

# CORPORATION OF THE TOWNSHIP OF SOUTH ALGONQUIN

<b>SUBJECT:</b>	<b>ACCOUNTING FOR TANGIBLE CAPITAL ASSETS</b>		
<b>TYPE:</b>	FINANCE	<b>POLICY NO.</b>	<b>FIN-001-00</b>
<b>DATE:</b>	<b>REVIEW FREQUENCY:</b>	<b>REL. BY-LAW:</b>	<b>PAGE #:</b>
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<b>Revisions</b>			
August 5, 2008 Original Policy			
July 15, 2010 –New Policy			
March 15, 2017 – Revised Policy Draft			

## **I. Legislation:**

*Public Sector Accounting Board Section 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 objective 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:**

Tangible Capital Assets are defined by the Canadian Institute of Chartered Accountants (CICA) as non-financial assets having physical substance that:

- i. 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, and
- ii. have useful economic lives extending beyond an accounting period based on industry standards and Township experience, and
- iii. are to be used on a continuing basis, and
- iv. are not for sale in the ordinary course of business.

See Appendix “A” for general definitions of some additional 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.

##### **Primary Category**

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

- Land
- Land Improvements
- Buildings
- Linear Assets – Sub-Categories include Bridges & Culverts, Road Network and Streetlights
- Machinery & Equipment
- Vehicles

##### **Functional Category**

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

- General Government (Governance & Corporate Management)
- Protection Services (Fire, Police, Building & Emergency Measures)
- Transportation Services (Bridges & Culverts, Roads & Streetlights)
- Environmental Services (Rural Storm Sewer, Waste Collection & Waste Disposal)
- Health Services (Public Health, Hospitals & Ambulance)
- Social and Family Services (General Assistance & Assistance to Aged Persons)
- Recreation & Cultural Services (Parks, Programs, Water Access Facilities, Community Centres & Libraries)
- Planning and Development (Planning & Zoning)

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## 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 for newly purchased or constructed assets.

### 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

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

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 & mineral resources;
- Works of art and historical treasures; and
- Intangible assets such as patents, copyrights and trademarks.

g) 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. ASSET 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. METHODOLOGY USED TO DEFINE TANGIBLE CAPITAL ASSETS**

Tangible Capital Assets are reported on the Municipality's Financial Statement under the six Primary Categories of Land, Land Improvements, Buildings, Linear Assets, Machinery & Equipment and Vehicles. These Primary Categories may be further defined by Sub-Categories to identify Networks and Pools such as the Road Network or the Streetlight Pool. All Primary Categories and Sub-Categories are composed of Segments that identify the individual capital assets that belong to them. These individual capital assets may be accounted for using either the "Whole 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:

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- 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.

a) Asset Components

For capital assets that have been or should be componentized a reasonable split should be allocated to each identified component of the asset. For example a road may be divided into road surface and road base components. In this case a reasonable percentage must be allocated to the surface portion (asphalt/gravel, etc.) and a reasonable percentage must be allocated to the roadbed portion (all subsurface components). There is no limit to the extent of an assets identified components if deemed to be useful. It is however important that identified components be used consistently for all similar capital assets unless there is evidence to prove that the split should be calculated differently in isolated cases.

**5. POOLED ASSETS:**

Certain items such as tools, furniture and computers are generally below the capitalization threshold individually but are typically purchased or held in large quantities which may represent significant expenditures overall. In such cases, it would seem reasonable to capitalize all items acquired in a given asset class or pool and amortize the pool over a pre-determined amortization period.

Due to the large financial impact and large numbers purchased, there are certain assets that represent a material pooled asset. The Municipality will create pools of assets when it believes that the pool of assets represent a significant pool of tangible capital assets that has or will have a significant financial impact on the Municipality.

Although recorded as a single asset, each segment of the pool may be recorded in an asset sub-ledger for monitoring and control of their use and maintenance. Examples of group/pooled assets are computer software, street lights, furniture and fixtures and small machinery or 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” units disposed of during the year.

Inventory disposal will be accounted for utilizing the deemed disposal method.

