**Schedule A to by-law 33-2008**

# THE CORPORATION OF THE TOWNSHIP OF TARBUTT & TARBUTT ADD'L

## Tangible Capital Asset

## POLICY MANUAL

| **POLICY TITLE:** | **SUBJECT:** |
| --- | --- |
| Tangible Capital Assets | Accounting Treatment for tangible capital assets |
| **EFFECTIVE DATE** | **ENACTED BY** |
| December 17 2008 | By-law 33-2008 |

**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, and Equipment and the changes in such investment. The principal 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 policy and procedures to:

a) Protect and control the use of all tangible capital assets
b) Provide accountability over tangible capital assets
c) Gather and maintain information needed to prepare financial statements

**Tangible Capital Assets:**

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.

**Betterments:**

A betterment is a cost incurred to enhance the service potential of a tangible capital asset.

Subsequent expenditures on tangible capital assets that:

- increase previously assessed physical output or service capacity;
- lower associated operating costs;
- extend the useful life of the asset; or
- improve the quality of the output.

Any other expenditure would be considered a repair or maintenance and expensed in the period.

In Summary:
- maintenance and repairs maintain the predetermined service potential of a tangible capital asset for a given useful life; whereas
- betterments increase service potential (and may or may not increase the remaining useful life of the tangible capital asset)

**Measurement of Assets:**

Tangible capital assets are to be recorded at cost.

Cost is the gross amount of consideration given up to acquire, construct or develop a tangible capital asset. Gross cost includes all costs "directly attributable" to the acquisition, construction or development of the tangible capital asset. This encompasses installing the asset at the location and in the condition necessary for its intended use.

Examples of directly attributable costs are:
- initial delivery and handling costs;
- costs of testing that the asset is functioning properly prior to or during installation;
- professional fees;
- direct design/production costs such as labour, equipment rentals, materials and supplies;
- engineering, architectural and other outside services for designs, plans, specifications and surveys;
- acquisition and preparation costs of buildings and other facilities;
- direct costs of inspection, supervision and administration of construction contracts and work;
- application fees

If two or more assets are acquired for a single purchase price, it is necessary to allocate the purchase price to the various assets acquired based on the fair value of the assets at the time of acquisition. The most common example would be the purchase of a building with land.

**Classifications:**

The following are the major classifications of tangible capital assets.

**Land** – land includes, but not limited to, land purchased or acquired for value for parks and recreation, building sites, infrastructure (roadways, bridges and other program uses)
**Land Improvements** – land improvements include all improvements of a permanent nature to land
**Buildings** – permanent, temporary or portable building structures, such as offices, garages, warehouses, and recreation facilities intended to shelter persons and/or goods, machinery, equipment and working spaces.
**Infrastructure** – permanent structural works such as roads and bridges
**Machinery and equipment** – equipment that is heavy equipment for constructing infrastructure; smaller equipment in buildings and offices; equipment for maintenance of infrastructure; furnishings; tools, shop and garage equipment; fire equipment; computer hardware and software

**Vehicles** – rolling stock

**Work/Construction in progress** – work or construction in progress represents the costs incurred to date on a project that has not yet reached substantial completion (i.e. 90%) or the asset has not been placed into production/service/use. The point of substantial completion typically occurs when the architect, engineer or consultant issues the certificate of substantial completion. Examples of work in progress might include road infrastructure that has not yet opened for use.

**Recognition:**

A tangible capital asset shall be recognized in the financial statements when it is probable that future benefits associated with the asset will be obtained, there is an appropriate basis of measurement and a reasonable estimate of the amount can be made. For purchased assets, this would typically occur when the Township has assumed legal ownership of the item. For constructed assets, this typically is the point in which the architect, engineer or consultant issues the certificate of substantial completion. This certificate provides evidence that the asset has met engineering and safety standards and is ready to be place in production/service or occupied. In situations where the certificate is not issued recognition occurs when substantially all of the activities necessary to prepare the asset for its intended use are complete (i.e.>90%). If an incomplete project is terminated or put on hold indefinitely, any costs currently recorded as work in progress must be expensed unless there is an alternative use for the asset.

**Pooled Assets:**

Assets that have a unit value below the capitalization threshold but have a material value as a group, and are recorded as a single asset with one combined value. Although recorded in the financial systems as a single, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance. Examples could include personal computers, furniture and fixtures, small moveable equipment, etc.

**Capital Lease**:

A 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 life span.
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 Thresholds:**

Capitalization threshold is defined as the minimum value of an expenditure that meets the criteria of a tangible asset and that will be recorded as a tangible capital asset. The general thresholds for the major classes of capital assets are presented in the following table.

a) All Land
b) Land improvements exceeding $10,000

c) Building and building improvements exceeding $10,000
d) Leasehold improvements exceeding $5,000
e) Vehicles and equipment with a unit cost of $5,000 or greater
f) Infrastructure expenditures with cost of $25,000 or greater
g) Pooled assets with an aggregate cost of $25,000 or greater
h) All others with a unit cost of $5,000 or greater

Capitalize betterments to existing assets when unit costs exceed the threshold.

**Network or component:**

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:
a) major components have significantly different useful lives and consumption patterns than the related tangible capital asset; and
b) the value of components in relation to the related tangible capital asset.

