | Roads – Gravel | 20 |
| | Roads – Hard Topped | 10 |
| | Roads – Paved | 20 |
| | Sidewalks | 20 |
| | Storm Sewers | 30 |
| | Street Lights | 10 |
| | Traffic Lights | 20 |
| Water and Sewage | Water Meters | 20 |
| | Water and Sewer Service Connections, Mains and Lines | 30 – 50 Depends on Type |