Staff Report

Finance and IT Services

Report To: Special Meeting of Council
Meeting Date: June 3, 2019
Report Number: FAF.19.057
Subject: Tangible Capital Asset Policy Update
Prepared by: Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets

A. Recommendations

THAT Council receive Staff Report FAF.19.057 entitled “Tangible Capital Asset Policy Update”;

AND THAT Council repeal Policy FIS.10.13 entitled “Tangible Capital Assets Accounting Guidelines”;

AND THAT Council enact a new “Tangible Capital Assets Policy”, POL.COR.19.XX.

B. Overview

This report looks at the Town’s Tangible Capital Asset Policy and staff recommended updates.

C. Background

In 2010, Council approved the Tangible Capital Asset Policy FIS.10.13, which at the time was in response to the new accounting standard Public Sector Accounting Board (PSAB) 3150. This new standard required municipalities to capitalize all tangible capital asset purchases rather than expensing these costs annually.

D. Analysis

The purpose of this policy is to help guide staff in identifying which type of expenses, and at what level, are deemed capital and therefore should be capitalized and amortized. In addition, this policy aids readers of the Financial Statements so that when they see the Tangible capital assets of $175,897,096 (2017) on the Town’s Statement of Financial Position, they have an understanding of what makes up that number.

This revision comes with a few major changes, but most changes are minimal. One of the major changes is that the policy has been simplified. The original version was dealing with the implementation of PSAB 3150 and required more direction as the Town had to quantify and qualify decades of purchases. After a decade of dealing with this accounting standard, the Town has a good, robust process in place.

The last major change is to the threshold levels, which are the dollar values that the Town considers an expense to be capital in nature. The threshold levels are one of the criteria for determining when an expense is deemed capital. The previous thresholds were $5,000 for linear and all land costs and $2,500 for all other asset types (building, equipment, etc.). Staff are recommending that these limits be increased to $10,000 for linear, land staying the same and $5,000 for all others.

One reason for this increase is to better align with the Purchasing Policy, which sets $5,000 as the level to which three quotes and a purchase order are required. The second reason is to bring the threshold up to a more reasonable number, as costs have increased since 2010. This increase is to reflect those changes.

Attachment #1 is the current Tangible Capital Assets Accounting Guidelines, for Council's information. Attachment #2 is the draft Tangible Capital Assets Policy.

E. The Blue Mountains Strategic Plan

Goal #4: Promote a Culture of Organizational and Operational Excellence
Objective #4: To Be a Financially Responsible Organization

F. Environmental Impacts

N/A

G. Financial Impact

There will be minimal impact on the Town's budgeting and financial statements. A few small purchases that in previous years would have been considered capital will now be included in operating budgets. For example, the 2019 capital budget included an air quality tester ($4,000 budget). Going forward, this would be expensed through the Facility Maintenance operating budget rather than capitalized.

H. In consultation with

Ruth Prince, Director of Finance and IT Services
Serena Wilgress, Manager of Purchasing and Risk Management
Vicky Bouwman, Financial Analyst

I. Public Engagement

The topic of this Staff Report has not been subject to a Public Meeting and/or a Public Information Centre as neither a Public Meeting nor a Public Information Centre are required. Comments regarding this report should be submitted to Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets at finance@thebluemountains.ca.

J. Attached

1. FIS.10.13 - Tangible Capital Asset Accounting Guidelines
2. POL.COR.19.XX – Tangible Capital Assets Policy

Respectfully Submitted,

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Sam Dinsmore
Deputy Treasurer/Manager of Accounting and Budgets

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Ruth Prince
Director of Finance and IT Services

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FAF.19.057
Attachment 1

The Corporation of the Town of The Blue Mountains

Tangible Capital Asset Accounting Guidelines
FIS.10.13

Contents

TOWN OF THE BLUE MOUNTAINS

POLICY & PROCEDURES

Subject Title: Tangible Capital Assets Accounting Guidelines

Corporate Policy (Approved by Council)	X	Policy Ref. No.:	FIS.10.13
Administrative Policy (Approved by CAO)		By-law No.:	
Department Policy: (Approved by Mgr.)		Name of Dept.:	Financial & Information Services
Date Approved:		Staff Report:	FIS.10.33

Policy Statement

Financial & Information Services will ensure that the accounting methodology as it relates to Tangible Capital Assets as outlined in this policy will be adhered to in conjunction with all Town Staff.

Purpose

1. The purpose of this policy is to establish Accounting Guidelines for Tangible Capital Assets (TCA) in accordance with PS 3150 and CICA Sections 3060 and 3065 and their respective representation on the Financial Statements of the Town.

a. Prescribe the accounting treatment for TCA so users of the financial statements can discern information about the investment in property, plant and equipment and the changes in such investments.

b. Recognition of the assets, the determination of their carrying amounts, amortization charges, and the recognition of any impairment losses.

c. Establish consistent approach to accounting estimates in areas where measurement uncertainty exists in accordance with CICA Section 1508.

d. Establish policies for the effective transition to full accrual accounting required by January 1, 2009.

e. Establish accountabilities and responsibilities for the Financial & Information Services Department, Directors and staff that purchase, contract and construct TCA and have asset management responsibilities.

f. To ensure consistent, transparent treatment of all TCA.

g. Establish and delegate authority of Town Departments as it relates to the TCA Accounting and Asset Management.

Objective

2. This Policy supports the following Corporate Strategic Objectives:

a. Fiscal Responsibility

b. Accountability for the Town's Tangible Capital Assets

c. Compliance with PSAB

d. Efficient and effective use of TCA

e. Enhanced measurement of cost of service

f. Improved information to support long term planning

g. More comprehensive communication with citizens

Application

3. Application & Scope

i. This policy applies to all department and organizations that the Town is responsible to include in its Financial Statements.

ii. This policy applies to existing assets as of January 1, 2008 and all new TCA purchased, acquired or constructed. Intangible assets are not covered by this policy.

iii. This policy should be read in conjunction with PSAB Handbook Section PS 3150 and CICA Sections 3060 and 3065.

4. Principles

i. Accounting for TCA is a joint responsibility between departments procuring TCA and Financial & Information Services and shall be done in accordance with this policy.

ii. Management of TCA, including the determination of replacement cost for long term capital planning, is the responsibility of the departmental managers, in conjunction with Financial & Information Services. Authority is to be delegated to the appropriate level to enable Town departments to meet service requirements while preserving the asset accounting policies and principles.

iii. Managers responsible for procurement, acquisition and construction of TCA are accountable for their action and decisions.

iv. Managers are responsible for the efficient, effective and quality service and delivery through effective asset management practices while meeting the generally accepted accounting principles as set out PS 1000, 1100, 1200, 3150 and CICA Sections 3060 and 3065.

