

CORPORATION OF THE TOWNSHIP OF SOUTH ALGONQUIN

SUBJECT:	ACCOUNTING FOR TANGIBLE CAPITAL ASSETS			
TYPE:	FINANCE	POLICY NO. FIN-001-00		
DATE:	REVIEW DATE:	FREQUENCY:	REL. BY-LAW:	PAGE #:
November 2008	November 6, 2008	As Required	08-328	1 of 25
Revisions				
August 5, 2008 Reformatted				
November 6, 2008 New Policy				

I. Legislation:

Public Sector Accounting Board 3150, requires municipal financial statements to be prepared in accordance with generally accepted accounting principles for municipal governments recommended by the Canadian Institute of Chartered Accounting

II. Purpose:

The object of this policy is to outline the accounting and reporting requirements for tangible capital assets so that users of the financial report can understand information about the investment in property, plant and equipment and the changes in such investment.

The principle 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 guidelines and procedures to:

- a) protect and control the use of all tangible capital assets;
- b) provide accountability over tangible capital assets; and
- c) the gathering and maintenance of information needed to prepare financial statements.

III. Scope:

This policy applies to all Municipal departments and committees falling within the reporting entity of the Municipality.

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IV. Definitions:

See Appendix “A” for general definitions to some of the terminology within and surrounding tangible capital asset accounting.

V. Procedure:

1. ASSET CATEGORIES:

For financial statement purposes tangible capital assets shall be classified using two distinct categories. The first is a “primary” category, which describes what an asset objectively is. The second category is the “functional” service area in which the asset is used.

The list of primary asset categories to be utilized is as follows: (refer to Appendix “B” for more details)

- Land;
- Buildings;
- Equipment;
- Motor Vehicles;
- Computer Systems (hardware and software)
- Furniture and Fixtures;
- Roads;
- Bridges;

The list of function asset categories follows the Ministry of Municipal Affairs and Housing Financial Information Return including, but not limited to:

- General Government (Admin)
- Protection Services (POA / Emergency)
- Transportation Services (Roads)
- Environmental Services (Storm Sewer)
- Health Services (Ambulance / Public Health)
- Social and Family Services (Homes for the Aged and Social Services)
- Social Housing
- Planning and Development (Forestry, Zoning)

2. ASSET VALUATION:

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use. Refer to Appendix “B” for more details and the criteria involved in assigning a value to newly purchased or constructed asset.

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a) Purchased Assets

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

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

b) Acquired, Constructed or Developed Assets

Cost includes all amounts 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 (such as the salary of a director), which are not directly attributable, is not permitted.

Capitalization of carrying costs ceases when no construction or development is taking place or when the tangible capital asset is ready for use.

c) 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.

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.

d) 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 by an estimate or replacement cost. Ancillary costs should be capitalized.

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e) Capital Contributions

When the Municipality receives or received funds from a third party, such as the provincial or federal government, to assist with the construction or purchase of a capital asset, the full cost of the asset should be recorded. The funds received should be recognized as revenue.

f) Excluded Assets

The following assets should not be capitalized and amortized:

- land (or other assets) acquired by right, such as Crown, forests, water and mineral resources;
- works of art and historical treasures; and
- intangible assets such as patents, copyrights and trademarks.

6.8 Assets Held for Sale

Assets held for sale which otherwise would have been reported as capital assets may be required to be reported as financial assets.

3. ASSIGNING ASSETS VALUES - VALUATION TECHNIQUES:

Descriptions of the valuation techniques that are to be used to record the historical (pre January 1, 2008) tangible capital asset inventory of the Municipality.

a) Historical Cost

This should be the goal for all assets acquired within the terms specified in the records retention by-law (for accounts payable – it is seven years). For items purchased/constructed within this period, there should be an electronic or paper version of the invoice and/or job cost report. Any applicable overhead costs that were directly attributed to this acquisition, would also be added to the invoice/job cost amount to arrive at the true historical cost of the asset.

This method should only be used when the source invoice and/or job costing is readily obtainable. In cases where the cost/effort of obtaining the necessary documents would outweigh the benefits of doing so, an alternative method should be considered.

b) Deflated Reproduction Cost

This technique is the second method of choice for valuation. It is to be used when the asset in question can be purchased (e.g. backhoe) or reproduced (e.g. road) today in the same physical form. Today's price or cost is then deflated (discounted) back to the year of the asset's acquisition to generate an estimate of the historical cost. The deflation calculation will be performed using the Consumer Price Index or other indices specific to the asset.

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In some cases, it may be possible to reproduce an asset in the same physical form, but recent technological advances have made the asset (in its current physical form) obsolete. In this case, the deflated replacement cost should be considered.

c) Deflated Replacement Cost

This technique is the third method of choice for valuation. It is to be used when the asset in question is no longer available for purchase or reproduction in the same physical form. In this case, the cost of replacing or reproducing the asset in a different physical form (to perform the same task) today is used as the cost base for which to deflate back to the date of acquisition.

