

Policy No.: 34	Procedure:
Date Approved: Nov. 24, 2009 Approving Resolution:	Tangible Capital Assets

**THE CORPORATION OF THE TOWNSHIP OF CONMEE
TANGIBLE CAPITAL ASSET (TCA) ACCOUNTING POLICY**

1. RATIONALE:

Beginning with the fiscal year 2009, municipalities will be required to report on their tangible capital assets and will move from a modified accrual format to full accrual accounting with new financial statements, as provided by PSAB 3150.

2. PURPOSE:

The objective of this policy is to prescribe the accounting treatment for tangible capital assets so that users of the financial report can discern information about the investment in property, civic infrastructure 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 procedures to:

- a) Determine opening balances for January 1, 2009;
- b) Protect and control the use of all tangible capital assets;
- c) Provide accountability over tangible capital assets; and
- d) Gather and maintain information needed to prepare financial statements.

3. DEFINITIONS:

For the purpose of this policy:

Betterments are subsequent expenditures on tangible capital assets that increase previously assessed physical output or service capacity; lower associated operating costs; extend the useful life of an asset; or improve the quality of the output. Any other expenditure would be considered a repair or maintenance and expensed in the period.

Capital Lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the Township. 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) There is reasonable assurance that the Township will obtain ownership of the leased property by the end of the lease term.
- b) The lease term is of such duration that the Township will receive

- substantially all of the economic benefits expected to be derived from the use of the leased property over its lifespan.
- c) The 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.

Capitalization Threshold is the value above which assets are capitalized and reported in financial statements.

Carrying amount is the amount at which a tangible asset is recognized after deducting any accumulated amortization and accumulated impairment losses.

Component is a part of an asset with a cost that is significant in relation to the total cost of that asset. Component accounting recognizes that each part might have a different useful life and requires separate accounting for each component that has a different useful life than the whole asset does.

Fair Value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

General Capital Assets are tangible capital assets that are not part of the infrastructure Asset Class, including but not limited to Parks, Fire and Landfill.

Group Assets (Pooling) are homogeneous in terms of their physical characteristics, use and expected useful life. Group assets are amortized using a composite amortization rate based on the average useful life of the different assets in a group.

Infrastructure Assets are tangible capital assets that are composed of linear assets and their associated specific components, generally constructed or arranged in a continuous network, including but not limited to Transportation Infrastructure (Roads – including bridges, culverts).

Tangible Capital Assets (TCA) are assets having physical substance that;

- a) Are used on a continuing basis in the Township's Operations.
- b) Have useful lives extending beyond one year.
- c) Are not held for re-sale in the ordinary course of operations.

4. **POLICY:**

This policy outlines the guidelines to be used for the compilation of asset inventories and the valuation of assets on hand as of December 31, 2008 and for the on-going maintenance of accounting records onward.

5. **GUIDELINES:**

5.1 **Classification of Assets**

A category of assets is a grouping of assets of a similar nature or function in the Township's operations. Schedule 'A' lists the primary and sub-classes to be used.

5.2 Capitalization

5.2.1 Tangible capital assets will be capitalized according to the following thresholds:

Asset Sub-Class	Threshold
Land	Capitalize all
Land Improvements	\$5,000
Buildings	\$5,000
Roads	\$5,000
Bridges & Culverts	\$5,000
Equipment & Machinery	\$5,000
Licensed Vehicles	\$5,000
Technology & Communication	\$5,000

5.2.2 Works in progress shall be capitalized in the year that the asset becomes in service.

5.3 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.

5.3.1 Determining Historical Cost prior to 2009

One of the following methods shall be used to determine the historical cost of a TCA purchased, acquired, constructed or developed prior on or before December 31, 2008:

- a. Historical cost from invoice(s)
- b. Discounted Cost of Reproduction (CRN)
- c. Discounted Replacement Cost New (RCN)

5.3.2 Methods Used to Develop CRN and RCN

- a) For land:
 - i) Title search
 - ii) Deflated market value
- b) For all other categories:

- i) Obtain current quotes from contractors and suppliers;
- ii) Analyze capital project cost of recent years; and
- iii) Reference published construction cost data

5.3.3 Development of Discount Factors

- a) For Linear Assets:
 - i) Use CPI from Statistics Canada (Ontario Version)
- b) For Buildings:
 - i) Use CPI from Statistics Canada (Ontario Version)
- c) For Land:
 - i) From local Real Estate Board
 - ii) Canadian Real Estate Association

5.3.4 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.

Cost of land includes purchase price plus legal fees, land registration fees, transfer taxes, etc. Costs would include any costs to make the land suitable for intended use, such as pollution mitigation, demolition and site improvements that become part of the land.

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.

5.3.5 Acquired, Constructed or Developed Assets

Cost includes all costs 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 overhead is not allowed.

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

5.3.6 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 of interest costs 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.

5.3.7 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 of replacement cost. Ancillary costs should be capitalized.

5.3.8 Grouping (Pooling) of Assets

In the determination of opening balances for January 1, 2009, assets will not be pooled. After this date, TCAs that do not reach the threshold level individually for its category may be pooled at the discretion of the Treasurer, in order to be capitalized.

6.0 Componentization

TCAs 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:

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

Roads and bridges will use the component approach. For newly constructed buildings, it is to the discretion of the Treasurer, using these guidelines, if the asset is to be componentized.

7.0 Acquisition Date

Where invoices are available, only the acquisition year shown on the invoice is recorded for amortization purposes. If acquisition year is unknown, the estimated acquisition year will be estimated on the asset's current condition.

8.0 Amortization

The cost of a TCA 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.

Useful life is normally the shortest of the asset's physical, technological, commercial or legal life.

The Township will use a straight-line method for calculating the annual amortization. A comprehensive list of estimated useful lives of assets and amortization schedules is attached as Schedule 'B'. This schedule is based on published data as well as historical experience.

9.0 Disposal

Disposal of tangible capital assets that are moveable personal property is the responsibility of Council. Department heads should notify Council when assets become surplus to operations.

Disposal of real property will be the responsibility of council. Council must be notified when other constructed TCAs are to be taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling. The Treasurer will be responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

10.0 Capital Leases

Account for a capital lease as if acquiring a capital asset and incurring a liability. Account for a lease an operating lease when the net present value of the future minimum lease payments or fair value, whichever is less, is less than \$5,000.

11.0 Betterments and Replacements

If a betterment meets the capitalization threshold for its sub-class, then it is to be capitalized.

If a replacement meets the capitalization threshold for its sub-class, then it is to be capitalized.

12.0 Data Collection and Compilation

An excel spreadsheet, as well at the web-based application, Municipal DataWorks, hosted by the Ontario Good Roads Association, shall be the software tool used to collect, value, depreciate and report on capital tangible assets.

**Schedule 'A' to TCA Policy
Classes of Tangible Capital Assets**

Each asset shall be assigned a Functional Asset Class, Primary Class, and a Subclass.

FUNCTIONAL ASSET CLASSES

- General Government - Administration
- Transportation - Roads
- Protection Services – Emergency/Fire/Police
- Environmental Services – Landfill Site
- Recreation and Culture
- Planning and Development

PRIMARY CLASS

SUBCLASS

General Capital Assets:

- Land
- Land Improvements
- Buildings
- Equipment and Machinery
- Licensed Vehicles
- Technology and Communication
- Capital Works-in-Progress

Infrastructure Assets:

- Land
- Land Improvements
- Roads
- Bridges and Culverts
- Buildings
- Equipment and Machinery
- Licensed Vehicles
- Technology and Communication
- Capital Works-in-Progress

**Schedule 'B' to TCA Policy
Useful Life and Amortization Schedule**

General Capital Assets			
Subclass	Asset Description	Estimated Useful Life	Comments/Notes
Land	Landfill Site	N/A	
	Cemetery	N/A	
	Helipad	N/A	
	Other Land	N/A	
Land Improvements	Septic Systems	25	
	Wells	75	
	Recreational	20	Rink
Buildings	Metal Frame	70	Fire Hall/Public Works Garage
	Wood Frame-heated	50	Amb. Building/Office/Hall/Landfill/
	Wood Frame - unheated		Landfill Recycle Building
Equipment & Machinery	Office Equipment, appliances & furniture	10	
	VFD Communication Equipment	10	Radios, pagers
Licensed Vehicles	Fire Trucks	20	Tanker, pumper/
	Rescue Vehicle	15	
Technology & Communication	Hardware	5	
	Software	5	

**Schedule 'B' to TCA Policy
Useful Life and Amortization Schedule**

Infrastructure Assets				
Subclass	Asset Description		Estimated Useful Life	Comments/Notes
Land	Roads Garage and Fire Hall yard		N/A	
	Roads Storage Shed land		N/A	
	Gravel Pit		N/A	
Land Improvements	Septic Systems		25	
	Wells		75	
	Recreational		20	
Roads	Subsurface		60	
	Surface		15	With regular maintenance
	Signs		20	
	Guiderails		50	
Bridges & Culverts	Bridges	Deck	50	
		Superstructure	80	
		Substructure	80	
	Culverts -major	Galvanized steel	35	
		Concrete Box	50	
		Wood	50	
Culverts – minor	Galvanized Steel	35		
Buildings	Metal Frame		70	Roads garage
	Wood Frame – heated		50	
	Wood Frame – unheated		40	Roads storage shed
Equipment & Machinery	Off Road Vehicles – Heavy		25	Grader, loader
	Accessories		25	Sander box, plow
	Office Equipment & Furniture		10	
Licensed Vehicles	Light – GTW < 4500kg		10	Roads Coordinator truck
	Heavy – GTW > 9000kg		20	Dump truck

Infrastructure Assets			
Technology & Communication	Hardware	5	
	Software	5	