

CITY OF AIRDRIE
TANGIBLE CAPITAL ASSETS POLICY

Effective Date: April 21, 2008
Approved By: City Council
Approved On: April 21, 2008
Resolution #: 2008-C-171

Revision Date: June 15, 2009
Resolution #: 2009-C-210

PURPOSE:

The objective of this policy is to prescribe the accounting treatment for tangible capital assets so that users of the financial statements 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 the recognition of the assets, the determination of their carrying amounts and amortization charges, and the recognition of any related impairment losses.

In addition, the policy provides accountability over tangible capital assets gathering and maintaining information needed to prepare financial statements.

SCOPE:

This policy applies to all City departments falling within the reporting entity of the City.

DEFINITIONS:

Tangible Capital Assets

Non-financial assets having physical substance that:

- a) are held for use in the production or supply of goods or 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 to be used on a continuing basis; or
- d) are not held for re-sale in the ordinary course of operations.

Betterments

Subsequent expenditures on tangible capital assets that enhance service potential by:

- a) increasing previously assessed physical output or service capacity;
- b) lowering associated operating costs;
- c) extending the useful life of the asset; or
- d) improving the quality of the output.

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

Expected Useful Life

The expected useful life of a tangible capital asset is the shortest of the asset's physical, technological, commercial, and legal life.

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.

Capital Lease

A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks of ownership of property to the City. For substantially all of the benefits and risks to be transferred to the City, one or more of the following conditions must be met:

- a) There is a reasonable assurance that the City will obtain ownership of the leased property by the end of the lease term due to terms of the lease that would result in ownership being transferred to the City at the end of the lease or provides for a bargain purchase option.
- b) The lease term is of such a duration that the City will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span (usually 75% or more of the economic life of the leased asset).
- 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, i.e., the present value of the lease at the beginning of the lease term is equal to substantially all (usually 90% or more) of the fair value of the leased property at the inception of the lease.

Asset Register

An asset register is a complete and accurate list of the tangible capital assets owned by the City.

POLICY STATEMENTS

Capitalization

Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to thresholds established by administrative policy.

Categories

A category of assets is a grouping of assets of a similar nature or function in the City's operations. The list of categories shall be established by administrative policy.

Valuation

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition of use.

1.1 Purchased assets

Cost is the gross amount of consideration paid to acquire the asset. It includes all costs directly attributable to acquisition, construction, development or betterment of a tangible capital asset including installing the asset in a location and condition necessary for its intended use. It is net of any trade discounts or rebates.

Cost of land includes purchase 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.

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 relative fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

1.2 Acquired, Constructed, or Developed Assets

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 overhead is not allowed.

1.3 Capitalization of Interest Costs

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 are to be capitalized as part of the cost of that asset.

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 cease when substantially all of the activities necessary to prepare the asset for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

1.4 Donated or Contributed Assets

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 estimated using market or appraisal values or replacement cost.

Ownership

It is the responsibility of the director, budget manager, and staff member to ensure that tangible capital assets assigned to his or her custody are maintained and safeguarded. The ownership and therefore the responsibility for tracking and maintaining the tangible capital assets rests with the department that made the initial purchase, or issues the Final Acceptance Certificate that accepts the asset for City ownership, or uses the tangible capital asset on a regular basis, or maintains the asset for public use.

The capital asset ledger is contained in a database and will be kept up to date by the Finance Team using the information provided by the teams who have ownership of the tangible capital assets. It is the responsibility of those teams to keep the Finance Team informed of any and all changes in the inventory or the condition of the tangible capital assets. The Finance Team will be responsible for preparing the annual report of the tangible capital assets owned by the City as part of the annual financial report.

Annual Review

Each department of the City that is charged with the ownership of tangible capital assets shall update the estimated remaining useful life of each tangible capital asset using the best information available. When the estimated useful life of a tangible capital is reduced due to a change in the condition of the tangible capital asset and the change in condition is considered permanent, where the value of the future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset will be reduced to reflect the decline in the asset's value.

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 significant different useful lives and consumption patterns to the related tangible capital asset.
- b) Value of components in relation to the related tangible capital asset.

Civil infrastructure systems will use the component approach. Major components are grouped when the assets have similar characteristics and estimated useful lives or consumption rates.

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.

The City uses a straight-line method for calculating the annual amortization. City departments are responsible for establishing and utilizing an appropriate estimated useful life for assets acquired.

Disposal

When tangible capital assets are taken out of service, destroyed, or replaced due to obsolescence, scrapping, or dismantling, the department team leader or designate must notify the Utility Administration Team Leader or the Financial Services Team Leader. The financial services team is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

Disposal of land will be the responsibility of the City Corporate Properties team.

Asset Register

For each asset, an asset register must be created and should contain the following details:

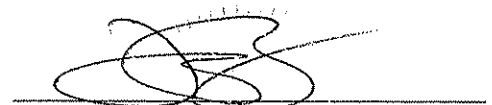
- name of asset;
- physical description;
- serial number / ID number;
- date of acquisition;
- location;
- expected useful life:
 - original life;
 - expired life;
 - remaining life;
 - date asset life last reviewed;
 - any evidence of impairment;
- historic cost or initial valuation;

- amortization method, rate, and amount;
- book value; and
- date of disposal.


Reporting

Each department of the City charged with the ownership of tangible capital assets will maintain the asset register in such a way that it is accurate and complete using the standard template for recording tangible capital assets as developed by the Finance team.

The Finance team will have access to and be able to extract the information required for the annual financial statements from the asset register.



Mayor



City Clerk