Definitions

Accumulated Amortization
Accumulated amortization represents the total to date of the periodic amortization charges relating to the TCA since the assets were placed in use.

Amortization
Amortization is the process of allocating the cost of a TCA, net of its residual value, over its estimated useful life. Amortization allocates the cost of a TCA in a systematic manner over the asset's useful life.

Acquisition Cost
Acquisition cost is the amount of consideration given up to acquire, construct, develop or better a TCA, and includes all costs directly attributable to acquisition, construction, development, or betterment of the TCA, including installing the asset at the location and in the condition necessary for its intended use.

Betterment
Betterments are costs incurred to enhance the service potential of a TCA and may or may not extend the useful life of a TCA. In general, the service potential of a TCA may be enhanced when:

- there is an increase in the previously assessed service potential;
- there is a significant reduction in the operating costs of the tangible capital assets due to efficiency gains;
- the useful life of the tangible capital asset is extended; or,
- the quality of the output is improved.

Capital Assets
Capital assets are non-financial assets having physical substance that:

- are held for use by the government 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 TCA;
- have useful lives extending beyond a year and are intended to be used on a continuing basis; and
- are not intended for sale in the ordinary course of operations.

Capital assets do not include such things as:

- inventories held for resale (including land);
- capital grants
- intangible assets, except for software which is tangible for the purpose of capitalization;
- feasibility studies, business cases, management reviews (post implementation) and;
- assets below the thresholds outlined in this policy.

Cost
The cost of a TCA is the amount of consideration given up to acquire, construct, develop, or better a TCA and includes all costs directly attributable to acquisition, construction, development, or betterment of the TCA, including installing the asset at the location and in the condition necessary for its intended use.

Disposals
Disposals occur when the ownership of a TCA is relinquished and may occur by sale, destruction, loss or abandonment. At this time the cost and accumulated amortization of the asset is reduced to zero.

Estimated Useful Life
Estimated Useful Life is 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.

Expenditures
Expenditures are the cost of goods and services acquired in the period whether or not payment has been made or invoices received and include transfer payments due where no value is received directly in return.

Expenses
Expenses are the cost of resources consumed in and identifiable with the operations of the accounting period.

Executory
Costs related to the execution or administration of the contract such as insurance, property taxes and maintenance costs.

Fair value
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.

Financial Assets
Financial Assets are assets that are available to discharge liabilities or future operations and are not for consumption in the normal course of operations. Examples of financial assets are cash on hand, accounts receivable and inventories for resale.

Gain on Disposal
A gain on disposal is the amount by which the proceeds realized upon the asset’s disposal exceed the net book value of the TCA. Gains will be allocated to the department that owns the asset.

Infrastructure
Municipal infrastructure is all capital assets required to create and maintain a safe, secure and sustainable community. Municipal Infrastructure includes but is not limited to:

- transportation infrastructure (e.g., roads, bridges, public transit);
- utilities and environmental infrastructure (e.g., water delivery systems, sewage treatment systems, recycling systems, landfills);
- infrastructure enabling the provision of protective services (e.g., police, fire);
- parks, recreation and cultural facilities (e.g., arenas, playgrounds, trails, libraries, community and art centres);
- electronic infrastructure (e.g., broadband networks, information systems);
- municipal civic institutions (e.g., City/Town Hall, Administration buildings)

Land
Land includes land purchased or acquired for use, for preservation, for parks and recreation, for building sites, for infrastructure and for other program use.

Loss on Disposal
A loss on disposal is the amount by which the net book value of the TCA exceeds the proceeds realized upon the asset's disposal, after applying the half year of amortization in the year of disposal (if applicable). Losses will be allocated to the department that owns the asset.

Net Book Value
The net book value is the difference between the cost of a TCA and both its accumulated amortization and the amount of any write-downs. It represents the unconsumed cost of a TCA attributable to its remaining service life. Net book value will always include the residual (scrap) value of a TCA.

Non-Financial Assets
Non-financial Assets are assets that do not normally provide resources to discharge liabilities. They are employed to deliver government services, may be consumed or used up in the delivery of those services, and are not generally for sale. Examples of non-financial assets are capital assets and inventories held for consumption or use.

Professional Judgment
Professional judgment is based on an individual's past experiences and training. In the presence of uncertainty, the application of judgment is inevitable. Professional judgment must be used in determining which costs are to be capitalized; the proper classification of certain assets, the residual value to apply, and the appropriateness of the useful life, among other things.

Repairs and Maintenance
The cost incurred to maintain the service potential of a TCA is a repair. These expenditures are made to maintain the asset in operating condition and are expensed in the year they occur.

Residual Value
It is the estimated net realizable value of a TCA at the end of its useful life to the Municipality.

Directives & Guidelines

5. Financial Statements – Concepts, Objectives and Presentation (PS 1000, 1100, 1200)

These PSAB standards fundamentally change the financial statements required by local governments. There is a requirement to move to full accrual based accounting for fiscal years beginning January 1, 2009. Currently, local governments report on a modified accrual basis of accounting. The most significant changes include the requirement to account for TCA as a non-financial asset on the Statement of Financial Position as described below. There is also a requirement to prepare budgets on an accrual basis for the purposes of the financial statements, as a minimum.

Although the PSAB changes are required as of January 1, 2009, comparative financial statements will be required for 2008. The changes to the financial statements are also significant and will require changes to general ledgers and financial reports in order to meet the standards.

6. Tangible Capital Assets PS 3150

According to this standard, all TCA are required to be valued at historical cost and reflected on the Statement of Financial Position. The standard requires the following changes and disclosure requirements:

- Tangible Capital Assets - Recorded at cost
- Net Book Value of all TCA
- Amortized over the useful life.
- Amortization accounted for as an expense on the Consolidated Statement of Financial Activities.
- Write-downs apply for decline in asset values
- Net write-downs accounted for as expenses on the Consolidated Statement of Financial Activities and not reversed.
- Net proceeds to be accounted for as a revenue or expense on disposals of assets

7. Transition Provisions

As these standards are new to local governments, there will be many situations where historical cost of TCA is not available. The transitional provisions allow for local governments to utilize an accounting estimate to determine the opening book values of the TCA. These opening balances must be done in a consistent manner and documented. This is discussed in Section 19.

8. Definition of Tangible Capital Asset

As defined in PS3150, Tangible Capital Assets (TCA) are non-financial assets having physical substance that are acquired, constructed or developed and:

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

For the Town, capital assets have the following characteristics:

- Beneficial ownership and control clearly rests with the Town, and
- The TCA is utilized to achieve Town plans, objectives and services with the intention of being used on a continuous basis and is not intended for sale in the ordinary course of business.

