

CITY OF WELLAND

POLICY

Policy Title: Tangible Capital Assets	
Date of Approval: April 20, 2010	Policy Number: FIN-001-0012
Lead Role: General Manager, Corporate Services/City Treasurer	Support Role: Department Heads
Cross Reference: By-law 2010-48	Next Review Date:
Council File Number: 10-77	Revision Date:

Policy Statement:

The objective of the policy is to ensure that tangible capital assets (TCA) are identified, valued, recorded and managed by The Corporation of the City of Welland (City). City Council agrees that all departments and organizations owned or controlled by the City are responsible to manage the assets under their control in an efficient and effective manner.

The City follows Canadian generally accepted accounting principles as set out by the Public Sector Accounting Board (PSAB) of the Canadian Institute of the Chartered Accountants (CICA). These principles provide consistency and comparability across organizations. PSAB Handbook Section 3150 establishes the standards on how to account for and report tangible capital assets. Compliance is required for financial statements prepared for fiscal years beginning on or after January 1, 2009.

Definitions:

The Public Sector Accounting Handbook contains the following definitions:

Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits may be obtained.

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

- a) are normally employed to deliver government services;
- b) may be consumed in the normal course of operations; and
- c) are not for sale in the normal course of operations.

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 an accounting period;
- c) are used on a continuing basis; and
- d) are not for resale in the ordinary course of operations.

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Tangible capital assets do not include:

- assets inherited by right of the Crown, such as Crown lands, forests, water and mineral resources;
- works of art or historical treasures;
- intangible assets such as goodwill, copyrights and patents.

Scope:

This policy applies to all organizations and enterprises accountable for the administration of their affairs and resources to the City and which are owned or controlled by the City. In addition to the general government tax supported operations/departments, they include the following:

Welland Recreational Canal Corporation

Welland Public Library

Niagara Central Airport Commission

Board of Management for the Welland Downtown Business Improvement Area

Board of Management for the North Welland Business Improvement Area

Policy Details

The following topics are discussed in this policy under the following section numbers:

No.	Topic
1	Asset Categories
2	Capitalization Thresholds & Policies
2.1	Thresholds & Pooling
2.2	Work-in-process
2.3	Capital Leases
3	Asset Segmentation
3.1	Component Approach
3.2	Single Asset Approach
3.3	Exception
4	Betterment versus Maintenance
5	Asset Valuation
5.1	Cost
5.2	Interest & Carrying Charges
5.3	Grants or Donations
5.4	Acquisition Date
5.5	Exceptions
6	Amortization
7	Asset Impairment & Write Down
8	Surplus Assets & Disposals
9	Asset Control & Management

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1. Asset Categories

The level of detail required in the capital asset inventory is a balance between the cost of data collection, tracking and analysis and the benefits of the information gathered.

The City will record TCA under the classes and sub-classes noted in Appendix A and report the assets by functional area noted in Appendix B.

2. Capitalization Thresholds & Policies

2.1 Thresholds & Pooling

The City will record a TCA in its accounting ledgers if it meets or exceeds the dollar threshold noted in Appendix A.

Regardless of the foregoing, assets purchased individually that have a value below the threshold may be material when pooled and considered as a group. Similarly, portable assets may also be tracked for better control or security. These assets are capitalized as part of the group and may be tracked separately in a sub-ledger. TCA that are pooled are identified in Appendix A.

2.2 Work-in-process

Work-in-process represents the costs of a project/TCA that is not substantially complete, (i.e. not ready for its intended purpose). Work-in-process is reported as a TCA on the Balance Sheet. Work-in-process is formally transferred to capital assets and amortization begins when substantially complete (i.e. In Service Date). All costs incurred as work-in-process that is subsequently abandoned or put on hold indefinitely will be written off when such a decision is made.

2.3 Capital Leases

TCA leases are either operating or capital in nature. Capital leases exist where substantially all of the benefits and risk incident to ownership are transferred to the City, such as, if:

- a) there is reasonable assurance that property ownership will be transferred at the end of the lease term;
- b) the lease term covers 75% or more of asset's economic life; or
- c) the present value of minimum lease payments less executory costs equals 90% or more of the asset's fair market value.

Capital leases are recorded as both a TCA and liability on the Balance Sheet. Operating leases are recorded as operating expenses in the year incurred.

3. Asset Segmentation

Many TCA, especially complex network systems and buildings, consist of a number of components. PSAB 3150 provides the option of accounting for such assets as a single asset or treating each component as an individual asset.

