



## TANGIBLE CAPITAL ASSET POLICY

### BACKGROUND

The adoption of a Tangible Capital Asset Policy is a prudent business practice that will strengthen corporate decision making through improved capital asset management and will provide increased reporting transparency to Council and the public.

### 1. PURPOSE

- ensure tangible capital assets are recorded appropriately and accurately;
- provide for the amortization of tangible capital assets;
- ensure that all tangible capital asset acquisitions are planned for, acquired and financed in an appropriate and timely manner;
- ensure that all tangible capital asset disposals or write-downs are recorded in a timely manner;
- provide a framework for the annual capital budget review and approval process;
- improve the management of the organization by promoting long term planning, prioritization and control of capital expenditures.

### 2. DEFINITIONS

**“Amortization”** means the reduction in the value of an asset due to usage, passage of time, wear and tear, technological outdateding or obsolescence, depletion or other such factors. Sometimes known as depreciation, it is the method of attributing the historical or purchase cost of an asset across its useful life, roughly corresponding to normal wear and tear.

**“Betterments”** mean subsequent expenditures on tangible capital assets that enhance the service potential of the asset.

Service potential is enhanced by:

- a) an increase in previously assessed physical output or service capacity;
- b) lower associated operating costs; or
- c) an improvement in the quality of the output. Service potential enhancements may or may not increase the remaining useful life of the tangible capital asset.

**“Capital Lease”** means a lease, with contractual terms, that transfers substantially all the benefits and risks inherent in ownership of property to the Township. For substantially all the benefits and risks of ownership to be transferred, 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 the economic benefits expected to be derived from the use of the leased property over its life span.
- c) The lessor is assured of recovering the investment in the leased property and of earning a return on the investment because of the lease agreement.

**“Capitalization Threshold”** means the value above which assets are capitalized and reported as non-financial assets in the financial statements.

**“Component”** means a part of an asset with a cost that is significant in relation to the total cost of that asset.

**“Cost”** can mean one of the following:

- **Purchased assets** -cost includes the purchase price and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties.
- **Constructed or developed assets** -cost includes the gross amount of consideration directly attributable to acquire control of, construct or develop the asset.
- **Donated or contributed assets** - cost equals the fair value at the date of donation or contribution. If determining the fair value is not feasible, the asset should be recorded at the nominal amount of \$1.00.

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

**“Linear Asset”** are assets generally constructed or arranged in a continuous and connected network. They are usually defined in terms of details such as length, unit of measure and geographic reference (start and end points).

**“Market Value”** means the estimated amount for which a property would be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the parties acted knowledgeably, prudently and without compulsion. See also Fair value.

**“Net Book Value”** means the cost of a tangible capital asset plus betterments, less accumulated amortization and the amount of any write-downs.

**“Pooled Assets”** means a group of assets having a similar expected useful life, of a similar type and value. The asset may have a value below the materiality threshold when considered on an individual basis but collectively exceed the threshold level (i.e. computers on the network, office furniture, library collections, etc.)

**“Residual value”** means the estimated net realizable value of a tangible capital asset at the end of its useful life.

**“Responsible Department”** means the department that is responsible for an asset is the department that controls either:

- a) the use of the asset in the delivery of internal services to other Township departments; or
- b) the use of the asset in the delivery of Township services to external parties.

**“Service Potential”** means the tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

**“Tangible Capital Assets”** means non-financial assets having physical substance that:

- a) 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;
- b) have useful economic lives extending beyond an accounting period;
- c) are to be used on a continuing basis; and
- d) are not for sale in the ordinary course of operations.

**“Useful Life”** means the estimate of either the period over which the Township expects to use a tangible capital asset or the number of production or similar units that it can obtain from the tangible capital asset. The life of a tangible capital asset may extend beyond its useful life. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life.

**“Write-down”** means the reduction in the cost of a tangible capital asset to reflect the decrease in the quality or quantity of its service potential due to a permanent impairment, and the Township still owns the asset written down. A write-down should not be confused with a "write off", which is treated as a disposal.

