



## Policy # 28

### Tangible Capital Assets Policy

Date: April 16, 2008 (Revised Dec. 3, 2009)

Approved by Council on: December 16<sup>th</sup>, 2009

### **POLICY**

The Township of Southgate will follow this administrative policy to record and manage the tangible capital assets owned and acquired by the Municipality. The treatment of tangible capital assets for accounting purposes is intended to be in accordance with the Public Sector Accounting Board (PSAB) and the requirements of the Province of Ontario effective January 1, 2009.

### **PURPOSE**

The objective of this policy is to provide departments with information for assessing their tangible capital assets, to prescribe the accounting treatment for those assets, and to comply with PS3150.

### **DEFINITIONS**

**Tangible Capital Assets** are non-financial assets that have physical substance that:

- a) Are used on a continuing basis within 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 versus Maintenance**

Betterments are subsequent expenditures on tangible capital assets that fulfill one or more of the following requirements:

- *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 repair or maintenance and therefore expensed in the year in which they occur. (see Attachment #1)

### **Group or Pooled Assets**

Similar assets are defined as assets that have a unit value below the capitalization threshold (on their own) but have a material value as a group. Examples of these might include computer hardware, fire department hoses and bunker gear, or small machinery. Such assets would be "pooled" as a single asset with one combined value. Although recorded in the Fixed Asset Module as a single asset, each unit of the pool may be recorded in an asset sub-ledger for monitoring and control of their use and maintenance.

### **Fair Value**

The amount of consideration 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 Township of Southgate.

### **'In Service' Date**

Realized as the date at which an asset begins to be utilized by the Township. The calculation and recording of amortization will not begin until the 'in service' date has been reached.

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#### Capital Lease

A lease with contractual terms that transfers substantially *all* of the benefits and risks inherent in ownership of the property to the Township. (Photocopier at the Municipal Office would not apply; however, a vehicle that is initially on lease with the intent for buyout at end of lease, would). For substantially *all* of the benefits and risk 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 leased term.
- b) The lease term is of a 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.

### POLICY STATEMENTS

#### CAPITALIZATION

Capitalization thresholds are the value above which assets are capitalized and reported in the financial statements as tangible capital assets, as opposed to being expensed in the year of acquisition. Any item **below** the threshold will be expensed in the year of acquisition and charged in full in the Operating Budget.

The following lists the major asset categories and capitalization thresholds that will be used for financial statement presentation at the Township of Southgate. 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. These categories will be presented separately in the notes to the financial statements.

#### Primary Category/Thresholds

The list of primary asset categories and thresholds to be used are as follows:

- All Land
- Land improvements (e.g. retaining walls, sprinkler systems etc) exceeding \$5,000.
- Building and building improvements exceeding \$5,000.
- Leasehold improvements exceeding \$5,000.
- Vehicles & Equipment with a unit cost of \$5,000. or greater
- Infrastructure expenditures (e.g. roads, bridges, water & sewer lines) with cost of \$50,000. or greater
- Pooled assets (computer hardware, furniture, fire department hoses/bunker gear, library books, sidewalks, etc.) with a combined cost of \$ 5,000. or greater
- All other assets with a unit cost of \$5,000. or greater

**NOTE: Required 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.**

#### Functional Category

The following lists the functional category or department to which the assets will be assigned:

- General Government (Admin)
- Protection Services (Emergency/Fire)

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- Transportation & Public Safety (Roads)
- Environmental Services (Water/Wastewater/Waste)
- Health Services (Cemeteries)
- Recreation & Culture (Parks & Recreation/Arena/Library)
- Planning and Development (Zoning)

### VALUATION TECHNIQUES

#### Historical Cost

This should be the goal for all assets acquired within the term specified in the records retention bylaw (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 is readily obtainable. In cases where the cost/effort of obtaining the necessary documents would be too time-consuming or in some cases, impossible, to obtain an alternate method of valuing the asset should be used. For valuing land on the rare occasion if no appraisal is available and the property has been in the municipalities name for a considerable number of years the land will be valued at a nominal cost of \$1.00.

#### Deflated Reproduction Cost

This valuation 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 (CPI) tables.

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.

#### 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 Township. 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 (CPI) tables.

#### Appraisal

This technique is the fourth method of choice for valuation of an asset. 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

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performed using the Consumer Price Index (CPI) tables. This method is most useful for land and buildings where historical cost is not readily available.

**Notes to the Above:** In the event that it is determined an asset has not been recorded in the year for which it has been deemed to be acquired, then the net value (purchase value less any applicable depreciation) shall be recorded within the year this is determined using the above methods.

#### **ASSET COMPONENTS**

Tangible capital assets may be accounted for using either the single asset or component approach. For initial valuation purposes for the Township of Southgate, we have used the single asset approach but may implement the component approach for new acquisitions going forward. 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:

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

Infrastructure assets and Building assets may be recorded using the component approach. Major components are grouped together when the assets have similar characteristics and estimated useful lives or consumption rates.

#### **AMORTIZATION or DEPRECIATION**

Amortization is an accounting concept in which the recorded cost of an asset is distributed in a systematic and rational manner over its estimated useful life and matches the cost of that asset to the periods in which service is derived from the asset on a straight-line basis. Amortization is normally based on the total cost of the asset less its residual (remaining) value. It is assumed that the tangible capital asset will be held for an extended period of time and the residual value will be immaterial. The start date of amortization will be the date the asset is in service.

This section will provide 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.