In general, major components should be grouped when the assets have similar characteristics and estimated useful lives or consumption rates.

Linear assets are to be broken down into corresponding segments. The Township linear assets (complex network systems such as roads) are to be defined in terms of details such as length, unit of measurement and geographic reference (e.g. start and end points). Each corresponding segment will be considered a single asset and may or may not have different thresholds or useful lives that the related segments.

**Asset Retirement Obligations:**

Liabilities may be incurred for a significant period after the disposal or decommissioning of an existing tangible capital asset (i.e. landfill leachate pumping costs). These costs (if determined to be significant) should be estimated and amortized over the assets useful life. These costs are not, however, added to the capitalized cost base of the corresponding asset.

**Departments:**

All assets will be assigned to departments within the township. The following is a list of the departments that shall be used:

| **Department:** | **Sub-Department:** |
| --- | --- |
| General Government | |
| Protection Services | Fire |
| | Protective inspection & Control (CBO) |

| | |
|---|---|
| | Emergency Measures |
| | Provincial Offences |
| | Other |
| Transportation Services | Winter Control |
| | Unpaved Roadways |
| | Paved Roadways |
| | Other |
| Environmental Services | Waste Disposal |
| | Recycling |
| | Other |
| Health Services | Cemeteries |
| | Other |
| Recreation & Culture | Parks |
| | Recreation Programs |
| | Halls |
| | Other |
| Planning & Development | Planning & Zoning |
| | Other |

**Categories (incl. Sub-categories)**

A category of assets is a grouping of assets of a similar nature or function in the township's operation. The following list of categories and sub-categories shall be used:

| **Category** | **Sub-Category** |
|---|---|
| Land | n/a |
| Building | Structure; Site Elements; Interior Components; Exterior Components; Mechanical/Electrical System; Site Services; Fire and Life Safety |
| Equipment | Operational; Other |

| | |
|---|---|
| Infrastructure | Bridge; Road; Signs; Culverts |
| Technology / Communications | Hardware and Peripherals; Software; Radio Equipment; Land Phones, Cell Phones, Satellite Phones |
| Vehicle and Machinery | Licensed Vehicles; Unlicensed Equipment; Attachments / Fixtures; Misc. Equipment |
| Furniture and fixtures | Office; Furniture |

**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.

*1.1 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 discount or rebate.

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 a part of 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.

*1.2 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 overheads is not allowed.

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

*1.3 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.

*1.4 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. Ancillary costs should be capitalized.

*1.5 Original Value of Asset is Unknown*

In the case where historical records cannot be located in order to value an asset, it is necessary to develop costs in today's dollars and then discount them back to the date the asset was constructed/acquired. In the case where the year the asset was constructed or acquired is unknown, an estimate of the number of years remaining and the current value of the asset, working backward an estimated year and value can be determined.

**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:

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.

**Amortization:**

Amortization is the allocation of the costs of an asset, less its estimated residual value, to be expense over the estimated useful life of the asset. Tangible capital assets shall be deemed to have no residual value unless it is reasonably determined that the residual value of the asset in question is significant. The asset should be amortized in a rational and systematic manner appropriate to it 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. Amortization should start as soon as an asset is completed and ready for use. Where construction of an asset is comprised of distinct, multiple and self-contained phases, amortization must begin for the distinct phases that are completed and a straight line method of amortization will generally be used. Various methods of amortization area available depending on the driver behind the actual decline in serviceability of the asset. 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 in most situations.

**Disposal:**

When 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 Treasurer of the asset description and effective date. The Treasury department is responsible for adjusting the asset registers and accounting records recording a loss / gain on disposal.

**Capital Leases:**

When a capital lease is recorded, the asset is treated as an acquisition of a capital asset and thereby setting up a liability. A lease may be recorded as 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.

**Annual Amortization:**

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.

**Write – Down:**

Tangible capital assets should be evaluated for impairment at least annually. A write-down may be appropriate if one or more of the following events occurs:

a) a change in the extent to which the tangible capital asset is used;

b) a change in the manner in which the tangible capital asset is used;

c) significant technological developments

d) physical damages

e) removal of the tangible capital asset from service;

f) a decline in, or cessation of, the need for the services provided by the tangible capital asset;

g) a decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition; and

h) a change in the law or environment affecting the extent to which the tangible capital asset can be used.

Write-downs are only recorded if the reduction in an asset's future economic benefits is deemed to be permanent and proper approval has been obtained. A write-down is never reversed.

**Estimates of Useful Life:**

Estimates of useful life, for purposes of amortization calculation, will be determined by the township based on reasonable assumptions. The following common assets will be assigned useful lives as follows:

Audio/Visual Equipment......................................10 years
Brick, Mortar, Steel Commercial ..........................40 years
Computer Hardware and Software..........................5 years
Furniture and Fixtures...........................................10 years

Light Duty Trucks..................................................8 years
Heavy Duty Trucks...............................................10 years
Trailers..................................................................10 years

Double Surface Treatment.....................................7 years

Road Surface........................................................15 years
Road Subsurface...................................................25 years
Bridge Structure....................................................50 years
Bridge Decking.....................................................15 years
Culverts..................................................................20 years
Misc. Signs...........................................................20 years