As an example, this method would be used to value a piece of machinery that is technologically obsolete (and is no longer available for purchase), but is still functioning well for the Municipality. To assign a historical cost, the current cost for a new piece of machinery that performs the same task (with the new technology) would be used as the cost base for which to deflate back to the year of purchase and subsequently amortize.

The deflation calculation will be performed using the Consumer Price Index or other indices specific to the asset.

d) Appraisal

This technique is the fourth method of choice for valuation. It uses a professional assessment of what it would cost to replace the asset today. Today's price or value is deflated back to the year of the asset's acquisition to produce the approximate historical cost.

The deflation calculation will be performed using the Consumer Price Index or other indices specific to the asset.

This method is most useful for land and buildings.

4. 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:

- i) Major components have significantly different useful lives and consumption patterns than the related tangible capital asset.
- ii) Value of components in relation to the related tangible capital asset.

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a) Asset Components

For assets that have been or should be recognized individually, a reasonable split can be allocated to each component of the asset. In the example of a road construction project, a percentage must be allocated to the surface portion (asphalt/gravel, etc.) and a percentage must be allocated to the roadbed portion (all subsurface components). It is important that this allocation be used consistently for all similar road projects, unless there is evidence to prove that the split should be calculated differently in isolated cases.

5. CAPITAL LEASES:

Capital leases are a means of financing the acquisition of a capital asset where the lessee carries substantially all of the risks and benefits of ownership. Capital leases are recorded as if the lessee had acquired the asset and assumed a liability.

If one or more of the following criteria exists, the lease should be accounted for as a capital lease:

- There is reasonable assurance that the Municipality will obtain ownership at the end of the lease. (Transfer of ownership occurs at the end of the lease or the lease has a bargain purchase option.)
- The Municipality will receive substantially all of the economic benefits of the assets. (The lease term is 75% or more of the economic life of the asset.)
- The lessor is assured of recovering the investment in the asset and earning a return. (The net present value of the future minimum lease payments or fair value, which ever is less, is less than \$10,000.)

Where at least one of the conditions in the preceding paragraph is not present, other factors may indicate that a capital lease exists. For example:

- The Municipality owns or retains control of the land on which a leased asset is located and the asset cannot be easily moved;
- The Municipality contributes significant assistance to finance the cost of acquiring or constructing the asset that it will lease; or
- The Municipality bears other potential risks, such as obsolescence, environmental liability, uninsured damage or condemnation of the asset and any of these are significant.

Operating leases are leases in which the lessor does not transfer substantially all the benefits and risks of ownership. If the arrangement is an operating lease, lease payment should be expensed and no liability recorded.

If the arrangement is a capital lease, the Municipality should apply the thresholds of the appropriate capital asset category.

If the Thresholds are not met, an expense and a liability should each be recorded for the present value of the minimum lease payments.

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If the thresholds are met, a capital asset and a liability should each be recorded for the present value of the minimum lease payments. The leased asset should be amortized over the lesser of the lease term or estimated useful life for similar capital assets as outline in Appendix “C”.

Executory and maintenance costs should be excluded when calculating minimum lease payments. The discount rate should be the lesser of the Municipality’s incremental borrowing rate or the interest rate implicit in the lease, if determinable.

6. WORK IN PROGRESS:

Tangible capital assets that are to be developed or constructed shall be recorded as “Capital Work in Progress”. Where the construction or development of a tangible capital asset occurs over several years, capital costs should be accumulated until the asset is ready for use. Identify these costs as work is in progress for any interim and year-end reporting. A work in progress account should be established to allow work in progress capital costs to be tracked separately from assets subject to amortization. Any interest (paid or accrued) that is directly attributable to the construction/development project shall be capitalized up to the “in service date”. “Work in progress” would also include down payments and deposits which are to be applied to the cost of a capital asset. Amortization shall begin on the earlier of the day that the asset goes into service or that ownership / responsibility / control is transferred to the Municipality. Subsequently, the asset will be transferred from “Capital Work in Progress” to the applicable asset category. 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.

7. THRESHOLDS:

The threshold for each category represents the minimum cost an individual asset must have before it is to be recorded as a capital asset on the financial statement. Capital assets not meeting the threshold are expensed in the year in which they are purchased. Costs for these assets are referred to as capital-type expenses. Thresholds should be applied on an individual asset or per item basis.

Tangible capital assets shall be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds: (refer to Appendix “C” for more details)

- a) all lands;
- b) all buildings;
- c) civil infrastructure systems / Linear assets (built assets such as roads, bridges, communication networks, etc.) with unit cost of \$25,000 or greater;
- d) all others with unit cost of \$5,000 or greater.