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3.1 Component Approach

Where the individual component:

- a) can be valued separately and is of a material value;
- b) is expected to have a useful life materially different than the useful life of the entire asset; and
- c) can be replaced and will increase the useful life of the entire asset; the City will record the cost of each individual component as a separate TCA. This will enable the replacement of the individual component to be capitalized and amortized over its useful life versus being expensed in the year incurred. Components of an asset will be individually recorded as separate records in the subsidiary ledger as indicated in Appendix A.

If a capital project is allocated using the component approach and results in any component asset that is less than the threshold, the component will be permitted as an exception to the threshold so that the full project cost may be accounted for in the subsidiary ledger.

3.2 Single Asset Approach

The TCA will be accounted for as a single asset where the component approach is not used or when the costs of the individual components cannot reasonably be determined.

3.3 Exception

However, in all cases, the value of any land included in the acquisition of a TCA should be separately identified, valued, and recorded because it is not subject normally to amortization.

4. Betterments versus Maintenance

The cost of an asset will include subsequent expenditures for “betterments” versus maintenance. A “betterment” enhances the service potential of the TCA:

- i) when the previously assessed physical output/capacity is increased;
- ii) when associated operating costs are reduced;
- iii) the useful life of the property is extended; or
- iv) the quality of the output is improved.

The cost of the betterment is added to the cost of the TCA and amortized over the remaining useful life. Where the betterment replaces an existing component of a TCA recorded using the single asset approach, the betterment is treated as a disposal of the individual component. See Section 8 Surplus Assets & Disposals.

Any expenditure that does not meet the above criteria is considered a repair or maintenance and expensed in the year incurred.

5. Asset Valuation

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5.1 Cost

PSAB 3150 requires that TCA be recorded at cost. Cost is the gross amount of consideration given up to acquire, construct or develop a TCA. Gross cost includes all “directly attributable” costs of installing the asset at the location and in the condition necessary for its intended use.

5.2 Interest & Carrying Charges

Interest expense incurred and directly attributable to the TCA will not be capitalized. However, the cost of debt administration directly attributable to the TCA will be capitalized. PSAB 3150 requires the disclosure of the amount of interest or carrying charges capitalized in the year.

5.3 Grants or Donations

Any grants or donations received towards the acquisition cost of an asset cannot be netted against the gross cost of the TCA.

Grants received are recognized as Capital Revenue, by type.

Assets that are contributed, donated or assumed by the City are recorded at fair market value at the date of acquisition. Fair market value is the consideration that would be agreed on in an arm’s length transaction between parties who are under no compulsion to act. PSAB 3150 requires the disclosure of the nature and amount of contributed TCA received in the year.

5.4 Acquisition Date

The acquisition date is the earlier of:

- i) the date the asset is physically received by the City; or
- ii) the date legal ownership of the asset passes from the seller to the purchaser.

Where the asset is not acquired through the normal purchasing function or is completed in stages, the acquisition date and all pertinent information regarding the TCA acquisition must be communicated in writing to the Deputy Treasurer – Finance as soon as known, and in all cases, before year end. A Capital Project Close-Out Report has been developed to facilitate this communication where no other process currently exists – see Appendix D.

5.5 Exceptions

Works of art and historical treasures are not recognized as TCA because it is not possible to establish a value that can be reliably measured nor to estimate the future economic benefits associated with such property. PSAB 3150 requires disclosure of the nature of such existing property. Expenditures for preservation, cleaning and restoration related to such property is expensed in the period incurred.

In unusual circumstances, where the fair market value is impossible to estimate, the TCA would be recorded at a nominal value. PSAB 3150 requires disclosure of the nature and use of assets recognized at nominal value.

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6. Amortization

The cost of the TCA with a limited life (i.e. not land) is amortized over its useful life on a straight line basis as noted in Appendix A. The amortization is an operating expense.

The City will assume that assets are acquired evenly throughout the year. This allows the City to assume a midyear capitalization date reducing the administration associated with the tracking, capitalizing TCA and calculating amortization.

7. Asset Impairment & Write Down

The amortization method and estimate of the remaining useful life of the TCA should be reviewed periodically by the respective operating departments together with Finance. Departments will be asked to review their assets and related estimate of useful lives on an annual basis.

The change and rationale for any impairment in the value of the asset must be clearly demonstrated and documented for audit purposes. Possible events that may result in asset impairment include:

- change in extent or manner of usage;
- removal from service for an extended period of time;
- physical damage, significant technological developments;
- change in demand for related services; or
- change in law or environment.