The following capital assets are <u>excluded</u> from this TCA policy:

a. Intangibles including copyrights, trademarks, patents, goodwill and rights of way;
b. Assets listed for sale if the following conditions are met:
    i. The asset is in a condition to be sold
    ii. There is an active market for the asset
    iii. There is a plan for selling the asset; and,
    iv. It is reasonably anticipated that the sale to a purchaser external to the Town will be completed within one year of the reporting date.

9. Capital Leases

A capital lease which is defined as a lease that transfers substantially all the benefits and risks incidental to ownership of the property to the Town will be treated as a TCA. A capital lease would normally occur when, at the inception of the lease, one or more of the following conditions are present:

- There is reasonable assurance the Town will obtain ownership of the leased property by the end of the lease term. This condition is usually signified when ownership does pass at the end of the lease or when the lease provides for a bargain purchase option.

- The lease term is of such duration that the Town will receive substantially all the economic benefits expected to be derived from the use of the leased property over its life span. The threshold for this benefits test is 75%.
- The minimum lease payments, excluding any portion relating to executory costs, are equal to 90% or more of the fair market value of the leased property at the inception of the lease.

A lease for land is not considered a capital lease unless there is reasonable assurance that ownership will pass to the Town by the end of the lease term.

If the arrangement is a capital lease, departments will apply the threshold of the appropriate capital asset category which will be reviewed by Financial & Information Services.

If the thresholds are met, a capital asset and a liability will each be recorded for the present value of the minimum lease payments.

Departments will exclude executory and maintenance costs when calculating minimum lease payments. The discount rate will be the lesser of the government's incremental borrowing rate or the interest rate implicit in the lease, if determinable.

10. Asset Classification

Tangible capital assets must be classified in order to facilitate reporting. Assets will be assigned two categories: a primary and a functional category. The primary asset category consists of two tiers. The first identifies whether the asset is **infrastructure or general assets**.

The second tier deals with what an asset objectively is (i.e. land, building, equipment etc.).

- ***Land***
- ***Land Improvements***
- ***Buildings***
- ***Machinery and Equipment***
- ***Vehicles***
- ***Linear Assets***
- ***Work-in-Progress***

Each asset will also be classified according to its "functional" category which identifies the program area in which the asset is used. Functional categories will tie to those used in the Financial Information Return (FIR).

These classes and sub-classes are defined and summarized in Appendix 1

11. Recording and Valuing Assets

Whole Asset vs. Component Approach:

For the purpose of capitalization and amortization, the two methods of defining TCA are the whole asset and component.

The **whole asset approach** considers an asset to be an assembly of connected parts. Costs of all parts would be capitalized and amortized as a single asset by year of acquisition. For example, a building may be considered as a single asset.

Under the **component approach**, major components are individually capitalized and amortized. Each component with a unique historical cost, useful life or amortization is recorded separately. For example, the major components of a building (exterior shell, windows, roof, HVAC, etc.) may be capitalized.

Both the whole asset and the component approaches are equally acceptable under GAAP. In certain circumstances, it is appropriate to allocate the total disbursement on an asset to its component parts and account for each component separately. This is the case when the component assets have different useful lives or provide economic benefits or service potential to the entity in a different pattern, thus necessitating use of different amortization rates and methods. For example, the pavements and base may need to be treated as separate items within a road system to the extent that they have different useful lives.

Additional factors influencing the choice of approach include:

a. significance of amounts;
b. quantity of individual asset components (volume);
c. availability of information with respect to specific components of the capital expenditures; and,
d. specific information needs of management for decision making and asset control purposes.

12. Segments

Roads, watermains and sewer lines (linear assets) will be broken down into logical segments, as determined by the operating department responsible for the TCA, to provide a better basis for asset management.

13. Pooled TCA

Certain items, such as tools, furniture and computers, are generally below the capitalization threshold individually, but are typically purchased or held in large quantities so as to represent significant expenditures overall. In such cases, it would seem reasonable to capitalize all items acquired in a given asset pool and amortize the pool over a pre-determined amortization period.

Due to the large financial impact and large numbers purchased, the Town will create pools of TCA and capitalize these TCA.

14. Recording TCA

A TCA should be accounted for and recognized in the Town's financial statements when:

- It is probable that future benefits associated with the TCA will be obtained; and
- There is an appropriate basis of measurement and a reasonable estimate of the amount can be made.

The acquisition date of a TCA is the earlier of:

- The date on which the TCA being constructed is complete and ready for use; or,
- The date legal ownership of the TCA is transferred to the Town.

Determining when a TCA is completed and ready for use requires consideration of the circumstances. Such determination would normally be made with reference to whether the TCA is in a condition ready to be put into service. Normally, it would be pre-determined with reference to factors such as productive capacity or occupancy level.

For a new TCA, certification that the asset has met engineering and safety standards and is ready for public use will provide evidence that the TCA is completed and ready for use. Certification by an architect, issuance of an occupancy permit or engineering certification may provide evidence that a new TCA is ready for use.

15. Capitalization Thresholds

The threshold 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.

Expenditures that meet both the criteria of a TCA <u>and</u> exceed the following capitalization thresholds are to be recorded as a TCA.

Tangible Capital Asset	Threshold
Land	Capitalize all
Land Improvements	$2,500
Buildings	Capitalize all
Vehicles	$2,500
Machinery and Equipment	$2,500
Infrastructure	$5,000
Pooled Assets	$2,500

Thresholds should be applied on an individual asset basis, unless multiple expenditures are for tangible capital assets valued below the capitalization threshold and, therefore, expensed rather than capitalized, results in a material misstatement of the Financial Statements.

16. Betterments vs. Maintenance

Costs of betterments are considered to be part of the cost of a TCA and would be added to the recorded cost of the related asset. Betterments are costs incurred relating to the alteration or modernization of an asset that prolongs the item's period of usefulness or improve its functionality.

In general, for TCA other than complex network systems, service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity; where associated operating costs are lowered; the useful life of the property is extended or the quality of the output is improved.

As the treatment of betterments and maintenance have a significant impact on the Statement of Operations and the resulting annual surplus or deficit, the determination of the expenditure and its accounting treatment should be done as part of the Town's annual budget exercise.

The following suggested guideline attempts to strike a balance between the risk of material misstatement and the impact on record keeping. Otherwise, the cost should be recorded as a repair and maintenance expense within the Department.

The minimum threshold limit for the capitalization of betterments is equal to or greater than 20% of the historical cost or, in the case of a pooled asset, 20% of the pooled value of the related asset; these costs may or may not meet the capitalization threshold for the main asset class; and one of the following criteria should be met:

- The estimated life of the asset is extended by more than 25%; or
- The cost results in an increase in the capacity of the asset by more than 25%;
- The efficiency of the asset is increased by more than 15%; or,
- The operational costs of the asset is reduced by more than 15%

Where a cost cannot easily be differentiated between repair and betterment, the cost should be expensed in respecting the accounting principle of conservatism. Departments must provide the rationale to Financial & Information Services both at the budget stage and following project completion.