Studies and other initiatives that relate *directly* to the acquisition of a tangible capital asset shall be capitalized. If the study/initiative does not relate *directly* to the acquisition of a tangible capital asset, then the expense shall be recorded in the year(s) in which they occur.

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Expenditures that qualify as betterments to existing assets should be capitalized when unit costs exceed the threshold. Consult the General Definitions (Appendix “A”) to determine what will qualify as a betterment.

When recording relatively large assets such as a building or a road network, a decision must be made regarding the level of detail desired for that particular asset. Two principle options are available – the whole asset approach and the component approach. (refer to Appendix “A” for more information)

The Municipality will utilize a modified component approach, electing to record individual asset components where clearly beneficial, and to record the “whole asset” when the benefit is not evident

8. ESTIMATED USEFUL LIFE:

The estimated useful life is either the period over which a local government expects to use a tangible capital asset to provide services or useful life can be estimated based on its expected future use, effects of technological obsolescence, expected wear and tear from use or the passage of time, the level of maintenance and experience with similar assets. The life of a tangible capital asset may extend beyond its useful life but is normally the shortest of the physical, technological, commercial and legal life other than for land, which is indefinite. (refer to Appendix “A” for more information)

9. ASSET AMORTIZATION:

Guidance to selecting the appropriate method of amortization to be used, as well as the criteria used to determine the useful life of tangible capital assets.

a) Amortization

- i) All tangible capital assets shall be amortized on a straight-line basis (based on original life), except in conditions where it would be deemed more appropriate to use a different method. The Clerk shall approve any alternative methods considered.
- ii) Amortization will be calculated and posted to appropriate departments on an annual basis.
- iii) Land and land components of tangible capital assets (e.g. land on which a building is situated) shall be recorded at cost and not amortized.
- iv) Tangible capital assets shall be deemed to have no residual value for purposes of calculating amortization except in situations where the residual value is determined to be significant relevant to the asset in question. For items that have been fully amortized, any eventual sale proceeds received shall be recorded as a “gain on sale of asset”. Any costs relating to the disposal of a fully amortized item shall be recorded as a “loss” or an increase to a “loss on disposal of asset”.

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- v) Annual amortization expense shall be estimated and included in the annual budget of each respective operating unit. The actual amortization expense shall be charged against the operating unit.
- vi) Where applicable (refer to “Whole Asset / Component Approach” Appendix “A” General Definitions), capital assets may be segmented to identify the appropriate components of the system or network. With the components recorded as individual units, it will be possible to capitalize the new component and dispose of the old component, thus continually updating the capital cost. If the asset were not segmented, the appropriate accounting treatment of a partial replacement would be to expense in the year incurred (as it ultimately would not qualify as a betterment).
- vii) Estimates of useful life (for purposes of the monthly amortization calculation) will be determined by the Municipality based on reasonable assumptions. Land has an infinite life and is not amortized. Capital work in progress is not amortized. (refer to Appendix “C” for more details)

The Municipality will consider various other sources when making useful life estimates, including, but not limited to:

- Manufacturer estimates;
- Previous experience;
- Ontario Municipal Benchmarking Initiative documentation.

- viii) The useful life estimate for leasehold assets will be restricted by the terms of the lease agreement. The useful life will be the lesser of the actual estimate, and the sum of the number of years remaining in the current and ensuing lease terms.

10. DISPOSAL OF ASSETS:

Disposal of a tangible capital asset results in its removal from service as a result of sale, destruction, loss or abandonment. When a tangible capital asset is disposed of, the cost and the accumulated amortization should be removed from the account records and any gain or loss recorded. Costs of disposal paid by the Municipality should be expensed.

A gain or loss on disposal is the difference between the net proceeds received and the net book value of the asset and should be accounted for as a revenue or expense respectively, in the period the disposal occurs.

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Disposal of tangible capital assets that are moveable personal property is the responsibility of the Clerk unless delegated to operating departments. Department heads should notify the Clerk when assets become surplus to operations. Disposal of real property will be the responsibility of facilities services.

When other constructed tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the department head or designate must notify the Clerk of the asset description and effective date. The Clerk is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

11. WRITE-DOWNS:

A tangible capital asset should be written down when a reduction in the value of the asset's service potential can be measured and the reduction is expected to be permanent. Conditions that may indicate that a write-down is required include an expectation of providing services at a lower level than originally planned, a change in use for the asset, technological advances which render the asset obsolete or other factors such as physical damage which reduce the asset's service potential. Documentation for write-down should be retained. Write-downs of capital assets should be accounted for as an expense in the current period. 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. Regardless of any change in circumstances, a write-down should not be reversed.

12. BETTERMENTS:

Betterments are enhancements to the service potential of a tangible capital asset (subsequent expenditures on tangible capital assets) that fulfill one or more of the following requirements:

- a) a *significant increase* in the previously assessed physical *output* or service capacity;
- b) a *significant reduction* in associated operating *costs*;
- c) a *significant extension* of the estimated *useful life*; or
- d) a *significant improvement* in the *quality* of output.

