



# Hamlet of Cambridge Bay By-Laws

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| <b>By-Law Name:</b> | Tangible Capital Asset By-Law |
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| <b>By-Law Number:</b> | 234 |
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## Description

A By-law of the Municipal Corporation of the Hamlet of Cambridge Bay in the Nunavut Territory to provide for the Naming of Municipal Roads and the Numbering of Buildings, pursuant to the Hamlets Act, R.S.N.W.T., 1988 S. 54.2, 144 (3).

## By-Law

WHEREAS it is in the best interest for Council to establish a process for the accounting for Tangible Capital Assets under the stewardship of the Municipal Corporation.

WHEREAS the Municipal Corporation of the Hamlet of Cambridge Bay, in a duly assembled meeting enacts as follows:

## Short Title

1. This by-law may be cited as the **Tangible Capital Asset By-Law**

## Interpretation

2. In this By-Law

|                         |   |
|-------------------------|---|
| “Capital assets”        | means non-financial assets having physical substance;   |
| “Amortization”          | means a rational and systematic manner of allocating the cost of an asset over its estimated useful life; |
| “Threshold”             | means the value over which an asset will be recorded;   |
| “Estimated useful life” | means the estimate of the period over which a capital asset is expected to be used; and                   |
| “Residual value”        | means the estimated net realizable value of a capital asset at the end of its estimated useful life.      |





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## Hamlet of Cambridge Bay, NU By-Law No. 234 – Schedule A TANGIBLE CAPITAL ASSET

### TANGIBLE CAPITAL ASSET POLICY FOR NUNAVUT MUNICIPALITIES

|                            |  |
|----------------------------|--|
| <b>Municipality:</b>       | (name)   |
| <b>Subject:</b>            | Accounting for Tangible Capital Assets                                     |
| <b>Type:</b>               | Administrative   |
| <b>Authority:</b>          | (municipal bylaw/resolution)   |
| <b>Responsible Agency:</b> | Monitoring and Evaluation, Department of Community and Government Services |
| <b>Last Updated:</b>       | October 2, 2008  |
| <b>Version:</b>            | 1.1  |
| <b>Updated by:</b>         | Michael Hughson, Manager Monitoring & Evaluation                           |

#### **Purpose:**

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

#### **Background:**

PS 3150 is an accounting standard published by the Public Sector Accounting Board (PSAB) that sets the standard on the reporting of tangible capital assets by governments and public sector organizations.

PSAB is a board authorized by the Canadian Institute of Chartered Accountants (CICA) to issue recommendations and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending and gaining acceptance of accounting, financial reporting and auditing standards of good practice.

CICA is an organization that sets the accounting and auditing standards for business, not-for-profit organization and government.

Generally Accepted Accounting Principles, or GAAP is the term used to describe the basis on which financial statements are usually prepared.

#### **Scope:**

This policy applies to all Municipal Corporations, boards and commissions, agencies and other organizations falling within the reporting entity of the Municipality.

This policy will be reviewed and updated by the end of the third quarter of every fiscal year.



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## Municipal Policy:

### Legislation

1. The *Hamlets Act and The Cities, Towns & Villages Act, Section 144(3)* states “The financial statements must be prepared (a) in accordance with an appropriate disclosed basis of accounting; (b) on a basis consistent with that of the preceding fiscal year or another disclosed basis; (c) in accordance with the generally accepted accounting principles recommended from time to time by the Canadian Institute of Chartered Accountants; and (d) in accordance with guidelines issued by the Minister.”
2. The policy is effective from January 1, 2009.

### Municipal Responsibilities

3. Title or ownership of capital assets rests with the municipality. A Municipal Corporation generally has stewardship of a capital asset if it provides for its operation and maintenance and controls the ability to change the asset's future service potential. The Administration is responsible for maintaining accounting records and preparing reports for capital assets.
4. For capital assets under their stewardship, administration is required to:
  - manage them to provide effective, efficient and economical program delivery;
  - establish and maintain accounting systems to collect, record and report information; and
  - establish and maintain adequate internal control systems to ensure the accuracy and reliability of information and reports.