17. Valuing Assets

As per PS 3150, TCA are to be recognized on the Statement of Financial Position as non-financial assets and are to be recorded at cost. In accordance with GAAP and to be consistent with the Financial Statement Objectives in PS 1100, cost is defined as historical cost as it is considered to be the only reliable and relevant information available to appropriately represent the cost of providing services.

Cost is 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 tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use.

The cost of a TCA includes:

- the purchase price of the asset
- other acquisition costs such as:
    1. installation costs
    2. design and engineering fees
    3. legal fees
    4. survey costs
    5. site preparation costs
    6. freight charges
    7. transportation insurance costs; and
    8. duties

The cost of a constructed asset includes:

- direct construction or development costs (such as materials, contracted services and labour);
- overhead costs directly attributable to the construction or development activity;
- The activities necessary to prepare a tangible capital asset for its intended use encompass more than the physical construction of the tangible capital asset. They include the technical and administrative work prior to the commencement of and during construction provided that it can be shown it is directly attributable to the construction of the TCA.

The cost of each TCA acquired as part of a single purchase (for example, the purchase of a building and land for a single amount) is determined by allocating the total price paid for all of the TCA acquired to each asset class on the basis of its relative fair value at the time of acquisition.

Indirect labour costs are allowable as long as the staff time is clearly attributable to the project and <u>staff are 100% chargeable</u> to certain projects and do not have other non-chargeable duties when not engaged in project work.

Interest costs related to the financing of the acquisition or construction of a TCA are not capitalized.

The definition of cost precludes the netting of capital grants or donations against the cost of the asset.

If a cost, direct or indirect, is not absolutely necessary for completing the acquisition or betterment of a TCA, it is not allowable for capitalization.

18. Contributed or Donated TCA

Contributed or Donated Capital Assets are tangible capital assets which have been given to Town of The Blue Mountains for its use in delivering programs, whereby all or part of the acquisition costs of that asset are paid for by the contributor. For example, land may be contributed by another level of government at zero or nominal consideration to facilitate the construction of a roadway or structure. A developer may install services such as water/sewer mains or roads within a subdivision at its own cost and then turn them over to the Town to operate, maintain and replace.

The cost of a contributed or donated tangible capital asset is considered to be equal to its fair value at the date of contribution.

In order to determine the fair value, the Department Head of the receiving department will obtain independent valuation of the TCA such as an appraisal, engineer professional opinion or three quotes from independent sources. These accounting estimates must be documented and provided to Financial & Information Services for the appropriate financial transactions and review.

In the case where a TCA is being constructed on behalf of the Town or as part of a development, the responsible Department Head should attempt to acquire the fair value from the developer and include this as a requirement of the contract or agreement.

If the fair value cannot be determined by any means outlined above, the asset should be recorded at a nominal value and disclosed in the notes to the Financial Statements.

19. Valuation of TCA on hand at January 1, 2008

All TCA held by a department at January 1, 2008 must be identified and valued using an appropriate cost base. Considerations should include reasonableness and materiality in the approach. Specifically, in this regard:

- Existing TCA will be valued using historical costs and adjusted for the proportion of the useful life of the asset that has already been consumed through the establishment of a provision for accumulated amortization.
- Where historical costs do not exist, the Decision Tree in Appendix 2 will be followed to determine the historical cost.

- The appropriate deflator will depend on the asset being valued. The method utilized will be documented and provided to the auditors in support of the 2009 audit of the Financial Statements.
- Replacement cost should not be used unless it is the lower of cost alternatives.

Some TCA that are still in use by a department may not have any unamortized cost remaining because of their age and the amortization period set for that type of TCA. A record of such tangible capital assets would, however, need to be set up for asset control purposes. If a department has the information to estimate the historical cost and accumulated amortization of such fully amortized assets, then that information would be recorded in the accounting records. If the department does not have this detailed information on its fully amortized assets, it would disclose them at an initial value equal to their residual value, where it is of a material amount and previously known, otherwise it would disclose them at a nominal value. The determination will be undertaken by Financial & Information Services in consultation with the Operating Department.

When recording the initial value of a TCA for the purposes of applying this Section, consideration would be given to whether the net book value of the TCA is in excess of the future economic benefits expected from its use and, therefore, whether a write-down is required to establish more appropriate cost and accumulated amortization amounts for the asset.

Betterment rates of TCA on hand should be based upon a condition assessment of the asset.

All lease agreements must be reviewed to determine if they should be accounted for as capital leases. Leases, and the accounting for them, are contained in CICA Handbook Section 3065. The Director of Financial & Information Services in consultation with the Operating Department is responsible for the determination of leases. This is further described in Section 9.

20. Amortization

Amortization of TCA reflects the cost to the municipality of utilizing the TCA in providing services. The cost of property, equipment and other capital assets is essentially a long-term prepayment of an expense in advance of the use of the asset. As the economic service life of the asset expires, the cost of the asset is systematically allocated to operations as an expense called “amortization”.

Periodic amortization expense should be an allocation of the historical cost of the asset less expected residual value (see Section 21), if applicable, to operations in proportion to the economic benefits received each period from the use of the asset.

The amortization of the costs of TCA is accounted for as expenses in the Consolidated Statement of Financial Activities. Amortization expense is an important part of the cost associated with providing municipal services, regardless of how the acquisition of TCA is funded.

Amortization for the Town will be primarily based on the straight line method of depreciation or another method approved by the Director of Financial & Information Services. Further, 50% of the annual amortization amount (6 month rule) will be recorded in the year of acquiring an asset, putting an asset into service or disposing of an asset.

Where construction of an asset is comprised of distinct, multiple and self-contained phases, amortization will begin on the date for which the distinct phases are completed.

For pooled assets, where purchases and disposals affect the pool balance throughout the year, the amortization calculation may be based on the estimated pool balance rather than actual. For example, where a type of asset has an average expected life of 3 years and the average balance of the pool throughout the year is $1 million, the monthly amortization would be calculated as 1/36 x $1 million. The amortization charges related to the pool should be reviewed for reasonableness at year-end.

Land generally has an unlimited life and will not be amortized.

21. Determination of Residual Value of TCA

In most instances, the Town will assume that the asset will be fully used up upon disposal however, where a Department expects the residual value of a TCA to be significant, it would be factored into the calculation of amortization.

The Department in consultation with Financial & Information Services will determine the appropriate residual value based upon market information and experience with the particular TCA.