PSAB 3150 requires that the net write down of TCA is accounted for as an operating expense and cannot be reversed. PSAB 3150 requires the disclosure of the net book value of assets that have been removed from service.

8. Surplus Assets & Disposals

TCA, in their entirety or partially, may be disposed of by sale, trade-in, destruction, loss or abandonment. The difference between the net proceeds on the disposal of a TCA and the net book value of the asset is accounted for in the Consolidated Statement of Change in Net Debt as a Gain or Loss on the Sale of Tangible Capital Assets.

In unusual circumstances, surplus assets may be removed from service or reinstated at a later date or for sale consideration. PSAB 3150 requires disclosure of the net book value of surplus assets removed from service.

All TCA redeployments, disposals and removals from service must be communicated in writing to the Deputy Treasurer – Finance prior to disposition or as soon as known. A Surplus Asset & Disposal Form has been developed to facilitate this communication – see Appendix C. Disposals and removals should be done in compliance with tax legislation, the City's Purchasing Policy and health & safety regulations to minimize risk.

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9. Asset Control & Management

Operating departments and organizations/enterprises owned or controlled by the City are responsible for maintaining the inventory of TCA under their control and/or management. Detailed records of valuation methods used to establish cost must be maintained for the period of ownership plus a period 6 years after the year of disposal.

Department or organization heads responsible for operating and capital budgets must ensure that TCA acquired are charged to the appropriate capital expenditure accounts regardless of budget surplus/deficits created.

Operating departments and organizations/enterprises owned or controlled by the City are required to confirm the completeness and accuracy of the TCA reported annually to Finance.

In the event of disagreement in the interpretation or implementation of this policy and related procedures, the Deputy Treasurer – Finance shall make the final decision, guided by the Municipal Act, PSAB 3150 and the OMBI's Municipal Guide for Accounting for Tangible Capital Assets.

RELATED DOCUMENT:

TCA Spreadsheet (Subledger)

TCA Procedures

Purchasing Policy

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Appendix A

Tangible Capital Asset Policy

Useful Life and Thresholds

Asset Class	Asset Sub Class	Pooled	Useful Life	Threshold
Land	Vacant Land, Land Under Buildings, Land In Use		N/A	None
Land Improvements	Land Improvements including: Outdoor Pools Lighting Ball Diamonds, Running Tracks, Soccer Fields Basketball Courts, Tennis Courts, Running Tracks Splash Pads, Skateboard Parks Parking lots Landscaping, including Outdoor Skating Rinks Steel Structures Irrigation Systems Water Fountains/Ponds/Boat Ramps Lawn Bowling Greens/Bocci Courts Playground Apparatus Beach Volleyball Courts Fencing/Screening		25 yr 20 yr 20 yr 20 yr 20 yr 20 yr 20 yr 15 yr 15 yr 10 yr 20 yr	\$15,000 \$5,000 \$3,500
Buildings	Major Facilities (by component) Main Building Roof HVAC/Electrical/Mechanical Elevator Indoor Pools Indoor Skating Rinks		50 yr 20 yr 20 yr 20 yr 20 yr 25 yr	\$5,000
	Minor Facilities Includes park pavilions, storage sheds, canteens, washrooms, change rooms, club houses.		30 yr	\$5,000
Vehicles	Boats Light (< 4,500kg) Medium (4,501 – 9,000kg) Heavy (> 9,000kg)		7 yr 5 yr 10 yr 15 yr	\$5,000
Machinery & Equipment	Computer Software Communication Computer Hardware Library Books Other Machinery & Equipment Light Medium Heavy	X X X X X X X	1 yr 5 yr 5 yr 7 yr 5 yr 10 yr 15 yr	\$5,000
Furniture & Fixtures	Furniture & Fixtures	X	20 yr	\$5,000
Infrastructure	All Roads (by component) Paved road surface Road bed – paved Road bed – unpaved		25 yr 50 yr 30 yr	\$50,000
	Traffic Signals Street Lights Signs		20 yr 20 yr 20 yr	\$5,000
	Bridges (by component) Bridge Superstructure		75 yr	\$50,000