For the purposes of this definition, "*Significant*" is deemed to be an increase of 15% or more to the original *output, cost, useful life, or quality*. Any other expenditure would be considered a repair or maintenance and should be expensed in the period.

Repairs and maintenance which are necessary to obtain the expected service potential of a tangible capital asset for its estimated useful life are not betterments. These costs should be expensed when incurred. They include:

- repairs to restore assets damaged by fire, flood, accidents or similar events, to the condition just prior to the event; and
- routine maintenance and expenditures, such as repainting, cleaning and replacing minor parts.

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Where a betterment enhances the service potential of a capital asset without increasing its estimated useful life, the amortization period should remain the same, but where a betterment increases the estimated useful life of a capital asset, its useful life should be changed. 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.

For all other categories of assets not shown, or in the event of disagreement on the interpretation or implementation of these policies and procedures, the Clerk shall make the final decision, guided by the Municipal Act, Public Sector Accounting Handbook Section 3150, and the Ontario Municipal Benchmarking Initiative's "Municipal Guide for Accounting for Tangible Capital Assets".

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**APPENDIX “A”
GENERAL DEFINITIONS**

The following table is to provide definitions to some of the terminology within and surrounding tangible capital asset accounting.

Amortization	<ul style="list-style-type: none"> ○ the cost, less any residual value “where significant”, 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.
Betterments	<ul style="list-style-type: none"> ○ are enhancements to the service potential of a capital asset (subsequent expenditures on tangible capital assets) that fulfill one or more of the following requirements: <ul style="list-style-type: none"> a) a <i>significant increase</i> in the previously assessed physical <i>output</i> or service capacity; b) a <i>significant reduction</i> in associated operating <i>costs</i>; c) a <i>significant extension</i> of the estimated <i>useful life</i>; or e) a <i>significant improvement</i> in the <i>quality</i> of output. <p>For the purposes of this definition, “<i>Significant</i>” is deemed to be an increase of 15% or more to the original <i>output, cost, useful life, or quality</i>. Any other expenditure would be considered a repair or maintenance and should be expensed in the period.</p>
Capital-Type Expenses	<ul style="list-style-type: none"> ○ are costs for assets that meet the definition of a capital asset but are less than the thresholds. These assets are expensed in the year in which they are purchased.
Categories	<ul style="list-style-type: none"> ○ a grouping of assets of a similar nature or function in the Municipality’s operations such as land, buildings, equipment, roads, bridges, motor vehicles, furniture and fixtures, computer systems (hardware & software)
Component Approach	<ul style="list-style-type: none"> ○ is the process of subdividing an asset into individual segments or ‘<i>components</i>’. Similar to the above, the qualifying question is “<i>Would it be cost beneficial to divide this asset into components?</i>” Where the cost required to track the individual components is relatively insignificant, and the benefits obtained through more accurate reporting are considered significant, then the component approach would be the method of choice.

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Cost	<ul style="list-style-type: none"> ○ 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	<ul style="list-style-type: none"> ○ refers to the removal of a capital asset from service as a result of sale, destruction, loss or abandonment.
Fair Value	<ul style="list-style-type: none"> ○ 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 in a biased manner. Fair value would be used to assign an amount to a donated asset received by the Municipality.
Financial Assets	<ul style="list-style-type: none"> ○ 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 include but are not limited to the following: <ul style="list-style-type: none"> a) cash on hand; b) accounts receivable; and c) inventories for resale.
Gain on Disposal	<ul style="list-style-type: none"> ○ is the amount by which the net proceeds realized upon an asset's disposal exceed the asset's net book value.
Group/Pooled Assets	<ul style="list-style-type: none"> ○ similar assets that have a unit value below the capitalization threshold (on their own) but have a material value as a group. Such assets shall be "pooled" as a single asset with one combined value. Although recorded in the financial systems as a single asset, each unit of the "pool" may be recorded in an asset sub-ledger for monitoring and control of its use and maintenance. Examples could include but are not limited to the following: <ul style="list-style-type: none"> a) computer software; b) desktop/laptop computers; c) furniture and fixtures; d) street lights; and e) small moveable equipment. ○ As similar items are purchased, they will be added to the "pool". An inventory will be taken at regular intervals and if the actual count is less than the system tally, an entry will be recorded to adjust the "pool" balance to the actual inventory count which will account for "pooled"