**6. 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.

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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, whichever 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.

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.

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.

## **7. LEASEHOLD IMPROVEMENTS:**

Leasehold Improvements that qualify as Betterments to an existing leased capital assets will be capitalized and amortized based on the criteria established for valuation and amortization of the affected capital asset.

## **8. WORK IN PROGRESS:**

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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 Capital Work 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”. “Capital 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 Tangible Capital Asset category. Examples of “Capital Work in Progress” are the construction of a new road or building or the development of an asset which occurs over several years.

## **9. 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 a total Unit Cost basis.

Tangible capital assets shall be capitalized and recorded in the fixed asset sub-ledger according to the following thresholds:

- a) All Lands.
- b) Land Improvements with a total Unit Cost of \$4,000 or greater.
- c) All Buildings;
- d) All Linear Assets that meet the definition of Tangible Capital Asset and belong to one of the following Primary Asset Sub-Categories; Bridges & Culverts, Road Network and Streetlights.
- e) Machinery & Equipment with a total Unit Cost of \$1,000 or greater.
- f) All Vehicles.
- g) Any individual item that meets the definition of a Tangible Capital Asset with a total Unit Cost of \$5,000 or greater.
- h) Any other asset below these limits that is deemed necessary to capitalize by the Chief Administrative Officer of the Township of South Algonquin.

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.

Expenditures that are direct costs and contribute to a total Unit Cost that qualifies as a Betterment to existing assets should be capitalized when that total Unit Costs meets or exceeds the threshold for the Tangible Capital Asset being affected.



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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.

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.

#### **10. 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.

#### **11. AMORTIZATION:**

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset.

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 Chief Administrative Officer shall approve any alternative methods considered.

Amortization will be calculated annually and listed in the appropriate tangible capital asset schedule.

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

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.

Tangible capital assets are not expected to have significant residual value and therefore shall be deemed to have no residual value for purposes of calculating amortization. If, however, the residual value is significant it will be considered in calculating amortization. For items that have been fully amortized, any eventual sale proceeds received, less costs to dispose, shall be recorded as a “gain on sale of asset”. Any costs relating to the disposal of a fully amortized item, net of proceeds, shall be recorded as a “loss on disposal of asset”.

Estimates of useful life (for purposes of the amortization calculation) will be determined by the Municipality based on the expected use of the asset. The expected use of the asset will be based on reasonable assumptions.

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

- Expected future use;
- Expected wear and tear from use or passage of time;
- Effects of technological obsolescence;
- Maintenance program for the asset;
- Capacity versus actual usage or changes in demand for services;
- Condition of existing comparable assets;
- Manufacturer estimates;
- Previous experience;
- Ontario Municipal Benchmarking Initiative documentation

The following general useful life ranges have been determined for the primary asset categories:

<b><u>Primary Category</u></b>	<b><u>Useful Life Range in Years</u></b>
Land	Infinite
Land Improvements	15-20
Buildings	20-60
Linear Assets	15-40
Machinery and Equipment	5-20
Vehicles	2-25

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.

The method of asset amortization and the estimated useful life will be reviewed on a regular basis. This review is event driven. Significant events that may indicate the need for a revision include:

- A change in the extent to which the tangible capital asset is used;
- A change in the manner in which the tangible capital asset is used;
- Removal of the tangible capital asset from service for an extended period of time;
- Physical damage;
- Significant technological developments;
- A change in the demand for the services provided through use of the tangible capital asset;
- A change in the law or environment affecting the period of time over which the tangible capital asset can be used.

## **12. 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.

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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.

Disposal of tangible capital assets that are moveable personal property is the responsibility of the Chief Administrative Officer unless delegated to operating departments. Department heads should notify the Chief Administrative Officer 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 Chief Administrative Officer of the asset description and effective date. The Chief Administrative Officer is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

### **13. 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.

### **14. BETTERMENTS:**

During the lifetime of an asset some major work may be carried out on the asset that will involve a significant expense. There is some latitude as to whether this type of work is recorded as a capital expense or as repair and maintenance.