22. Review of Amortization Methods & Estimate of Useful Life

In accordance with PS 3150.29, "*the amortization method and estimate of the useful life of the remaining unamortized portion of a TCA should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated*."

Significant events that may indicate a need to revise the amortization method or the estimate of the remaining useful life of a TCA include:

- a change in the extent to which the TCA is used;
- a change in the manner in which the TCA is used;
- removal of the tangible capital asset from service for an extended period of time;

- physical damage;
- significant technological developments;
- change in the demand for the services provided through use of the tangible capital asset; and
- a change in the law or environment affecting the period of time over which the tangible capital asset can be used.

Departments in conjunction with Financial & Information Services will review the amortization methods and estimates of useful lives on an annual basis prior to the finalization of the annual financial statements.

A change in an asset's amortization rate as a result of a revision of its estimated life will be treated as a change in the accounting estimates rather than a change in accounting policy. Under PS 2120, Accounting Changes paragraph 27, a change in an estimate is not given retroactive effect since it arises from new information or developments. The effect of a change in the estimated useful life of a TCA and its associated effect on amortization expense are allocated to the period of revision and applicable future periods.

23. Useful Life

Expected useful life is normally the shortest of the asset's physical, technological, commercial and legal life. The physical life of a TCA may extend beyond the useful life of an asset. Estimating the useful life of a TCA is a matter of judgment based on experience and should be applied on a consistent basis.

The useful life of a TCA depends on its expected use by the municipality. Factors to be considered in estimating the useful life of a TCA include:

- Experience with similar assets through use;
- Expected future usage;
- Effects of technological obsolescence;
- Expected wear and tear from use or the passage of time;
- The maintenance program;
- Studies of similar items retired; and
- The condition of existing comparable items.

Useful life will be established through collaboration between the Operating Department and Financial & Information Services. Generally, the useful life will be utilized for the asset classes. Useful life schedules are summarized in Appendix 3.

The service potential of an asset is normally consumed through usage. Factors such as obsolescence, excessive wear and tear or other events could significantly diminish the service potential that was originally anticipated from the asset (Section 25).

Financial reporting standards require the useful life of an asset to be reviewed at the end of each reporting period, and, if expectations differ from previous estimates, the change in useful life is to be accounted for as a change in accounting estimate. The rationale supporting the decision to revise useful life estimates of an asset should be documented.

24. Transfer of Capital Assets

Transfers of capital assets between departments shall be at the net book value of the asset. The receiving department will record the asset at its original historical cost and accumulated amortization.

25. Impairment of Assets (Write-down of TCA)

PS 3150 states that *"when conditions indicate that a TCA no longer contributes to a municipality's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value."*

The net write-downs of the TCA will be accounted for as an expense in the Consolidated Statement of Financial Activities (PS 3150.32) against the Department. A write-down cannot be reversed (PS 3150.33). Consequently, the decision to write-down an impaired asset could have a significant impact on the annual surplus or deficit.

The Town should write down the cost of a TCA when it can demonstrate that the reduction in future economic benefits is expected to be permanent. A write-down of an asset is generally more desirable than a change in amortization method since those decisions are policy decisions affecting prior accounting periods.

Conditions that may indicate that the future economic benefits associated with a TCA have been reduced and a write-down is appropriate include:

- A change in the extent to which the TCA is used;
- A change in the manner in which the TCA is used;
- Significant technological developments;
- Physical damage;
- Removal of the TCA from service;
- A decline in, or cessation of, the need for the services provided by the TCA;
- A decision to halt construction of the TCA before it is completed or in usable or saleable condition; and

- A change in the law or environment affecting the extent to which the TCA can be used.

The persistence of such conditions over several successive years increases the probability that a write-down is required unless there is persuasive evidence to the contrary.

When the TCA no longer contributes to the municipality's ability to provide goods and services, it would be written down to residual value, if any. This would be appropriate when the Town has no intention of continuing to use the asset in its current capacity, and there is no alternative use for the asset.

In other circumstances, it will be necessary to estimate the value of expected remaining future economic benefits. Where a department can objectively estimate a reduction in the value of the asset's service potential and has persuasive evidence that the reduction is expected to be permanent in nature, the tangible capital asset would be written down to the revised estimate of the value of the asset's remaining service potential to the Town.

Since all of the above decisions affect the Town’s Consolidated Statement of Financial Activities, the Operating Department must notify Financial & Information Services of any and all TCA permanently removed from service. The Operating Department and Financial & Information Services must work together to determine the best approach.

Write-downs of capital assets should be accounted for as an expense of the current period.

Annual amortization of an asset that has been written down should be calculated using the net book value after the write-down and the remaining estimated useful life.

26. Disposals

On disposal, in accordance with Disposal of Physical Assets Policy – FS.08.07, the historical cost and accumulated amortization is removed from the accounting records.

Under PS 3150, the difference between the net proceeds on disposal of a TCA and the net book value of the asset should be accounted for as a revenue or expense in the Statement of Operations (PS 3150.38).

Disposal of TCA in the accounting period may occur by sale, trade-in, destruction, loss or abandonment. Such disposals represent a reduction in the Town's investment in TCA’s, regardless of how that investment is reported.

Departments are required to identify the planned disposals of TCA during the budget process. Financial & Information Services will determine the effect of these disposals on the Statement of Operations and the budgetary impacts.

Upon disposal, the Departments must inform Financial & Information Services of the result of the disposal and provide the proceeds on disposal together with the documentation describing the disposal.

27. Temporary Removal from Service

If the TCA is temporarily removed from service, amortization should continue. The estimated useful life of the TCA should not be revised due to the temporary nature of the removal of the tangible capital asset from service. Once the Town has made a decision on how the TCA will be re-deployed, the estimated useful life of the TCA would be revised and amortization would be based on the new future usage of the TCA.

28. TCA Under Construction (Work in Progress)

During construction of a TCA, the costs will be recorded to the Work in Progress (WIP) Inventory account. Upon notification that the construction of the TCA is complete and the service date is known, the Department must inform Financial & Information Services within 30 days of completion with the pertinent information.

Upon being informed, Financial & Information Services and the Departmental Director will review the WIP Inventory account for the particular department and finalize the amount to be capitalized as per the definition contained in Section 8.

When a project has distinct, multiple, completely self-contained phases that will be brought into production or use at different points of time, the Operating Department shall use professional judgment to determine the appropriate timing for transfers from work in progress to assets.

Work in Progress balances must be reconciled and the appropriate transfers from Work in Progress made to completed assets or written off to ensure that only active and incomplete work in progress is carried forward to the next period. The reconciliation should be done, at a minimum annually, in accordance with variance reports.