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	units disposed of during the year.
Hours of Production Method	○ is an amortization method which allocated the cost of an asset based on its estimated hours of use or production.
In Service Date	○ is the date at which an asset begins to be utilized by the Municipality. The calculation and recording of amortization will not begin until the “in service date” has been reached.
Leased Capital Assets	○ are non-financial assets leased by the Municipality for use in the delivery of goods and services. A lease with contractual terms that transfer substantially all the benefits and risks in ownership of property to the Municipality. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met: a) Reasonable assurance that the Municipality will obtain ownership of the leased property by the end of the lease term. b) Lease term is of such a duration that the Municipality will receive substantially all of the economic benefits to be derived from the use of the leased property over its life span. c) 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.
Leasehold Improvements	○ are improvements and/or betterments to leased assets, which do not qualify under the definition of a capital lease. These improvements will be capitalized and amortized based on the criteria established for valuation and amortization.
Loss on Disposal	○ is the amount by which the net book value of a capital asset exceeds the net proceeds realized upon the asset’s disposal.
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.

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Repairs and Maintenance	<ul style="list-style-type: none"> ○ are ongoing activities to maintain a capital asset in operating condition. They are required to obtain the expected service potential of a capital asset over the estimated useful life. Costs for repairs and maintenance are expensed.
Residual Value	<ul style="list-style-type: none"> ○ 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 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	<ul style="list-style-type: none"> ○ is the output or service capacity of a capital asset.
Straight-Line Method	<ul style="list-style-type: none"> ○ is an amortization method which allocated the cost of a capital asset equally over each year of its estimated useful life.
Tangible Capital Assets	<ul style="list-style-type: none"> ○ are non-financial assets having physical substance that: <ul style="list-style-type: none"> a) 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; b) have useful lives extending beyond a year and are intended to be used on a continuing basis; and c) are not intended for sale in the ordinary course of operations.
Threshold	<ul style="list-style-type: none"> ○ is the minimum cost an individual asset must have before it is recorded as a capital asset on the statement of financial position.
Useful Life	<ul style="list-style-type: none"> ○ is the estimate of either the period over which the Municipality expects to use a tangible capital asset, or the number of units of production that can be obtained from the tangible capital asset. The life of a tangible capital asset may extend beyond its useful life. The life of a tangible capital asset, other than land, is limited and is normally the shortest of the physical, technological, commercial or legal life.

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Whole Asset Approach	<ul style="list-style-type: none"> ○ is the process of combining what could be considered to be several assets, into one single capital asset. The underlying concept behind this determination is whether or not it would be cost beneficial to segregate the asset in question. Where it would be relatively difficult to track the individual components of a particular asset, and there are no clear benefits to doing so, the “<i>whole asset approach</i>” would be the method of choice.
Work in Progress	<ul style="list-style-type: none"> ○ is the accumulation of capital costs for partially constructed or developed projects.
Works of Art And Historical Treasurers	<ul style="list-style-type: none"> ○ is 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	<ul style="list-style-type: none"> ○ 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. A write-down should be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

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**APPENDIX “B”
CAPITAL ASSET CATEGORIES**

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

Capital Asset Category	Examples of Capital Assets	Examples of Capital Asset Costs
Land	<ul style="list-style-type: none"> ○ land acquired for parks and recreation, conservation purposes, building sites and other programs ○ land purchased for construction of road surface, drainage areas and allowances or future expansions 	<ul style="list-style-type: none"> ○ purchase price ○ professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys ○ improvement and development costs such as land excavation, filling, grading, drainage, demolition of existing building (less salvage)
Land Improvements	<ul style="list-style-type: none"> ○ fencing and gates, parking lots, sidewalks, outdoor lighting, retaining wall, septic system, landscaping, fuel tanks, pumps, radio tower, playground equipment, radio tower 	<ul style="list-style-type: none"> ○ original purchase price or completed project costs including costs of material and labour or costs of a contractor
Buildings – high quality construction Buildings – medium quality construction Building – average quality construction Buildings – short term	<ul style="list-style-type: none"> ○ buildings with fireproofed structural steel frames with reinforced concrete or masonry floors and roofs ○ buildings with reinforced concrete frames and concrete or masonry floors and roofs ○ buildings with masonry or concrete exterior walls, and wood or steel roof and floor structures, except for concrete slabs on grade ○ operational storage facilities, sheds, small buildings, salt sheds, asphalt tanks, inventory storage buildings and pump houses 	<ul style="list-style-type: none"> ○ original purchase price or completed project costs including basic costs of material and labour or costs of a contractor ○ costs to remodel, recondition or alter a purchased building to make it ready to use for the acquired purpose ○ preparation of plans blueprints, and specifications ○ costs of building permits, studies, tests (pre-acquisition costs) ○ professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys ○ operating costs such as temporary buildings used during construction