How to Decide:

Betterments are costs incurred for enhancements to the service potential of an existing Tangible Capital Asset such as:

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

The total Unit Cost of a Betterment generally needs to meet or exceed the prescribed Thresholds for the Tangible Capital Asset being affected in order to be capitalized. Betterments with a total unit cost that does not meet the prescribed Thresholds are generally expensed in the year they occur. Exception may be made to include a Betterment that does

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not meet the prescribed Thresholds at the discretion of the Chief Administrative Officer providing it achieves a significant contribution under one or more of the above captioned enhancements that is quantifiable to be more than 15%. Departments must provide rational for exceptions to the Chief Administrative Officer for consideration.

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.

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.

Examples:

- Replace a buildings old windows with energy efficient windows (Betterment – Lower operating costs)
- Replace old air conditioning with a new one (R&M)
- Pave a gravel road (Betterment – Service capacity, operating cost & quality of output)
- Replace an old boiler with a similar new one (R&M)
- Replace an old boiler with a new high efficiency boiler (Betterment – Lower operating costs)
- Replace an old CSP culvert with a new CSP culvert (R&M)
- Replace an old CSP culvert with a new HDPE culvert (Betterment – estimated useful life)

See Appendix “C” for additional examples of capital and maintenance expenditures.

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 Chief Administrative Officer 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

**Accrual Based Accounting** is a system of accounting that measures the economic impact of transactions and economic events rather than cash flows.

**Amortization** is a rational and systematic manner of allocating the cost of an asset over its estimated useful life. Amortization is reported as an expense on the Statement of Operations.

**Betterments** are costs incurred for enhancements to the service potential of a capital asset.

**Capital-type expenses** are costs for assets that meet the definition of a capital asset but are less than the thresholds set by the Township of South Algonquin. These assets are expensed in the year in which they are purchased.

**Component Approach** is the process of subdividing an asset into individual components.

**Cost or Unit 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. For contributed assets, the cost is considered to be equal to its fair market 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 future operations and are not for consumption in the normal course of operations. Examples of financial assets are cash on hand and accounts receivable.

**Gain on Disposal** is the amount by which the net proceeds realized upon an asset's disposal exceed the asset's net book value.

**Hours of Production Method** is an amortization method which allocates 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.

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**Leased Capital Assets** are non-financial assets with physical substance and a useful life of greater than one year which are 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 necessarily requiring the transfer of legal ownership.

**Leasehold Improvements** are improvements that qualify as Betterments to Leased Capital Assets.

**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-down. 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 nonfinancial assets are capital assets and inventories held for consumption or use.

**Pooled Assets** are 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.

**Repairs and Maintenance** 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** is the estimated net realizable value of a capital asset at the end of its estimated useful life to the municipality. 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** is the output or service capacity of a capital asset.

**Straight-Line Method** is an amortization method which allocates the cost of a capital asset equally over each year of its estimated useful life.

**Threshold** is the minimum cost an individual tangible capital asset must have before it is recorded on the statement of financial position.

**Useful Life** is the estimate of either the period over which the Municipality expects to use a tangible capital asset, or the number of production or similar units that it can obtain 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 finite, and is normally the shortest of the physical, technological, commercial or legal life.

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**Whole Asset Approach** is the process of combining what could be considered to be several assets, into one single capital asset.

**Work in Progress** is the accumulation of capital costs for partially constructed or developed projects.

**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 when conditions indicate that the asset no longer contributes to a government's ability to provide goods and services or the value of future economic benefits associated with the asset is less than net book value. 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.