All costs capitalized in Work in Progress must be written-off if construction of the TCA is terminated or deferred indefinitely, and there is no alternative use for the Work in Progress.

Accountability Framework

29. Operating Department's Responsibilities

- Ensure that procurement activities and budget preparation of TCA will provide the information required to afford the treatment of all TCA is in accordance with this policy.

- Ensuring that the treatment of TCA is done in accordance with the accountability framework and that the delegate is fully competent within this framework.
- Liaise with Financial & Information Services where required in order to ensure that financial information is sufficient for the Director of Financial & Information Services to render decisions in accordance with GAAP as it pertains to TCA.
- Ensure information of capital assets, such as location, condition, maintenance records etc. is reported accurately to Financial & Information Services.
- Manage TCA with prudence and integrity to ensure best value for tax dollars and appropriate long term capital planning.
- Perform regular condition assessments of TCA in order to develop a long term asset management strategy and assist the Director of Financial & Information Services in the determination of impairment of assets.
- Work with the Director of Financial & Information Services to develop accrual based budgets as required by PS 1200.
- The implementation and operation of an internal control system developed by Financial & Information Services that ensures that tangible capital assets are accounted for in accordance with this policy.
- Provide Financial & Information Services with timely information with respect to TCA betterments, TCA permanently removed from service, disposals, contributed or donated assets, capital leases
- Closing capital projects in accordance with Sections 14 and 28 of this policy
- Determine the residual value of TCA in consultation with Financial & Information Services
- Support Financial & Information Services in the determination of the most appropriate amortization method, should straight line amortization not be recommended by the Operating Department for financial statement purposes
- Provide Financial & Information Services with rationale to support the proposed useful lives for TCAs

30. Financial & Information Services Responsibilities

- Advise and assist in preparation of budgets and contracts in order to implement this policy giving due regard to municipal cash flow and debt management.
- Maintain records of business transactions. Ensure that all purchasing transactions are reflected in the book of accounts and documentation is retained in accordance with this Policy.
- Post and maintain amortization schedules.
- Produce the annual financial statements in accordance with GAAP and prepare audit papers for the annual audit.

- Monitor the application of this policy and review TCA supporting material as provided by the Operating Departments.
- Update this policy to reflect changes in Town programs and services and as new TCA classes are acquired, purchased or constructed.
- Develop and monitor procedures regarding purchase orders, commitments, receiving, payables, asset management and property to ensure that asset accounting practices are effective.
- Determine the most appropriate means of long-term financing.
- Educate Town Council, managers and staff on accounting standards as set by PSAB and the impact of various accounting policies have on the financial operations and statements of the Town.
- Ensure TCA accounting policies are applied consistently and assisting with determination of accounting estimates.
- Train all staff on policies and procedures regarding TCA accounting including purchasing functions.
- Develop and monitor procedures regarding purchase orders, commitments, receiving, payables, asset management and property to ensure that asset accounting practices are effective.
- Prepare annual budgets on an accrual basis in order to meet the requirements of PS1200.

References and Related Policies

1. *Municipal Act, 2001*, as may be amended from time to time
2. Public Sector Accounting Board PS 3150, as may be amended from time to time
3. Canadian Institute of Chartered Accountants Sections 3060 and 3065, as may be amended from time to time
4. Disposal of Physical Assets Policy – FS.08.07, as may be amended from time to time
5. Purchasing of Goods and Services Policy – POL.COR.07.05, as may be amended from time to time
6. Purchasing of Goods and Services Procedures – FS.08.08, as may be amended from time to time

Consequences of Non-Compliance

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) issues standards and guidance with respect to matters of accounting and financial reporting in the public sector. PSAB issues such standards and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards of good practice. Under *Section 294.1* of the Municipal Act, municipalities must follow the generally accepted accounting principles as follows:

A municipality shall, for each fiscal year, prepare annual financial statements for the municipality in accordance with the generally accepted accounting principles (GAAP) for local governments as recommended from time to time by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

Review Cycle

This policy will be reviewed annually by the Director of Financial & Information Services to ensure compliance and controls.

APPENDIX 1 – ASSET CLASSIFICATIONS

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
Tangible capital assets that are not part of the infrastructure asset class. Includes, but is not limited to Parks, Recreation, EMS, Fire, Waste Collection and Disposal, Landfill.	Tangible capital assets are composed of linear assets and their associated specific components, generally constructed or arranged in a continuous and connected network. Includes but is not limited to: Transportation Infrastructure (Roads – including cycling lanes, bridges, tunnels, drainage systems) and Environmental Infrastructure (water delivery systems, waste water treatment, storm drainage systems).

Land

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
Real property in the form of a plot, lot or area. Includes all expenditures made to acquire land and to ready it for use where the improvements are considered permanent in nature and includes purchase price, closing costs, grading, filling, draining, and clearing, removal of old buildings (net of salvage), assumption of liens or mortgages, and any additional land improvements that have an indefinite life. The costs associated with improvements to land are added to the cost of the land if those improvements can be considered permanent (such as re-grading or filling of the land). Excludes forests, water and other mineral resources and land held for resale (a separate non-financial asset). General Capital - Land includes land for administrative buildings, parks, playgrounds, fields, open space.	Land as defined in the General Capital asset class that is associated with infrastructure. Includes land under roads and land associated with road allowances, sewage treatment plant sites, pump station properties, etc.

APPENDIX 1 – ASSET CLASSIFICATIONS

Land Improvements

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use, which generally decay or break down over time. Land improvements that are removable and can degrade or deplete over the course of time through use or due to the elements, should be separately capitalized and their value amortized over the useful life of the improvement. General capital land improvement examples include but are not limited to: landfill site development, construction of driveways, parking lots, retaining walls, bike paths in parks, drop off locations, sidewalks, fencing, patios, water fountains, outdoor swimming or wading pools, ball diamonds, soccer fields, irrigation systems, tennis courts and the like.	Land improvements as defined in the General Capital asset class that are associated with infrastructure. Examples include but are not limited to: parking lots for water/waste water sites, driveways through such sites; site improvements such as grading at works yards whose purpose is to serve as a base for maintaining Infrastructure.

Buildings

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
General capital buildings include all structures that provide shelter from the elements which function independent of an infrastructure network. Includes capital and betterments to general capital buildings that are owned by the municipality. Examples include but are not limited to: sport and recreation facilities, office buildings, fire/police stations, libraries, pavilions, change rooms, park washrooms & concession buildings, band shells, ticket kiosks, crematoriums, chapels, mausoleums, waste depots, recycling facilities.	Buildings as defined in the General Capital asset class that is associated with infrastructure. Examples include: wastewater treatment control buildings, water supply buildings, buildings in works yards dedicated to Infrastructure maintenance.