### **3. PROCEDURES**

#### **3.1. Asset Definitions & Classification**

##### **Capitalization**

Tangible capital assets that have an acquisition value per individual item or unit that exceeds the capitalization thresholds by asset type will be capitalized. Thresholds and estimated useful life are noted on Appendix “A” to this policy.

## **Classification**

Tangible capital assets will be classified in the following major categories:

- Land
- Land Improvements
- Bridges
- Buildings
- Computer Hardware/Software
- Culverts
- Hydrants
- Machinery and Equipment
- Paths and Trails
- Pooled Assets
- Roads
- Sidewalks
- Street Lighting/Signal Lights
- Vehicles
- Water/Wastewater Infrastructure

The following assets will not be capitalized:

- land (or other assets) acquired by right, such as Crown lands, forests, water and mineral resources;
- works of art and historical treasures; and
- intangible assets such as patents, copyrights and trademarks.

Assets will be transferred to the applicable category once it goes into service. Amortization will also begin when the asset goes into services.

## **Capital Leases**

The Township will account for a capital lease as an acquisition of a tangible capital asset and incurrence of a liability.

## **3.2. Recording Assets**

### **When to Record Tangible Capital Assets**

A physical asset will be recorded as a tangible capital asset in the Township financial statements as of the date it meets the definition of a tangible capital asset. Control of the asset's economic benefit or liability is a key concept in determining when to record a tangible capital asset for the Township.

## **Betterments vs. Maintenance**

Betterments which exceed the capitalization threshold of the applicable capital asset class will be included in the tangible capital asset's cost. Any other expenditure would be considered a repair or maintenance and expensed in the period.

## **Single asset versus asset division into components and/or segments**

Tangible capital assets may be accounted as a single asset or by components. A linear asset may also be accounted for by segments or a combination of segments and components. Whether the component and/or segment approach is to be used will be determined by the usefulness of the information versus the cost of collecting and maintaining information at the more detailed component or segment level.

## **Grouped/Pooled Assets**

Assets that have an individual unit value less than the corresponding capitalization threshold (on their own) but have a material value as a group can be 'grouped' as a single asset with one combined value in the asset accounting records. The asset must be similar in nature and function (i.e. office desks) and have a useful life greater than one year. Grouped/pooled assets must be inventoried on an annual basis to confirm that amounts are correct, and dispositions/acquisitions have been noted

## **4. ASSET VALUATION**

### **4.1 Definition of Cost**

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place, prepare, and install the asset in its intended location and condition for use. Cost includes all non-refundable taxes and is net of any trade discounts or rebates. Capital grants or donations towards a purchase or construction or betterment of a tangible capital asset are not netted against the cost of the related tangible asset.

### **4.2. Donated or Contributed Assets**

For donated or contributed assets that meet the criteria for recognition as tangible capital assets, cost is equal to the fair value at the date of donation or contribution. Fair value may be determined using market or appraisal values. If it is not practical to determine the fair market or appraised value, a reasonable estimated cost shall be used. Ancillary costs necessary to place, prepare, and install the donated asset in its intended location and condition for use should be capitalized.

## **5. AMORTIZATION METHODS AND ESTIMATED USEFUL LIFE**

### **5.1. Amortization**

The cost, less any residual value, of a tangible capital asset with a limited life should be amortized over its useful life using the straight-line amortization method and will be calculated on a yearly basis. Land has an unlimited useful life and should not be amortized. No amortization should be recorded on tangible capital assets which have been removed from service but not yet physically disposed of either through sale, demolition/dismantling, trade-in or transfer.

## **5.2. Estimated Useful Life**

An asset's useful life is based on the Township's planned use of that asset and experience with other similar assets

## **5.3. Residual Values**

In most cases, the Township will hold a tangible capital asset for an extended period and as a result, the residual/salvage value will be immaterial for most asset classes. A residual value may be recorded for a tangible capital asset when the responsible department believes that the asset will have a significant value beyond its useful life to the Township.

