

**THE CORPORATION OF THE TOWNSHIP OF O'CONNOR**

**ACCOUNTING POLICY FOR TANGIBLE CAPITAL ASSETS (TCA)**

**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.

**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.
- d) Gather and maintain information needed to prepare financial statements.

**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.

## Township of O'Connor – Accounting Policy for Tangible Capital Assets (TCA)

**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 the consideration that would be agreed upon in an arms 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, Recreation facilities, Fire and Landfill.

**Group Assets (Pooling)** 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. As similar items are purchased, they will be added to the pool or if disposed of will be subtracted. 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). As well as buildings in works yards, licensed vehicles, machinery and equipment dedicated to infrastructure maintenance.

**Tangible Capital Assets (TCA)** are *non-financial* 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. (*an accounting period*)
- c) Are not held for re-sale in the ordinary course of operations.

### **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.

**GUIDELINES:**

**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.

**2. Capitalization**

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

<b>Asset Category</b>	<b>After January 1, 2009</b>
Land	\$5,000
Land Improvements	\$5,000
Buildings	\$5,000
Roads	\$5,000
Bridges & Culverts	\$5,000
Equipment & Machinery	\$5,000
Licensed Vehicles	\$5,000
Computer Hardware	\$5,000
Computer Software	\$5,000

2.2 Works in progress shall be capitalized in the year and month that the asset comes in service.

**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.

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)

3.2 Methods Used to Develop CRN and RCN

- a) For land:
  - i) Deflated market value
  - ii) Title Search

## Township of O'Connor – Accounting Policy for Tangible Capital Assets (TCA)

- 3.2 b) For all other categories:
  - i) Obtain current quotes from contractors and suppliers
  - ii) Analyze capital project cost of recent years
  - iii) Reference published construction cost data
  
- 3.3 Development of Discount Factors
  - a) For Linear Assets:
    - i) Use Consumer Price Index (CPI) from Statistics Canada
    - ii) Use Engineering News Record Construction Cost Index (ENR)
  
  - b) For Buildings:
    - i) Statscan Non-residential Building Construction Price Index Deflator Table
  
  - c) For Land:
    - i) From local Real Estate Board
    - ii) Canadian Real Estate Association

### 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.

### 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 to use.

### 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.

### 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. Costs that are directly attributable to the asset acquisition should be capitalized.

### 3.8 Grouping (Pooling) of Assets

TCAs that do not reach the threshold level individually for its category may be pooled at the discretion of the Clerk-Treasurer, in order to be capitalized.

## 4.0 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.

## 5.0 Acquisition Month and Year

Where invoices are available, the acquisition month and year shown on the invoice is recorded. If acquisition year is known and acquisition month is unknown, it will be assumed that June be will the acquisition month. If acquisition year is unknown, the estimated acquisition year will be estimated on the asset's current condition.

## **6.0 Amortization**

The cost, less any residual value, 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 useful life of assets purchased used, shall be estimated at time of purchase.

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.

## **7.0 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 Clerk-Treasurer will be responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

## **8.0 Capital Leases**

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

## **9.0 Betterments and Replacements**

If a betterment meets the capitalization threshold then it is to be capitalized.

If a replacement meets the capitalization threshold for its category, then it is be capitalized.

## **10.0 Data Collection and Compilation**

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 Accounting Policy for TCA  
Classes of Tangible Capital Assets**

**PRIMARY CLASSES**

**SUBCLASSES**

General Capital Assets:

- Land
- Land Improvements
- Buildings
- Licensed Vehicles
- Machinery and Equipment
- Computer Hardware
- Computer Software

Infrastructure Assets:

- Land
- Land Improvements
- Roads
- Bridges and Culverts
- Buildings
- Licensed Vehicles
- Machinery and Equipment
- Computer Hardware
- Computer Software

Assets Under Construction

**FUNCTIONAL ASSET CLASSES**

General Government - Admin  
Transportation Services - Roads  
Protection Services – Emergency/Fire  
Environmental Services – Disposal Site  
Recreation and Culture  
Planning and Development

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

**Schedule “B” to Accounting Policy for TCA**  
**Capital Assets Useful Life**

<b>General Capital Assets</b>		
Subclass	Asset Description	Estimated Useful Life
Land	Disposal Site	N/A
	Cemetery	N/A
	Helipad	N/A
	Land	N/A
Land Improvements	Septic Systems	25
	Well	75
	Recreational	20
Buildings	Wood Frame, Concrete Basement	80
	Wood Frame, No Heat	40
	Wood Frame, Tin sheeting	40
	Metal Frame, Metal Cladding	70
Licensed Vehicles	Fire Trucks	20
	Rescue Vehicle	15
	Light Truck	15
Machinery & Equipment	Disposal Site Equipment	15
	Disposal Site Recycle Bins	30
	Office Equipment, appliances & furniture	15
	Fire Department Communication Equipment	
Computer	Hardware	5
	Software	5

**Schedule “B” to Accounting Policy for TCA (Continued)**  
 Capital Assets Useful Life

<b>Infrastructure Assets</b>			
Subclass	Asset Description		Estimated Useful Life
Land	Municipal Garage Yard		N/A
Land Improvements	Septic		25
	Wells		60
Roads	Base		60
	Surface		10
	Signs		15
	Guiderails		50
Bridges & Culverts	Component	Deck	40
			10
			35
		Structure	75
			60
	Culverts Major	Galvanized Steel	35
		Concrete Box	50
	Culverts Minor	Galvanized Steel	30
		Plastics	30
		Wood	30
Buildings	Wood Frame – No Heat		40
	Wood Frame – Tin Sheeting		70
Licensed Vehicles	Light - GTW < 4500kg		12
	Heavy – GTW > 9000kg		20
Machinery & Equipment	Off Road Vehicles – Heavy		15
	Office Equipment & furniture		15
Computers	Hardware		5
	Software		5

Reference:

Amended by Resolution # \_\_\_\_\_, April 10, 2012