### Capital Asset Categories

5. Capital assets are assigned to the categories outlined in Schedule B based on their nature, characteristics and useful life.
6. Where the Municipal Corporation is uncertain as to which category a capital asset belongs, or where no appropriate category exists, they will contact the Department of Community and Government Services.

### Excluded Assets

7. The following assets will not be capitalized and amortized under this policy:
  - land (or other assets) acquired by right, such as Crown, water and mineral resources;
  - works of art and historical treasures; and
  - Intangible assets such as patents, copyrights and trademarks.

### Costs



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8. Tangible capital assets are recorded at cost.
9. Where several capital assets are purchased together, the cost of each asset is determined by allocating the total price in proportion to each asset based on their relative fair value at the time of acquisition.
10. The cost of a constructed asset includes direct construction or development costs such as materials, labour and overhead costs directly attributable to the construction or development activity. Capitalization of administrative costs will be limited to salaries, benefits and travel for staff directly involved in project delivery (e.g., project management or construction).
11. Interest expense related to financing costs incurred during the time a capital asset is under construction or development is included in the cost of the capital asset until construction is substantially completed and the asset is placed into service.
12. Where the construction or development of a capital asset occurs over several years, capital costs are accumulated until the asset is ready for use.
13. A work in progress account is established to allow work in progress capital costs to be tracked separately from capital assets subject to amortization.
14. If the construction or development of a capital asset is aborted, delayed for more than one year, or unlikely to be completed to a usable state, the costs that would otherwise be capitalized are expensed in the same fiscal year.

### **Thresholds**

15. Schedule C outlines the thresholds for each capital asset category.
16. Capital assets not meeting the thresholds are expensed in the year in which they are purchased. Costs for these assets are referred to as capital-type expenses.
17. Thresholds are applied on an individual asset or per item basis.

### **Estimated Useful Life**

18. All capital asset categories have predetermined estimated useful lives as outlined in Schedule C. The estimated useful lives specified are intended to apply to assets in new condition.
19. When used assets are acquired the estimated useful lives will be reduced based on the age and condition of the asset.



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### **Amortization**

20. Amortization is calculated using the straight-line method based on the estimated useful life of each asset.
21. Land has an unlimited estimated useful life and will not be amortized.
22. Amortization is calculated based on the full cost of the capital asset. Where an asset's residual value is expected to be significant in comparison to its costs (20% or more), the amount is deducted from the cost before calculating amortization.
23. A full year's amortization is recorded in the year of acquisition, construction and development or when the asset is placed in service, regardless of when this event occurs in the fiscal year.
24. No amortization is recorded in the year an asset is disposed of. This does not apply to disposals being considered.
25. No amortization is recorded on a work in progress or capital asset which has been removed from service but not yet disposed of.

### **Disposals**

26. When a capital asset is disposed of, the cost and accumulated amortization are reversed in the accounting records and any gain or loss on disposal is recognized.
27. Costs of disposal paid by the municipality should be expensed.

### **Write-downs**

28. Conditions that may indicate that a write-down is required include (i) an expectation of providing services at a lower level than originally planned, (ii) a change in use of the asset, (iii) technological advances which render the asset obsolete or other factors such as physical damage which reduces the asset's service potential. Documentation for write-down must be retained.
29. Any write-down of tangible capital assets must be recommended by the Senior Administrative Officer and approved by the Mayor and the Council of the Municipality by resolution.
30. Write-downs of capital assets will be accounted for as an expense in the period it occurs.
31. Annual amortization of an asset that has been written down should be calculated using the net book value after the write-down and the remaining estimated useful life.



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32. Regardless of any change in circumstances, a write-down should not be reversed.

### **Betterments**

33. Betterments which meet the threshold of the applicable capital asset category are capitalized, otherwise, they are expensed.

34. Where a betterment increases the estimated useful life of a capital asset, its useful life should be changed.

35. Where a betterment involves the replacement of an identifiable component of a capital asset, the original cost of that component and the related accumulated amortization should be removed from the accounting records.