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Building Improvements	<ul style="list-style-type: none"> ○ 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, interior construction, carpet replacement, sprinkler/fire suppression system 	<ul style="list-style-type: none"> ○ complete project costs including basic costs of material and labour or costs of a contractor ○ preparation of plans, blueprints, and specifications ○ cost of building permits, studies, tests ○ professional fees for architect, legal, engineering, appraisals, environmental surveys ○ operating costs such as temporary buildings used during construction
Leasehold and Occupancy Improvements	<ul style="list-style-type: none"> ○ improvements that increase the functionality of leased or similar accommodations (refer to the assets listed under the “building improvements” category) 	<ul style="list-style-type: none"> ○ costs similar to those listed under the “building improvements” category
Operating Equipment	<ul style="list-style-type: none"> ○ equipment specific to maintenance, mowers, tractors, attachments, shop and sanitation, medical, safety, appliances, education and communication such as forklifts, welding machines, utility trailers, security systems, snow plows, radios, freezers, refrigerators, washers, meters, defibrators 	<ul style="list-style-type: none"> ○ original contract price or invoice price ○ freight charges ○ sales taxes on acquisition ○ installation charges ○ charges for testing and preparation ○ costs of reconditioning used items when purchases ○ parts and labour associated with the construction of equipment
Heavy Equipment	<ul style="list-style-type: none"> ○ power and construction equipment such as graders, tractors, cranes, drill rigs, caterpillars, and trucks one tonne and over 	<ul style="list-style-type: none"> ○ original contract price or invoice price ○ freight charges ○ sales taxes on acquisition ○ installation charges ○ charges for testing and preparation ○ costs of reconditioning used items when purchased ○ parts and labour associated with the construction of equipment

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Vehicles	<ul style="list-style-type: none"> ○ licensed vehicles used primarily for transportation purposes such as automobiles, trucks under one tonne, vans, boats, all terrain vehicles, snowmobiles, motorcycles, and ambulances 	<ul style="list-style-type: none"> ○ original contract price or invoice price ○ freight charges ○ sales taxes on acquisition ○ costs of reconditioning used items when purchased
Computer Software	<ul style="list-style-type: none"> ○ off the shelf software and related upgrades, software licenses after removing any maintenance or similar charges 	<ul style="list-style-type: none"> ○ purchase price of off the shelf software and related upgrades ○ sales taxes on acquisition ○ installation charges
Computer Hardware	<ul style="list-style-type: none"> ○ servers, voice logging equipment, scanners, printers, hard drives, modems, tape drives, and plotters 	<ul style="list-style-type: none"> ○ purchase price ○ installation charges ○ freight and transit charges ○ sales taxes on acquisition
System Development	<ul style="list-style-type: none"> ○ consultant fees, web site development and custom development software 	<ul style="list-style-type: none"> ○ external direct costs of materials and services such as consultant fees ○ web site development costs ○ costs to acquire software and any custom development ○ salary and related benefits of employees directly associated with the application development stage ○ costs of upgrades that improve the functionality of the system
Office Furniture and Equipment	<ul style="list-style-type: none"> ○ desks, tables, chairs, filing cabinets, fax machines, photocopiers, video conferencing stations, projectors, and digital cameras 	<ul style="list-style-type: none"> ○ original contract price or invoice price ○ freight and installation charges ○ sales taxes on acquisition ○ costs of reconditioning used items when purchased ○ parts and labour associated with the construction of furniture

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Roads/Streets – construction	<ul style="list-style-type: none"> ○ municipal roads 	<ul style="list-style-type: none"> ○ direct costs of construction including tender construction costs, labour, materials, survey costs, and project specific design costs ○ construction and material costs related to overhead structures and signage ○ salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control
Roads/Streets – repaving	<ul style="list-style-type: none"> ○ major resurfacing and preservation overlays on municipal roads 	<ul style="list-style-type: none"> ○ direct costs of construction including labour and materials ○ salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control
Bridges – construction	<ul style="list-style-type: none"> ○ bridges 	<ul style="list-style-type: none"> ○ direct costs of construction including tender construction costs, labour, materials survey costs, and project specific design costs ○ salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control
Bridges – upgrades	<ul style="list-style-type: none"> ○ upgrades to bridges 	<ul style="list-style-type: none"> ○ direct costs of construction including labour and materials ○ salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control
Culverts	<ul style="list-style-type: none"> ○ culverts 	<ul style="list-style-type: none"> ○ direct costs of construction

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		<ul style="list-style-type: none"> including tender construction costs, labour, materials, survey costs, and project specific design costs ○ salary and travel costs of employees assigned to the project for direct management, inspection and quality control
Roads/Streets – other	<ul style="list-style-type: none"> ○ light systems (traffic, outdoor, street) signals for railways, new signage initiative, rumble strips and aggregate pit acquisition costs 	<ul style="list-style-type: none"> ○ original purchase price ○ installation charges ○ charges for testing and preparation ○ parts and labour associated with construction and installation
Water Infrastructure	<ul style="list-style-type: none"> ○ dams, drainage facilities, docks, sewer systems, sewage lagoons, marinas, reservoirs, pumping facilities, tanks and associated infrastructure 	<ul style="list-style-type: none"> ○ original purchase price ○ direct costs of construction including labour and materials ○ salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control
Other Infrastructure	<ul style="list-style-type: none"> ○ landfills, tanker bases, helipad, dump stations 	<ul style="list-style-type: none"> ○ costs that support infrastructure but are not included in any other category
Group/Pooled Assets	<ul style="list-style-type: none"> ○ library books, collection, etc. 	<ul style="list-style-type: none"> ○ costs that support these assets but are not included in any other category

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APPENDIX “C”
CAPITALIZATION 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.