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	Bridge Deck – treated as paved road surface Culverts	X	25 yr 75 yr	
	Sidewalks (Concrete & Bricked/Asphalt/Gravel) Driveways (Concrete & Bricked/Asphalt/Gravel)	X X	40/25/15 yr 40/30/25 yr	\$50,000
	Water Systems (by component) Water Mains (includes valves & fittings) Chambers & Vaults (for valves & meters) Hydrant Assemblies Water Services (includes fittings) Water Meters (< 1.5"/1.5" or larger)	X X X X X	80 yr 80 yr 60 yr 50 yr 20/15 yr	\$50,000
	Sanitary & Storm Sewers (by component) Sewers Mains & Tunnels (Storm/Sanitary/Combined) Pipe & Tunnel Linings Laterals (includes fittings) Manholes, Shafts & Chambers Catchbasins & Leads Outfall structures & Retention ponds Pump Station Structural/Equipment	X X X X X X X	80 yr 80 yr 80 yr 80 yr 80 yr 80 yr 50/15 yr	\$50,000
Work-in-process	Construction in progress Assets not ready for use (e.g. vehicle readiness)		N/A	None

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Appendix B

Functional Asset Classes

Functional Area	Operational Area
General Government	Governance (Mayor, City Manager, Clerks: Communication, Council, Legal) General Administration (Finance/Treasury, Human Resources)
Protection of People & Property	Building & Bylaw Enforcement Fire
Transportation	Roadways, sidewalks, works and traffic control Transit Parking Street lighting Airport
Environmental Services	Sanitary sewer system Storm sewer system Waterworks system
Health Services	Public health services Cemeteries
Social/Family	Assistance to aged persons
Recreation & Culture	Facilities Parks and Recreation Services Library
Planning & Development	Planning Economic Development

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Appendix C

Surplus Asset & Disposal Form

Today's Date: _____

Date of Change: _____

Department: _____

Location: _____

Contact: _____

Telephone/Ext: _____

Item Description: (include quantity, manufacturer, model #, serial #, and brief description of each item)

Disposition:

Redeployment Department transferred to: _____

Trade-in Amount received for trade-in: _____

Sale Net proceeds of sale: _____

Appropriate taxes charged on sale GST PST N/A

Used for Parts Department (if not internal): _____

Scrap Net proceeds/(cost) of disposal: _____

Donation Donee: _____

Storage Location: _____

Demolished Contract to: _____

Destroyed/Damaged Insurance information: _____

Other Explanation: _____

NOTE: Provide detailed information to ensure disposal recorded according to policy and procedures.
Where documentation too extensive for inclusion, provide contact information, if different from above.

Condition:

Excellent/good Reason for removal from service: _____

Fair _____

Poor/Beyond repair _____

Stolen Insurance information: _____

Destroyed _____

Damaged _____

Potentially hazardous* Explanation: _____

Finance Approval: _____

Date: _____

CAPITAL PROJECT CLOSE OUT REPORT

Project Name:	_____	Date (mm/dd/yyyy):	_____
Capital Sub-account #:	_____	Budget Year	_____
Department:	_____	Total Budget Amount	_____
Contact:	_____	(Budget amount equals the amount in Capital Budget)	

Revenue/Funding

- Transfer from Operating Fund
- Federal Gas Tax Funding
- Debenture
- Grant
- Cost Sharing
- Other

Total Revenue/Funding	_____	\$0.00
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Capital Expenditures

- Outside Consulting
- Outside Contracts
- Other Costs

Total Asset Cost	_____	\$0.00
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Operating Expenditures (Excluded from Asset Cost)

- Outside Consulting
- Outside Contracts
- Other Costs

Total Operating Expense	_____	\$0.00
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Total Project Cost	_____	\$0.00
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Net Project Variance	_____	\$0.00
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For Use by Department
Explanation for project variance:

For Finance Department Use Only
Recommended Distribution of Funds
<i>Project Surplus</i>
<i>Project Deficit</i>

Disclaimer

As of _____ (mm/dd/yyyy) all known costs have been charged to this capital project. Any additional charges incurred due to one year final inspections or contractor deficiencies will be charged to the Post Capital Project Fund.

Tangible Capital Asset(s) - Inventory Addition Form

Project Name: 0
Capital Sub-account #: 0
Department: 0
Contact: 0

In Service Date (mm/dd/yyyy): _____
1 _____

In Service Date (mm/dd/yyyy): 09/30/2008
2 _____

In Service Date (mm/dd/yyyy): 09/30/2008
3 _____

Total Tangible Asset Cost

\$0.00

(Total tangible capital asset cost equals total asset cost reported above)

For Use by Department (for Inventory Addition Tracking)

Geographical Information System (GIS) or Inventory Database

Updated on (mm/dd/yyyy): _____

By: (signature) _____

For Finance Department Use Only

Date received (mm/dd/yyyy): _____

Updated in Sub ledger: _____

Updated by: _____