### **Capital Contributions**

36. When the municipality receives funds from a third party, such as from the Territorial or Federal Governments, to assist with the construction or purchase of a capital asset, the full cost of the asset will be recorded. The funds received will be recognized as revenue.

### **Definitions:**

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

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

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

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

- 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;
- have useful lives extending beyond a year and are intended to be used on a continuing basis; and
- are not intended for sale in the ordinary course of operations.
- Identified by each category of Schedule “B”.



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**Capital-type expenses** are costs for assets that meet the definition of a capital asset but are less than the cost 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 sale.

**Gain/Loss on Disposal** is the difference between the net proceeds received and the net book value of an asset and is accounted for as a revenue or expense, respectively, in the period the disposal occurs.

**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.

**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.

**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



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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. In other words the normal expected life of the same.

**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 value over which an asset will be 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. Examples of work in progress are the construction of a new road or building or the development of an asset which occurs over several years. Work in progress would also include down payments and deposits which are to be applied to the cost of a capital asset.

**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. If a capital asset is deemed to have no economic potential, and is fully written down, it is termed a **write-off**. A write-down or write-off will be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

### Capital Asset Categories

The following table lists the capital asset categories and examples of assets and costs included in each category.

| Capital Category                  | Asset | Examples of Capital Assets   | Examples of Capital Asset Costs   |
|-----------------------------------|-------|--|---|
| <b>Land and land improvements</b> |       |  |   |
| Land                              |       | <ul style="list-style-type: none"> <li>land acquired for parks, recreation and conservation purposes, building sites and other programs</li> <li>land acquired for construction of road surface, drainage areas and allowances or future expansions</li> </ul> | <ul style="list-style-type: none"> <li>Acquisition price</li> <li>Professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys</li> <li>Improvement and development costs such as land excavation, filling, grading, drainage,</li> </ul> |



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|   |   | demolition of existing buildings (less salvage)  |
| Land improvements                         | <ul style="list-style-type: none"> <li>Fencing and gates, parking lots, paths and trails, landscaping and swimming pools.</li> </ul>  | <ul style="list-style-type: none"> <li>Original purchase price or completed project costs including costs of material and labour or costs of a contractor</li> </ul>   |
| <b>Building and building improvements</b> |   |  |
| Buildings                                 | <p>A roofed and walled structure built for permanent use consisting of:</p> <ul style="list-style-type: none"> <li>buildings with fireproofed structural steel frames with reinforced concrete or masonry floors and roofs</li> <li>buildings with reinforced concrete frames and concrete or masonry floors and roofs</li> <li>operational storage facilities, sheds, small buildings, inventory storage buildings and pump houses</li> <li>timber framed buildings</li> </ul> | <ul style="list-style-type: none"> <li>original purchase price or completed project costs including basic costs of material and labour or costs of a contractor</li> <li>costs to remodel, recondition or alter a purchased building to make it ready to use for the acquired purpose</li> <li>preparation of plans blueprints, and specifications</li> <li>costs of building permits, studies, tests (pre-acquisition costs)</li> <li>professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys</li> <li>operating costs such as temporary buildings used during construction</li> </ul> |
| Building improvements                     | <ul style="list-style-type: none"> <li>major repairs that increase the value or useful life of the building such as structural changes, installation or upgrade of heating and cooling systems, plumbing, electrical, telephone systems</li> <li>improvements that increase the functionality of leased or similar accommodations</li> </ul>  | <ul style="list-style-type: none"> <li>complete project costs including basic costs of material and labour or costs of a contractor</li> <li>preparation of plans, blueprints, and specifications</li> <li>cost of building permits, studies, tests</li> <li>professional fees for architect, legal, engineering, appraisals, environmental surveys</li> <li>operating costs such as temporary buildings used during construction</li> </ul>   |
| <b>Machinery and equipment</b>            |   |  |



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| <p>Heavy equipment</p>                          | <ul style="list-style-type: none"> <li>• power and construction equipment such as graders, tractors, cranes, caterpillars, and trucks one tonne and over</li> </ul>  | <ul style="list-style-type: none"> <li>• original contract price or invoice price</li> <li>• freight charges</li> <li>• installation charges</li> <li>• charges for testing and preparation</li> <li>• costs of reconditioning used items when purchased</li> <li>• parts and labour associated with the construction of equipment</li> </ul> |
| <p>Operating equipment</p>                      | <p>Include but not exclusive to:</p> <ul style="list-style-type: none"> <li>• equipment specific to maintenance, shop and sanitation, safety, appliances, and communication equipment. Forklifts, welding machines, utility trailers, security systems, snow plows, radios, freezers, refrigerators, washers and meters.</li> </ul>  | <ul style="list-style-type: none"> <li>• original contract price or invoice price</li> <li>• freight charges</li> <li>• installation charges</li> <li>• charges for testing and preparation</li> <li>• costs of reconditioning used items when purchased</li> <li>• parts and labour associated with the construction of equipment</li> </ul> |
| <p><b>Transportation equipment</b></p>          |  |   |
| <p>Vehicles</p>                                 | <ul style="list-style-type: none"> <li>• used primarily for transportation purposes such as automobiles, trucks under one tonne, vans, boats, all terrain vehicles, snowmobiles, motorcycles, and ambulances</li> <li>• fire trucks</li> <li>• buses</li> <li>• Light Duty (passenger)</li> <li>• Medium Duty (water/sewage distribution) vehicles in excess of 1 ton</li> </ul> | <ul style="list-style-type: none"> <li>• original contract price or invoice price</li> <li>• freight charges</li> <li>• costs of reconditioning used items when purchased</li> </ul>  |
| <p><b>Office and information technology</b></p> |  |   |



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| System development             | <ul style="list-style-type: none"> <li>consultant fees, web site development and custom develop software</li> </ul>   | <ul style="list-style-type: none"> <li>external direct costs of materials and services such as consultant fees</li> <li>web site development costs</li> <li>costs to acquire software and any custom development</li> <li>salary and related benefits of employees directly associated with the application development stage</li> <li>costs of upgrades that improve the functionality of the system</li> </ul> |
| Computer software              | <ul style="list-style-type: none"> <li>off the shelf software and related upgrades, software licenses after removing any maintenance or similar charges</li> </ul>                | <ul style="list-style-type: none"> <li>purchase price of off the shelf software and related software upgrades in excess of threshold.</li> <li>installation charges</li> </ul>   |
| Computer hardware              | <ul style="list-style-type: none"> <li>servers, voice logging equipment, scanners, printers, hard drives, modems, tape drives</li> </ul>  | <ul style="list-style-type: none"> <li>purchase price</li> <li>installation charges</li> <li>freight and transit charges</li> </ul>  |
| Office furniture and equipment | <ul style="list-style-type: none"> <li>desks, tables, chairs, filing cabinets, fax machines, photocopiers, videoconferencing stations, projectors, and digital cameras</li> </ul> | <ul style="list-style-type: none"> <li>original contract price or invoice price</li> <li>freight and installation charges</li> <li>costs of reconditioning used items when purchased</li> <li>parts and labour associated with the construction of furniture</li> </ul>  |
| <b>Infrastructure</b>          |   |  |
| Roads/culverts construction    | <ul style="list-style-type: none"> <li>Municipal roads and culverts within the built up area</li> <li>Access roads and culverts within municipal border</li> </ul>                | <ul style="list-style-type: none"> <li>direct costs of construction including tender construction costs, labour, materials, survey costs, and project specific design costs</li> <li>construction and material costs related to overhead structures, culverts and signage</li> <li>salary and travel costs for employees assigned to the</li> </ul>  |