APPENDIX 1 – ASSET CLASSIFICATIONS

Machinery & Equipment

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
An apparatus, tool, device, implement or instrument that likely uses energy to facilitate a process, function or completion of a task. Machinery and equipment may also include furniture and fixtures. It may be installed within a building, but is generally capable of being moved and reinstalled at a different location, if need be (that is, it is not permanently affixed to or integrated into the building or structure in which it resides).	Machinery & Equipment as defined in the General Capital asset class that is associated with infrastructure.

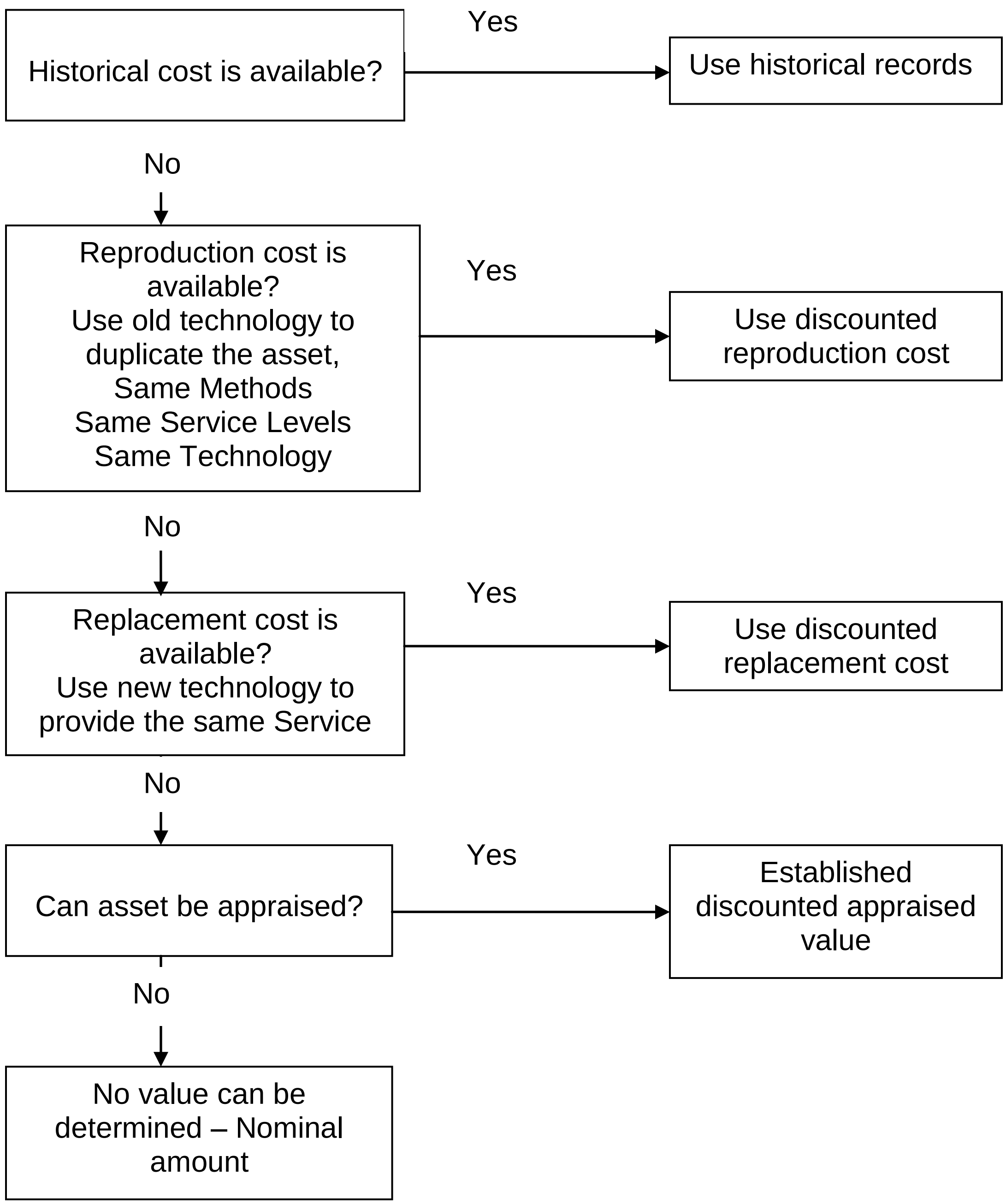
Vehicles

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
A means of transportation, usually having wheels, for transporting persons or things or designed to be towed behind such an apparatus. Includes automobiles, trucks, trailers, motorcycle, boats, etc.	N/A

Linear Assets

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
	The linear assets sub class applies only with respect to the "Infrastructure" class and has no counterpart in the "General Capital" class. Linear assets are assets generally constructed or arranged in a continuous and connected network. "Infrastructure – Linear assets" includes connected : • surface systems such as roads, sidewalks, bridges, drainage ditches, and street lights; and • underground systems such as water distribution pipe systems, wastewater collection pipe systems, manholes, catch basins, and storm drainage collection systems and tunnels

APPENDIX 2 – VALUATION METHOD DECISION TREE



APPENDIX 3 – USEFUL LIFE SCHEDULE

ASSET	YEARS
Land	
Land Improvements	
Parking Lot	
Asphalt	30
Gravel	30
Landscaping	
Irrigation System	15
Plantings	15
Walkways	20
Street Furniture	10
Golf Course	20
Exterior Lighting	15
Scale Foundation	50
Laneway - Gravel	30
Compost Pad Base	40
Compost Pad Surface	20
Baseball Diamond	15
Trails	30
Tennis Court	20

ASSET	YEARS
Building	
Structure	40
Roofing	
Metal	30
Flat	25
Asphalt Shingle	25
Tile	30
HVAC	
System	25
Boiler	15
Plumbing	
System	30
Sprinkler System	25
Water Treatment System	15
Water Storage Cistern	50
Hot Water Boiler	20
Septic System	20
Electrical	
System	25
Interior Lighting	20
Ice Surface Lighting	20
Fire Alarm	20
Windows & Doors	25
Flooring	
Carpet	15
Vinyl	20
Concrete	20
Tile	20
Wood	20
Wet Well	50
Dry Well	50
Valve Chamber	50
Holding Tank	50