Department	Category	Sub Category	Pooled	Thres-hold \$	Useful Life Years	Amortization
Administration	Land	Land		ALL	Infinite	N/A
		Site Improv'ts		5,000	15	Straight-Line
	Structures	Bldg - High Quality		25,000	60	Straight-Line
		Bldg – Med. Quality		25,000	60	Straight-Line
		Bldg - Avg. Quality		25,000	60	Straight-Line
		Bldg - Short Term		15,000	20	Straight-Line
		Bldg Improv'ts		5,000	20	Straight-Line
	Equipment	Furniture	X	5,000	20	Straight-Line
		Generator		1,000	20	Straight-Line
	Equipment & Technology	System Development				
		Packaged system	X	5,000	5	Straight-Line
		Computer Hardware	X	1,000	5	Straight-Line
		Computer Software	X	1,000	5	Straight-Line
		Other Office Equipment	X	1,000	5	Straight-Line
		Communication System		5,000	10	Straight-Line
Fire	Land	Land		All	Infinite	N/A
		Site Improv'ts		25,000	15	Straight-Line
	Structures	Bldg - High Quality		25,000	60	Straight-Line
		Bldg – Med. Quality		25,000	60	Straight-Line
		Bldg - Avg. Quality		25,000	60	Straight-Line
		Bldg - Short Term		15,000	20	Straight-Line
		Bldg Improv'ts		5,000	20	Straight-Line
	Fleet Licenced	Light		5,000	15 yrs/hrs of production	Straight-Line
		Medium		5,000	25 yrs/hrs of production	Straight-Line
		Heavy		5,000	25 yrs/hrs of production	Straight-Line
	Equipment	Communication	X	5,000	10	Straight-Line
		Health & Safety	X	5,000	10	Straight-Line
		Rescue	X	5,000	10	Straight-Line
		Compressor	X	5,000	15	Straight-Line
		Generator	X	5,000	10	Straight-Line
Roads	Land	Land		All	Infinite	N/A
		Site Improv'ts		5,000	15	Straight-Line
	Structures	Bldg - High Quality		25,000	60	Straight-Line
		Bldg – Med. Quality		25,000	60	Straight-Line
		Bldg - Avg. Quality		25,000	60	Straight-Line
		Bldg - Short Term		15,000	20	Straight-Line
		Bldg Improv'ts		5,000	20	Straight-Line
	Fleet Licenced	Light		5,000	5	Straight-Line
		Medium		5,000	5	Straight-Line
		Heavy		5,000	10	Straight-Line
	Trailers		5,000	20	Straight-Line	

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Department	Category	Sub Category	Pooled	Thres- hold \$	Useful Life Years	Amortization
Roads	Fleet Off Road	Light		5,000	20 yrs/hrs of production	Straight-Line
		Medium		5,000	20 yrs/hrs of production	Straight-Line
		Heavy		5,000	20 yrs/hrs of production	Straight-Line
	Infrastructure	Civil Infrastructure System – built assets (roads, bridges, etc.)		25,000	40	Straight-Line
		Road/St-Construction		All	40	Straight-Line
		Road/Street-Paving		All	15	Straight-Line
		Road/Street-Other		All	15	Straight-Line
		Bridge – Construction		All	40	Straight-Line
		Bridge – Upgrades		All	15	Straight-Line
		Culverts		All	25	Straight-Line
		Water Infrastructure		All	40	Straight-Line
		Infrastructure – Other (ie Street Lighting)		All	15	Straight-Line
	Miscellaneous	Signs	X	5,000	5	Straight-Line
		Guide Rails	X	5,000	20	Straight-Line
		Compressor		1,000	10	Straight-Line
		Generator		1,000	10	Straight-Line
		Welder		1,000	10	Straight-Line
		Steamer		5,000	15	Straight-Line
		Garage Tools	X	5,000	10	Straight-Line
		Communication System	X	5,000	5	Straight-Line
Waste Collection	Fleet Licenced	Heavy		5,000	15 yrs/hrs of production	Straight-line
Landfill	Land	Land		All	Infinite	N/A
		Capacity		All	Volume used over total volume available	As capacity is used
		Site Improv'ts		5,000	Volume used over total volume available	As capacity is used
	Structures	Bldg - High Quality		25,000	60	Straight-Line
		Bldg – Med. Quality		25,000	60	Straight-Line
		Bldg - Avg. Quality		25,000	60	Straight-Line
		Bldg - Short Term		15,000	20	Straight-Line
		Bldg Improv'ts		5,000	20	Straight-Line
	Fleet Off Road	Heavy		5,000	20 yrs/hrs of production	Straight-line
	Equipment	Monitoring Wells	X	5,000	30	Straight-Line
		Bins	X	5,000	25	Straight-Line
Medical	Land	Land		All	Infinite	N/A
		Site Improv'ts		5,000	15	Straight-Line
	Structure	Bldg - High Quality		25,000	60	Straight-Line
		Bldg – Med. Quality		25,000	60	Straight-Line
		Bldg - Avg. Quality		25,000	60	Straight-Line
		Bldg - Short Term		15,000	20	Straight-Line
		Bldg Improv'ts		5,000	20	Straight-Line
		Sub	Pooled	Thres-	Useful Life	