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|                       |  | project for direct management duties such as project management, inspection and quality control  |
| Roads – repaving      | <ul style="list-style-type: none"> <li>Major resurfacing and preservation overlays on municipal roads within the built up area and access roads within municipal border</li> </ul>                                     | <ul style="list-style-type: none"> <li>direct costs of construction including labour and materials</li> <li>salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control</li> </ul>   |
| Roads - other         | <ul style="list-style-type: none"> <li>Light systems (traffic, outdoor), new signage initiative and aggregate acquisition costs within the built up area</li> <li>Power poles, power lines and street lamps</li> </ul> | <ul style="list-style-type: none"> <li>original purchase price</li> <li>installation charges</li> <li>charges for testing and preparation</li> <li>parts and labour associated with construction and installation</li> </ul>   |
| Water infrastructure  | <ul style="list-style-type: none"> <li>docks, sewer systems, sewage lagoons, reservoirs, pumping facilities, pipes, water intake, tanks and associated non mobile infrastructure</li> </ul>                            | <ul style="list-style-type: none"> <li>original purchase price</li> <li>direct costs of construction including labour and materials</li> <li>salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control</li> </ul>                              |
| Engineered structures | <ul style="list-style-type: none"> <li>Bridges within the municipal boundary</li> </ul>  | <ul style="list-style-type: none"> <li>direct costs of construction including tender construction costs, labour, materials survey costs and project specific design costs within the built up area of the community</li> <li>salary and travel costs for employees assigned to the project for direct management duties such as</li> </ul> |



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|                      |   | project management, inspection and quality control   |
| Other infrastructure | <ul style="list-style-type: none"> <li>• Snow fences</li> <li>• Playground and other recreational facilities</li> </ul> | <ul style="list-style-type: none"> <li>• costs that support infrastructure but are not included in any other category</li> </ul>   |
|                      | <ul style="list-style-type: none"> <li>• Landfills, solid waste sites</li> </ul>  | <ul style="list-style-type: none"> <li>• Until such time that ownership of these facilities has been clarified by both the Territorial and Federal Governments, this will be covered within Note 8 of the audited Statements, and will not be listed as a Tangible Capital Asset.</li> </ul> |



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### Capital Asset Thresholds, Estimated Useful Lives and Amortization

The table below outlines the threshold and estimated useful life application to each capital asset category. A threshold of ALL means that all capital asset purchases, regardless of cost, are recorded.

| Capital Asset Category   | Threshold (\$) | Estimated Useful Life | Amortization  |
|--|----------------|-----------------------|---------------|
| <b>Land and land improvements</b>                                  |                |                       |               |
| Land   | All            | Indefinite            | N/A           |
| Land improvements  | 10,000         | 18 years              | Straight-line |
| <b>Buildings and building improvements</b>                         |                |                       |               |
| Buildings  | 10,000         | 40 years              | Straight-line |
| Building improvements  | 10,000         | 40 years              | Straight-line |
| <b>Machinery and equipment</b>                                     |                |                       |               |
| Heavy equipment  | 10,000         | 18 years              | Straight-line |
| Operating equipment  | 10,000         | 15 years              | Straight-line |
| <b>Transportation equipment</b>                                    |                |                       |               |
| Vehicles   | 10,000         | 7 years               | Straight-line |
| Fire trucks  | 10,000         | 20 years              | Straight-line |
| <b>Office and IT</b>   |                |                       |               |
| Office furniture and equipment                                     | 5,000          | 5 years               | Straight-line |
| System development – Packaged system                               | 10,000         | 3 years               | Straight-line |
| Computer hardware and software                                     | 5,000          | 3 years               | Straight-line |
| Non-depreciable Office and IT capital-type expense (nominal value) | 1,000          | N/A                   | N/A           |
| <b>Infrastructure</b>  |                |                       |               |
| Road/Culverts – Construction                                       | All            | 30 years              | Straight-line |
| Road – Repaving  | All            | 10 years              | Straight-line |
| Road – other   | All            | 30 years              | Straight-line |
| Engineered Structures  | 10,000         | 30 years              | Straight-line |
| Water infrastructure   | 10,000         | 30 years              | Straight-line |
| Infrastructure – other   | 10,000         | 30 years              | Straight-line |
| <b>Other</b>   |                |                       |               |
| Works of art and historical treasures (nominal value)              | All            | Indefinite            | N/A           |