1. All tangible capital assets shall be amortized on a straight-line basis (based on useful life), except in conditions where it would be deemed more appropriate to use a different method. Useful life is normally the shortest of the asset's physical, technological, commercial or legal life. The straight-line method is the most common and preferred method of amortization and is calculated by dividing an asset's original cost by its estimated life in years yielding a constant annual depreciation amount each year. For example, a building that costs \$1,000,000 and has an estimated useful life of 40 years would yield annual depreciation of \$25,000. ( $\$1,000,000/40$  years).
2. Amortization will be calculated and posted to the appropriate departments at least on a quarterly basis (March 31, June 30, September 30 and December 31).
3. Land and land components of tangible capital assets (e.g. land on which a building is situated) shall be recorded for acquiring a list of such assets ONLY and will not be amortized.

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4. Items that have been fully amortized shall be deemed to have no residual (remaining) value for purposes of calculating amortization. In this instance, any eventual proceeds of sale of that item should 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 on disposal of asset”.
5. Annual amortization expense shall be estimated and included in the annual budget of each respective operating unit. The actual amortization expense shall be charges against the operating unit.
6. Estimates of useful life (for annual amortization calculation) will be determined by the Township of Southgate based on reasonable assumptions. The following common asset categories will be assigned useful lives as follows:

<b>Description</b>	<b>Depreciation Method</b>	<b>Rate</b>
Buildings & Building Improvements (50 Yrs)	Straight Line	2.00
Computer Equipment (5 Yrs)	Straight Line	20.00
Equipment (10 Yrs)	Straight Line	10.00
Equipment (15 Years)	Straight Line	6.67
Equipment (20 Years)	Straight Line	5.00
Infrastructure - Bridges (50 Yrs)	Straight Line	2.00
Infrastructure - Plants & Facilities for Waste Water (50 yrs)	Straight Line	2.00
Infrastructure - Plants & Facilities for Water (50 yrs)	Straight Line	2.00
Infrastructure - Roads Paved (50 Yrs)	Straight Line	2.00
Infrastructure - Roads Unpaved (50 Yrs)	Straight Line	2.00
Infrastructure - Storm Sewer (catch basins) (50 yrs)	Straight Line	2.00
Infrastructure - Wastewater Mains (50 Yrs)	Straight Line	2.00
Infrastructure - Wastewater Mains (80 Yrs)	Straight Line	1.25
Infrastructure - Water Mains (70 yrs)	Straight Line	1.43
Infrastructure - Water Mains (80 Yrs)	Straight Line	1.25
Land	Not Depreciated	
Land Improvements	Not Depreciated	
Library Collections (7 yrs)	Straight Line	14.25
Office Furniture & Equipment (20 Yrs)	Straight Line	5.00
Parking Lots/Sidewalks/Ornamental Fencing (30 yrs)	Straight Line	3.33
Public Works - Machinery & Equipment (15 yrs)	Straight Line	6.67
Public Works – Equipment (30 yrs)	Straight Line	3.33
Vehicles (10 Yrs)	Straight Line	10.00
Vehicles (15 years)	Straight Line	6.67
Vehicles (20 Years)	Straight Line	5.00
Vehicles (30 years)	Straight Line	3.33
Waste Water - Equipment & Machinery (10 yrs)	Straight Line	10.00
Waste Water - Vehicles (10 yrs.)	Straight Line	10.00
Water - Equipment & Machinery (10 yrs.)	Straight Line	10.00
Water – Equipment (25 yrs)	Straight Line	4.00
Water - Vehicles (10 yrs.)	Straight Line	10.00
Water - Water Meters (15 yrs)	Straight Line	6.67
Work in Progress	Not Depreciated	

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The Township will consider various other sources when making assumptions on Useful Life, such as Manufacturer estimates, previous experience or the Ontario Municipal Benchmarking Initiative (OMBI) documentation.

7. 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.
8. In the event of disagreement on the interpretation or implementation of these policies and procedures, the Treasurer shall make the final decision, guided by the Municipal Act, PSAB Handbook Section 3150, and OMBI's guide for Accounting for Tangible Capital Assets.

**DISPOSAL**

When a tangible capital asset is taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the department head or designate must provide the Treasurer with notice of: 1) description of asset and 2) effective date of disposal. The Treasury department is responsible for adjusting the asset registers and accounting records for the loss / gain on disposal. The value given for a trade-in is the net proceeds on disposal.

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Attachment #1

**TANGIBLE CAPITAL ASSETS**

Examples of Capital versus 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></ul>	<ul style="list-style-type: none"><li>• Routine repairs, patching, crack sealing</li></ul>
Traffic	<ul style="list-style-type: none"><li>• New or upgraded signal equipment</li><li>• Other physical improvements enhancing safety/capacity</li></ul>	<ul style="list-style-type: none"><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)</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>
Water and sewer	<ul style="list-style-type: none"><li>• Upgrade/replacement of existing distribution/collection main servicing several properties</li></ul>	<ul style="list-style-type: none"><li>• Emergency repair to broken main isolated to one specific location</li></ul>
Waste management	<ul style="list-style-type: none"><li>• New/replacement containers/weigh scales</li></ul>	<ul style="list-style-type: none"><li>• Contract for waste collection/processing</li></ul>
Lagoons	<ul style="list-style-type: none"><li>• Relining cells prolonging useful life</li></ul>	<ul style="list-style-type: none"><li>• Sludge removal on rotating basis for continued use of existing cells.</li></ul>