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Department	Category	Category		hold \$	Years	Amortization
Medical	Equipment	Furniture	X	5,000	10	Straight-Line
		Generator		5,000	20	Straight-Line
	Equipment & Technology	Computer Hardware	X	5,000	5	Straight-Line
		Computer Software	X	1,000	5	Straight-Line
		Communication System	X	5,000	10	Straight-Line
	Equipment	Major/Large Medical Items/Instruments	X	5,000	10	Straight-Line
		Minor/Small Medical Items/Instruments	X	5,000	10	Straight-Line
Recreation	Land	Land		All	Infinite	N/A
		Site Improv'ts		5,000	15	Straight-Line
	Stucture	Bldg - High Quality		25,000	60	Straight-Line
		Bldg - Med. Quality		25,000	60	Straight-Line
		Bldg - Avg. Quality		25,000	60	Straight-Line
		Bldg - Short Term		15,000	20	Straight-Line
		Bldg Improv'ts		5,000	20	Straight-Line
	Structures	Outdoor rink		5,000	20	Straight-Line
		Playground Equipment		5,000	15	Straight-Line
		Baseball Diamond		5,000	40	Straight-Line
		Public Boat Launch		5,000	30	Straight-Line
	Equipment	Zamboni		5,000	10	Straight-Line
		Snowblower	X	5,000	10	Straight-Line
		Tent		5,000	20	Straight-Line
		Kitchen Appliances	X	5,000	10	Straight-Line
		Furniture	X	5,000	10	Straight-Line
Library	Land	Land		All	Infinite	N/A
		Site Improv'ts		5,000	15	Straight-Line
	Stucture	Bldg - High Quality		25,000	60	Straight-Line
		Bldg - Med. Quality		25,000	60	Straight-Line
		Bldg - Avg. Quality		25,000	60	Straight-Line
		Bldg - Short Term		15,000	20	Straight-Line
		Bldg Improv'ts		5,000	20	Straight-Line
	Equipment	Furniture	X	5,000	10	Straight-Line
	Equipment & Technology	System Development				
		Packaged system	X	5,000	10	Straight-Line
		Computer Hardware	X	1,000	5	Straight-Line
		Computer Software	X	1,000	5	Straight-Line
		Other Office Equipment	X	1,000	5	Straight-Line
		Communication System	X	5,000	10	Straight-Line
		Books, DVDs, etc.	X	5,000	5	Straight-Line
All Departments	Grouped/Poolled			Combined Total of \$5,000 or greater	Average of Group /Pool	Straight-Line
All Departments	Leasehold Improv'ts			5,000	Current & Subsequent Lease Term	Straight-Line

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Examples of Capital and Maintenance Expenditures:

Description	Capital	Operations/Maintenance
Roads	<ul style="list-style-type: none"> • New/re-construction of roadways and related environmental studies • Street resurfacing • Alteration of intersections, street capacity/design • New or upgraded signal equipment • Other physical enhancing safety/capacity 	<ul style="list-style-type: none"> • Routine repairs, patching, cracking sealing • Repair/maintenance for system operations
Fleet and equipment	<ul style="list-style-type: none"> • New or replacement vehicles/equipment with useful lives > 1 year 	<ul style="list-style-type: none"> • Operational equipment with useful life < 1 year
Facilities	<ul style="list-style-type: none"> • Design/construction of new facilities • Renovations/upgrades/replacement of existing facilities or major components thereof (ie. Roofing, HVAC, etc.) 	<ul style="list-style-type: none"> • Preventative maintenance performed on regular basis that does not significantly upgrade structure or increase useful life (ie. Paint)
Waste management	<ul style="list-style-type: none"> • New or replacement vehicles/equipment with useful lives > 1 year • New/replacement containers 	<ul style="list-style-type: none"> • Operational equipment with useful life < 1 year