

SUMMER VILLAGE OF ISLAND LAKE

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS CLASSIFICATION/CAPITALIZATION THRESHOLD/AMORTIZATION Policy No. #01-2018

RESPONSIBILITY:

C.A.O.

APPROVED BY COUNCIL:

DATE: June 19, 2018

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 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 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.

The policy is in accordance with the Public-Sector Accounting Board (PSAB) 3150.

SCOPE:

This policy applies to the Summer Village and future boards and commissions, agencies and other organizations that will fall within the reporting entity of the Summer Village.

SUMMER VILLAGE OF ISLAND LAKE

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS CLASSIFICATION/CAPITALIZATION THRESHOLD/AMORTIZATION Policy No. #01-2018

DEFINITIONS:

Tangible Capital Assets:

Assets having physical substance that:

- a) are used on a continuing basis in the Summer Village'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 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.

Group Assets:

Assets that have a unit value below the capitalization threshold but have a material value as a group. Normally recorded as a single asset with one combined value. Although recorded in the financial systems as a single asset, 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.

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.

SUMMER VILLAGE OF ISLAND LAKE

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS CLASSIFICATION/CAPITALIZATION THRESHOLD/AMORTIZATION

Policy No. #01-2018

POLICY STATEMENTS:

Capitalization:

Tangible capital assets should be capitalized (recorded in the fixed assets sub-ledger) according to the following thresholds:

- a) all land;
- b) all buildings;
- c) engineered structures (built assets such as roads, bridges, sewers, water, transit, parks, etc.) with a unit cost of \$10,000 or greater;
- d) all others with a unit cost of \$2,000 or greater.

Different thresholds may be used for group assets. Capitalize betterments to existing assets when unit costs exceed the threshold.

Categories:

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

- land;
- buildings;
- equipment;
- roads;
- water;
- sewer;
- bridges;
- communication networks;
- motor vehicles;
- furniture and fixtures;
- computer systems (hardware and software)

SUMMER VILLAGE OF ISLAND LAKE

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS CLASSIFICATION/CAPITALIZATION THRESHOLD/AMORTIZATION Policy No. #01-2018

Valuation:

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

1.1 Purchased assets

Cost is the gross amount of consideration paid to acquire the asset. It includes all the nonrefundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc. It is net of any trader discounts or rebates.

Cost of land includes purchase price 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 purpose 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.

1.2 Acquired, Constructed or Developed Assets

Cost includes all cost 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.

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 should be capitalized as part of the cost of that asset.

SUMMER VILLAGE OF ISLAND LAKE

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS CLASSIFICATION/CAPITALIZATION THRESHOLD/AMORTIZATION

Policy No. #01-2018

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 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 determined using market or appraisal values. Cost may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost. Ancillary costs should be capitalized.

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 shorter of the asset's physical, technological, commercial or legal life.

Generally, the Summer Village uses a straight – line method for calculating the annual amortization. A comprehensive list of estimated useful lives of assets and amortization rates is attached. See Schedule “A”.

Disposal:

When tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the asset registers and accounting records recording a loss/gain on disposal will be adjusted.

SUMMER VILLAGE OF ISLAND LAKE

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS CLASSIFICATION/CAPITALIZATION THRESHOLD/AMORTIZATION Policy No. #01-2018

The following table shows classes, capitalization thresholds, amortization method and useful life to be used:

Major Asset Class	Minor Asset Class	Capitalization Threshold	Amortization Method	Useful Life	Review Schedule
Land		All land will be recorded.	N/A	N/A	N/A
Land Improvements	Parking lot –Gravel, Playground Structures	\$1,000.00	Straight Line	15 Years 10 Years	Every 3 years
Buildings	None at this time	All buildings will be recorded	Straight Line		Every 5 Years
Engineered Structures	Roadway System, Arterial/Coll – Hot mix, Cold mix Lanes/Alleys – Gravel, Chip seal Road Signs	\$1,000.00 \$1,000.00	Straight Line	20 Years 10 Years 15 Years 10 Years 15 Years	Every 5 Years
	Water System Distribution Mains	\$1,000.00	Straight Line	50 Years	Every 5 Years
	Wastewater System None at this time	\$1,000.00	Straight Line		Every 5 Years
	Storm System	\$1,000.00	Straight Line		Every 5 Years
Machinery & Equipment	Office Furniture Office Furniture- Photo Copier Computer Systems Hardware Software Tools, Shop & Garage Equipment	\$1,000.00	Straight Line	20 Years 5 Years 5 Years 10 Years 10 Years	Every 3 Years
Vehicles	None at this time	\$1,000.00	Straight Line		Every 3 Years
Cultural & Historical		N/A	N/A	N/A	N/A