<b>Primary Capital Asset Category</b>	<b>Examples of Capital Assets</b>	<b>Examples of Capital Asset Costs</b>
<b>1. Land</b>	<p>Land acquired for parks and recreation, conservation purposes, building sites and other programs</p> <p>Land purchased for construction of road surface, drainage areas and allowances or future expansions</p> <p>Landfill Sites</p>	<ul style="list-style-type: none"> <li>➤ Purchase 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, demolition of existing building (less salvage)</li> <li>➤ Betterments</li> </ul>
<b>2. Land Improvements</b>	<p>Fencing and gates, retaining wall, septic system, landscaping, fuel tanks, pumps, radio tower, playground equipment, radio tower</p> <p>Tanker bases, helipad, dump stations</p>	<ul style="list-style-type: none"> <li>➤ Original purchase price or completed project costs including material, labour and contractors</li> <li>➤ Betterments</li> </ul>
<b>3. Buildings</b>	<p>Public or Operational Buildings – Community Centres, Offices, Works Garages, Privies etc.</p> <p>Operational storage facilities - sheds, small buildings, salt sheds, asphalt tanks, inventory storage buildings and pump houses etc.</p>	<ul style="list-style-type: none"> <li>➤ Original purchase price or completed project costs including material, labour and contractors</li> <li>➤ Remodel, recondition or alter a purchased building to make it ready to use</li> <li>➤ Preparation of plans blueprints, and specifications</li> <li>➤ Building permits, studies, tests (pre-acquisition costs)</li> <li>➤ Professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys</li> </ul>



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		<ul style="list-style-type: none"> <li>➤ Operating costs such as temporary buildings used during construction</li> <li>➤ Betterments such as structural changes, installation or upgrade of heating and cooling systems, plumbing, electrical, telephone systems, interior construction, carpet replacement, sprinkler/fire suppression system</li> </ul>
<b>4. Linear Assets</b>	<p>Road Network Bridges &amp; Culverts Streetlights</p> <p>Others such as Parking Lots, Trails, Sidewalks, Boardwalks Lighting &amp; light systems (traffic, outdoor, street), Signage, Fencing, Gates, Signals for railways, New signage initiative, Rumble strips and Aggregate pit acquisition costs, Water infrastructure, Sprinkler systems, Dams, Drainage facilities, Docks, Sewer systems, Sewage lagoons, Marinas, Reservoirs, Pumping facilities, Tanks and associated infrastructure, Boat launches, Hydrants, Bleachers</p>	<ul style="list-style-type: none"> <li>➤ Original contract price or invoice price</li> <li>➤ Direct costs of construction including tendered construction costs, labour, materials, survey, and project specific design costs</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> <li>➤ Installation</li> <li>➤ Testing and preparation</li> <li>➤ costs that support infrastructure but are not included in any other category</li> <li>➤ Betterments</li> </ul>

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<p><b>5. Machinery &amp; Equipment</b></p>	<p>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, defibrulators</p> <p>Heavy Equipment power and construction equipment such as graders, tractors, cranes, drill rigs, caterpillars, and trucks one tonne and over</p> <p>Computer Hardware - servers, voice logging equipment, scanners, printers, hard drives, modems, tape drives, and plotters</p> <p>Computer Software - system development consultant fees, web site development and custom development software</p>	<ul style="list-style-type: none"> <li>➤ Original contract price or invoice price</li> <li>➤ Freight</li> <li>➤ Sales taxes on acquisition</li> <li>➤ Installation</li> <li>➤ Testing and preparation</li> <li>➤ Reconditioning used items when purchases</li> <li>➤ Parts and labour associated with the construction of equipment</li> <li>➤ External direct costs of materials and services such as consultant fees</li> <li>➤ Web site development</li> <li>➤ Software and any custom development</li> <li>➤ Salary and related benefits of employees directly associated with the application development stage</li> <li>➤ Upgrades that improve the functionality of the system</li> <li>➤ Betterments</li> </ul>
<p><b>6. Vehicles</b></p>	<p>Licensed vehicles used primarily for transportation purposes such as automobiles, trucks under one tonne, vans, boats, all-terrain vehicles, snowmobiles, motorcycles, and ambulances</p>	<ul style="list-style-type: none"> <li>➤ Original contract price or invoice price</li> <li>➤ Freight</li> <li>➤ Sales taxes on acquisition</li> <li>➤ Reconditioning used items when purchased</li> </ul>

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**APPENDIX “C”**

**Examples of Capital and Maintenance Expenditures:**

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

Approved by: _____  Date: _____
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