

Council Policy

Policy Name: Capitalization
Department Name: Finance Services
Policy No.: FIN-040
Effective Date: January 20, 1987

Review Date:

STATEMENT:

The City of Fort McMurray will provide for a method of determining the classification of expenditures for capitalization purposes.

PURPOSE AND OBJECTIVE:

The objective of this policy is to:

1. Provide City employees with guidelines for classifying expenditures as capital items.
2. Provide City employees with direction on the budgeting and accounting for capital acquisitions.

PROCEDURES:

1. Definitions

- 1.1. Approved Project - A capital acquisition approved by the Council of the City of Fort McMurray.
- 1.2. Capital Acquisition - The purchase or construction of a building, engineering structure, land and mobile equipment having a useful life of three (3) years or more and valued at \$7,500 or more per item.
- 1.3. Capital Study - A study which relates to an approved capital acquisition.
- 1.4. Consulting Fees - Fees charged which relate to an approved capital acquisition.
- 1.5. Freight Charges - Those charges incurred to deliver the capital acquisition to its designated location.

2. Responsibilities

- 2.1. City Council to:
 - 2.1.1. Approve amendments to the policy.
 - 2.1.2. Approve Capital Budgets and amendments thereto.

- 2.2. Commission Board to:
 - 2.2.1. Review policy recommendations and recommend policy to Council. Review Capital Project submissions and recommend budgets to City Council.
- 2.3. City Treasurer to:
 - 2.3.1. Ensure the policy is enforced and applied to the City's accounting procedures.
 - 2.3.2. Ensure ongoing reviews of the policy are made to reflect changing conditions and legislation.
 - 2.3.3. Ensure recommendations from any reviews are submitted for approval and implementation.
- 2.4. Department Head to:
 - 2.4.1. Ensure all transactions falling within the capital definition are properly coded.
 - 2.4.2. Ensure yearly budgets are prepared using all guidelines within the policy.
- 2.5. Financial Planning Officer to:
 - 2.5.1. Ensure that the City Budgeting System is in accordance with the policy.

3. Guidelines

- 3.1. Capital acquisitions, including Mobile Equipment Buildings and Engineering Structures must have a useful life of three (3) years or more and the value of a single item must be \$7,500 or more. Any capital asset additions not meeting both of these criteria will be written off as an expense in the year acquired.
- 3.2. Studies are capitalized where the costs relate specifically to a capital project approved by Council. If the costs relate to a feasibility study which is required to make recommendation on a proposed project, then these costs are not to be capitalized, but funded from the Operating Budget.

Studies undertaken for approved projects which are subsequently cancelled are to be funded from the Operating Budget in the year following the cancellation.
- 3.3. Software - Costs associated with the acquisition of software may relate to in-house development or external purchase. Where software is acquired from software houses, the copyright laws/agreements do not allow sales to others. With this, we do not have an asset. While software may have a useful life of more than three (3) years, and usually exceeds \$7,500, these items are not to be capitalized.

- 3.4. Asset Refurbishing/Replacement - Where existing assets are replaced or refurbished, these costs will be considered as operating expenditures unless the refurbishing occurs after five (5) years from the date of purchase and is deemed to extend the assets useful life by five (5) years or more. (Note: the \$7,500 limit does apply).
- 3.5. Small Equipment and Furniture - Purchases will be reviewed for capitalization on a piece-by-piece basis where group purchases and bulk ordering will not be taken into consideration where each individual item is not over \$7,500. The three (3) year life rule must always be applied.
- 3.6. Freight Charges - Where capital acquisitions are undertaken, the freight charges will be included in the purchase price charged to the project and capitalized accordingly.
- 3.7. Computer Hardware - Hardware with a purchase price in excess of \$7,500 will be capitalized. However, CRT's and PC's are not capital.
- 3.8. Grants and Contributions to Organizations:
 - 3.8.1. These are provided to institutions such as colleges, schools, other boards and community groups for Capital purposes. Ownership of the grant funded asset is the key to capitalization. If we have an agreement with the institution to enter into a joint venture and physical ownership rests with the participants, then we must record this contribution as a capital asset. Should we make a contribution to a third party and only gain the right to access the project, then we have what is labelled as "other assets" and not a capital asset. Where the funds are expended for such purposes, the asset is recorded and written down by the principal portion of the yearly debenture payment. This applies in situations where we debenture finance such contributions to the third party.
 - 3.8.2. Where contributions are made and debenture financing is not required, then these disbursements are treated as current year operating costs.

APPROVAL, MANAGEMENT AND REFERENCES:

This policy shall be reviewed in three (3) years from its effective date to determine its effectiveness and appropriateness. This policy may be assessed before that time as necessary to reflect organizational change.

Approving Authority: City Council
Approval Date: January 20, 1987

Revision Approval Dates:
Review Due:

Policy Manager: Director, Finance Services
Department Contact: Manager, Finance Services

Legal References:
Cross References: