

Policy No.:	Procedure:
Date Approved: Approving Resolution:	<b>Tangible Capital Asset Account</b>

### **Preamble**

In June of 2006, the Public Sector Accounting Board (PSAB) approved a change in standards for reporting and accounting for tangible capital assets for Municipalities. The new standard will require local governments and boards to record and amortize all tangible capital assets.

### **Scope**

The objective of this policy is to ensure compliance with the PSAB requirements to record capital assets and depreciation for municipal tangible capital assets. This policy will aid the municipality by providing information on the amount, location, useful life and depreciation of municipal assets.

### **Definitions**

- Amortization:** The process of allocating the cost of an asset to the period of benefit, over the useful life.
- Betterment:** The cost incurred to enhance the service potential of a tangible capital asset. Service potential is enhanced if one of the following occurs:
- There is an increase in the previously assessed physical output or service capacity
  - Associated operating costs are lowered
  - The original useful life is extended
  - The quality of output is improved
- Cost:** The gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset and includes all costs directly attributable to acquisition, construction, development or betterment of the asset, including installation of the asset to a condition ready for use.
- Disposal:** The removal of a capital asset from service as a result of sale, destruction, loss or abandonment.
- Estimated Useful Life:** 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:** The amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.
- Net Book Value:** The cost of a tangible capital asset, less both accumulated amortization and the amount of any write-downs.
- Residual Value:** The estimated net realizable value of a tangible capital asset at the end of its useful life to the Township.
- Service Potential:** The output or service capacity of a tangible capital asset and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.
- Straight Line Method:** An amortization method which allocates the cost of a capital asset equally over each year of its established useful life.
- Tangible Capital Asset:** Non monetary assets, including computer software, having physical substance, that 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. Tangible capital assets must have a useful economic life extending beyond an accounting period (1 Year), be used on a continuing bases, and are not for sale in the ordinary course of operation.
- Threshold:** The minimum cost an individual asset must have before it is recorded as a capital asset on the statement of financial position.
- Useful Life:** The estimate of the period over which a tangible capital asset is expected to be used. The life of a tangible capital asset can be extended beyond the estimated useful life and such extensions shall be treated as a betterment. The life of a tangible capital asset is finite (except for land), and is normally the shortest of the physical, technological, commercial or legal life typical for that type of asset.

## Policy

It is the policy of the Township of Conmee to:

- Account for and report in the accounts of the Township of Conmee, the tangible capital assets controlled by the Township
- To treat all tangible capital assets in accordance with the Generally Accepted Accounting Procedures (GAAP). Assets shall be capitalized and amortized according to GAAP.
- To comply with the Public Sector Accounting Board policy, specifically PS 3150.

Before an item is recognized as a tangible capital asset for financial reporting purposes it must meet two criteria:

1. It must meet the definition of a tangible capital asset stated in the Definitions Section of this policy.
2. It must have a cost or other value that can be reliably measured.

## Capital Asset Categories

This policy will apply to the tangible capital assets outlined in Appendix A based on their nature, characteristics and useful life and may be updated from time to time as required by administration for accounting purposes.

Similar assets that have a unit value below the established tangible capital threshold, but may have a material value when grouped, will be pooled and reported as a single asset with one combined value.

Accounting for tangible capital assets will be directed by PSAB 3150 in accordance with GAAP. The Township Auditor shall be consulted on all decisions requiring professional judgements.

The cost of a tangible capital asset shall be recorded and shall include the purchase price including taxes and warranties, installation costs, design and engineering fees, legal fees, site preparation costs, freight charges, transportation costs and duties. Interest costs related to financing of any tangible capital asset are not capitalized.

## 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 statement of financial position. Capital assets not meeting the threshold are expensed in the

year in which they are purchased. Thresholds will be applied on an individual item basis unless the items will be pooled.

### Estimated Useful Life

The estimated useful life is the period over which a capital asset is expected to provide service. An asset's useful life can be estimated based on its expected future use, expected wear and tear, expected level of maintenance, and previous experience with similar items. The estimated useful life shown for all tangible capital assets owned or controlled by the Township of Conmee is intended to apply to assets in new condition. When used assets are acquired, the estimated useful life should be reduced based on age and condition.

### Amortization

Amortization of tangible capital assets will be on a straight line basis, at rates that reflect estimated useful life. Assets will begin amortization in the year in which they are purchased regardless of the month of actual purchase.

### Disposal

Assets will be retired from the accounts of the Township when the asset is sold, destroyed, abandoned or otherwise disposed of. Any residual value or expense will show as an expense or revenue in the applicable statement of operations.

### Betterments

Betterments are increases in value through expenditure on the asset. Betterments are capitalized only if they meet the criteria for capital expenditure or if the betterment significantly extends the life or value of the item. Otherwise betterments are expensed in the year in which they occur.

## ASSET CLASSIFICATIONS

Tangible capital assets will have a classification and sub-classification with sufficient information to identify the asset and its location. Major asset classifications shall conform to the current asset categories as identified by the Municipal Auditor in the financial statements. These are:

**General Government** for corporate management, governance and program support.

**Protection of People and Property** for the fire department and by-law enforcement.

**Environmental Services** for waste disposal and recycling.

**Health Services** for cemetery services.

**Recreation and Culture** for the parks, recreation programs, recreation facilities and libraries.

**Transportation** for all roadway services including winter control.

Although land is to be considered a tangible capital asset, it is not depreciated. Any buildings on the land are subject to depreciation. A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls and is not intended to be transportable. Building improvements are capital events that materially extend the useful life of the building, increase the value of a building or both. Building improvements must meet the capitalization criteria. A replacement of any part of a building may be capitalized if the replacement significantly improves the useful life of a building and is of a higher value, such as replacing a roof. Restoration to current standard is not capitalized. Determinations must be made on a case by case basis. Any maintenance related expenses or repairs which do not increase the value of the building will be expensed when it occurs.

Machinery and equipment are moveable tangible assets to be used for operations and which extend beyond one year from the date of acquisition. Any improvements or additions to existing equipment that meets the criteria for capital acquisition shall be added to the existing value and depreciated as per policy. Repairs and replacements such as an engine parts shall generally be considered as maintenance and not capital improvements.

Library holdings are documents and collections of materials including books, bound periodicals, microfilm and CD-ROMs under the responsibility of the Library Board. The Township shall record the entire collection regardless of its value.

## **Capital Asset Depreciation Guideline**

**LAND** – capitalize only

**BUILDINGS** – capitalize and depreciate over \$25,000.00

**BUILDING IMPROVEMENTS** – capitalize and depreciate over \$25,000.00

**MACHINERY AND EQUIPMENT** – capitalize and depreciate over \$2,500.00

**VEHICLES** – capitalize and depreciate over \$2,500.00

**INFRASTRUCTURE (ROADS)** – capitalize and depreciate over \$100,000.00

**Note:** Some assets do not have material worth on their own, but would be considered material in the aggregate. Some assets have been pooled and will be reported and depreciated as a pool, provided they meet the criteria for tangible capital assets. These include such things as the tables and chairs at the community centre, computers and software, the library collection, and small tools in the Public Works department.

The amortization method to be used is straight-line where the opening balance is the total cost of the asset minus any estimated residual value. The opening balance will be depreciated equally each year over the established useful life of the asset.

## ESTIMATED USEFUL LIFE

<u>Asset Type</u>	<u>Estimated Useful Life</u>
<u>Administration/Governance</u>	
Computer Hardware - To be Pooled	5 Years
Computer Software - To be Pooled	5 Years
Office Furniture/Small Equipment - To be Pooled	8 Years
<u>Protection of People and Property</u>	
Fire Hall	40 Years
HVAC System	20 Years
Protective Gear/Radios – To be Pooled	8 Years
Fire Trucks and Other Large Vehicles	15 Years
Light Vehicles and ATV's	10 Years
<u>Environmental Protection</u>	
Landfill (see note 1)	50 Years
<u>Health Services</u>	
Cemetery Plots	Indefinite
<u>Recreation and Culture</u>	
Land	Indefinite
Rink	10 Years
Library – Collection to be Pooled	50 Years
Community Centre/Office Building	50 Years
HVAC System	20 Years

**ESTIMATED USEFUL LIFE**

<u>Asset Type</u>	<b><u>Estimated Useful Life</u></b>
<u>Transportation Services</u>	
Linear Asset - Roads	
- Road Base - Gravel	20 Years
- Road Surface - Gravel	20 Years
- Road Right-of-way (see note 2)	Indefinite
Linear Asset - Bridge	
- Deck	30 Years
- Structure	30 Years
Linear Asset - Culverts	
- Steel Culvert	20 Years
Licensed Vehicles and Municipal Equipment	
- Light Vehicles (less than 4500kg)	9 Years
- Medium Vehicles (less than 9000kg)	12 Years
- Heavy Vehicles (greater than 9000kg)	15 Years
Garage Buildings	
- Land	Indefinite
- Main Garage	50 Years
- Quonset Hut	50 Years
- HVAC System	20 Years
- Hand Tools – To be Pooled	8 Years

Note 1 – The landfill useful life must include the years when the property is closed to active landfilling but must be monitored and cannot be sold for other uses.

Note 2 – The road right-of-way has been given a nominal value of \$1.00 for each section of road and will not be depreciated.