## **6. REVIEW AND WRITE-DOWNS**

### **6.1. Revising Amortization Methods and Estimated Useful Life**

The estimated remaining useful life and residual value should be reviewed on a regular basis by the responsible department with assistance from the Director of Finance/Treasurer and revised when the appropriateness of a change can be clearly demonstrated.

The effect of a change in the estimated useful life of a tangible capital asset and its associated effect on amortization expense are allocated to the period of revision and applicable future periods.

### **6.2. Write-down for Impairment**

A write-down for impairment of a tangible capital asset is required when either:

- service potential is impaired (i.e. the asset no longer contributes to the Township's ability to deliver goods or services); or
- future economic benefits are impaired (i.e. the net book value of the tangible capital asset is more than the future economic benefits expected from its use and this excess is expected to be permanent).

Write-downs of tangible capital assets should be recorded as a current period expense in the period that the decrease can be measured and is expected to be permanent. Both conditions are required to write down the asset. Write-downs are permanent and cannot be reversed in subsequent periods even if circumstances change.

## **7. MAINTAINING RECORDS**

The responsible department will notify the Director of Finance/Treasurer of the related asset description, details of the asset, and the date in use when tangible capital assets are purchased, acquired, developed, improved, constructed, or donated.

The Director of Finance/Treasurer is responsible for ensuring the accounting records are adjusted based on the information provided by the responsible department.

The responsible department will periodically review the accounting records to ensure that they are current, accurate, and complete. The Director of Finance/Treasurer is responsible to ensure that periodic asset inventories are performed and documented.

## **8. ASSET DISPOSAL**

When tangible capital assets are taken out of service, destroyed, replaced due to obsolescence, scrapped, abandoned, dismantled or otherwise written off, the responsible department will notify the Director of Finance/Treasurer of the related asset description, details of the asset disposal (i.e. proceeds on sale or transfer or trade-in), and the effective date of the change in the use of the asset. Any gain or loss on the disposal will be recorded as a revenue or expense, respectively, in the period of the disposal.

## **9. FINANCIAL REPORTING AND BUDGETING**

### **9.1. Amortization**

Amortization is accounted for as an expense in the statement of operations and reported on other financial schedules. All assets acquired during the current year shall be amortized for a six month period initially and then on an annual basis.

### **9.2. Disclosure Required**

In total and for each major category of capital assets, the Township will disclose the following in the annual financial statements:

- a) Cost at the beginning and end of the period;
- b) Additions in the period;
- c) Disposals in the period;
- d) The amount of any write-downs in the period;
- e) The amount of amortization for the period;
- f) Accumulated amortization at the beginning and end of the period;
- g) Net carrying amount at the beginning and end of the period.

### **9.3. Budgeting and Approvals**

Expenditures for tangible capital assets will be included in the Township's budget process and approved by Council.

A recommendation to change the funding, or substantially change the scope or expected outcome of an approved capital project (with or without a financial impact) must be reviewed and approved in advance by Council.

## Appendix "A"

### Capital Threshold and Useful Life

Asset Type	Capital Threshold (Dollars)	Useful Life (Years)
All land	None	Indefinite
Land improvements (parking lots, sprinkler systems, retaining walls, fencing, etc.)	10,000	10-25
Bridges**	10,000	40-100
Buildings	10,000	40
Computer Hardware/Software**	5,000	5-10
Culverts	10,000	35
Hydrants	5,000	50
Machinery and Equipment**	5,000	5-20
Paths and Trails	25,000	10
Pooled Assets**	5,000	5-20
Roads (includes base, surface, etc.) **	20,000	10-40
Sidewalks/Curbs	10,000	50
Street Lighting/Signal Lights	10,000	15
Vehicles **	10,000	10-25
Water/Wastewater Infrastructure**	20,000	40-100

\*\*Due to the different types of assets in this category, useful life to be provided by Director of Public Works or Director of Finance based on the asset type.

Revised: October 2022