APPENDIX 3 – USEFUL LIFE SCHEDULE

Machinery & Equipment

ASSET	YEARS
Office Furniture	15
Office Chairs	5
Furniture & Fixtures	20
Office Equipment	5
Computer Software	5
Computer Equipment	5
Book Collection	7
Piano	30
Sound Equipment	5
Vehicle Scale	15
Vehicle Scale Equipment	5
Tractor	15
Heavy Duty Vehicle Tires	5
Waste Containers	15
Signage	15
Landscaping Equipment	10
Play Equipment	15
Skateboard Ramp	16
Sound System	15
Fuel Pump	15
Fuel Tank	25
Docks	25
Dock Hydro Supply	15
Pumps - Light Duty	10
Tempered Glass	25
Protective Netting	30
Dasher Boards	20
Score Clock	20
Chiller	20
Compressor Motor	20
Soft starts	20
Brine Pump	15
Cooling Pump	20
Header Line	20
Condenser	20
Dehumidifier	15
Radiant Heater	20
Communication Radios	8
Communication Equipment	15
Communication Tower	50
Water Meters	15

Machinery & Equipment

ASSET	YEARS
Air Cart	20
HP Air Bags	20
Multipod	20
Bunker Suit	10
Auto Extractication Jaws	20
Ice Rescue Suit	10
Thermal Imaging	10
SCBA Suit	10
SCBA Bottle	15
MCC	25
Submersible Pump	25
Surge Tank	25
Vertical Motor	25
Septage Unloader	25
Flowmeter	25
Clarifier Driver	25
Compressor	20
Tank - Aluminum	50
Ice Resurfacer	12
Side Screen	20
Grit Collector	20
Grit Auger	25
UV System	25
Lab Equipment	20
Inlet Pump	20
WAS Pump	20
Centrifugal Pump	30
RAS Pump	30
Control Bridge	30
Membrane Filter	50
Comminutor	25
SCADA System	15
Blower	40
Biosolid Mixer	25
Water Storage Tank	75
Power Washer	5
Pipe Thawer	25
Backhoe	10
Grader	20
Generator	30

APPENDIX 3 – USEFUL LIFE SCHEDULE

ASSET	YEARS
Vehicles	
Light Duty - Pick-up, SUV	10
Heavy Duty - Dump, Plow	10
Fire Tankers	20
Fire Rescue	20
Fire Pumpers	25
Linear	
Bridges	
Built after 1979	75
Built prior to 1980	60
Culverts	
Concrete Built After 1979	79
Concrete Built Prior to 1980	60
Corrugated Steel	40
Storm water management facilities	40
Unopened road allowances	
Sidewalks	
Concrete	50
Asphalt	30
Loose Stone	20
Road base	
Asphalt - curbed	50
Asphalt - ditched	40
Surface treatment	40
Gravel	30
Earth	10
Road surface	
Asphalt - curbed	30
Asphalt - ditched	25
Surface treatment	10
Streetlights	30
Traffic signals	25
Manholes	75
Fire Hydrants	20

ASSET	YEARS
Linear	
Pipe	
PolyVinylChloride	100
Asbestos Cement	
Water	50
Wastewater	75
Vitrified Clay Tile	50
High Density PolyEthylene	100
Concrete	100
Schedule 160 PolyEthylene	100
Ductile Iron	50
Cast Iron	50
PolyEthylene	50
PolyVinylChloride DR 18	100
PolyVinylChloride DR 25	100
PolyVinylChloride SDR 26	100
PolyVinylChloride Series	50
PolyVinylChloride Series 160	75
Stainless Steel	20
Valves	
Pressure Release	50
Globe	50
Gate	25
Air Release	25
Power Actuated	50
Valve Chamber	50

Tangible Capital Assets Policy

POL.COR.19.XX
Tangible Capital Assets

Policy Type: Corporate Policy (Approved by Council)
Date Approved: DD-MM-YYYY
Department: Finance and IT Services
Revisions Approved:
Staff Report: FIS.10.33, FAF.19.057
By-Law No.:

Policy Statement

Tangible Capital Assets are the single largest investment made by the Town and need to be handled in accordance with Public Sector Accounting Board Section 3150 on the annual Financial Statements. This policy will outline the treatment of Tangible Capital Assets by the Finance Department and Town staff.

Purpose

The purpose of this policy is to establish the guidelines around the treatment of Tangible Capital Assets as it relates to PSAB 3150 and the Town's Financial Statements.

a. Outline the accounting treatment of Tangible Capital Assets to assist users of the Town's Financial Statements as it pertains to the investment made in property, plant and equipment.
b. Criteria as to the recognition of a Tangible Capital Asset, the carrying amount, annual Amortization, and any impairment losses as per PSAB 3150.
c. As per the Canadian Institute of Chartered Accountants section 1508, establish criteria for accounting estimates when measurement uncertainty exists.
d. Establish roles and responsibilities for Town staff.
e. Ensure consistent and transparent treatment of all Tangible Capital Assets.

Application

This policy applies to all Town staff as well as all other staff or officials whose financial information is included in the Town's consolidated Financial Statements.

Definitions

Accumulated Amortization – represents the total to date of the annual amortization expense relating to the Tangible Capital Asset since it was placed in use.

Acquisition Cost – the amount of consideration given up to: acquire, construct, develop or better a Tangible Capital Asset. This includes but is not limited to installation costs, delivery and duty costs, and staffing costs.

Amortization – process of annually expensing the cost of the Tangible Capital Asset, less any Residual Value, over the Tangible Capital Asset's Estimated Useful Life.

Betterment – costs incurred to enhance the service potential of a Tangible Capital Asset. One of the following criteria must exist in order to capitalize these costs:

- Significant reduction in operating cost
- Estimated Useful Life is extended
- Quality of the output is improved

Disposals – this occurs when the Town releases ownership of the Tangible Capital Asset. This can happen through sale, destruction, loss or abandonment.

Estimated Useful Life – estimate of the period over which a Tangible Capital Asset is expected to be used. This can be in years or units (hours or kilometers). This period is the amount of time or units that the Tangible Capital Asset will be amortized over.

Fair Market Value - amount of consideration given for a Tangible Capital Asset between two unrelated parties in an arms-length transition where all parties are knowledgeable and willing.

Gain on Disposal – the amount of proceeds that exceed the Net Book Value of the Tangible Capital Asset when the Tangible Capital Asset is disposed of. Gains will be allocated to the department that was responsible for the Tangible Capital Asset and transferred to the appropriate reserve (fund). This is a cash transaction.

Generally Accepted Accounting Principles – generally referred to as GAAP. This is a combination of authoritative standards and the commonly accepted ways of recording and reporting accounting information.

Loss on Disposal – the amount that the Net Book Value exceeds the proceeds realized when the Tangible Capital Asset is disposed. The loss will be allocated to the department that was responsible for the Tangible Capital Asset. This is a non-cash transaction.

Net Book Value – difference between the Tangible Capital Asset Acquisition Cost and the Accumulated Amortization.

Public Sector Accounting Board – generally referred to as PSAB, this board was created to serve the public interest by establishing accounting standards for the public sector in addition to providing guidance for financial and other performance information.

Repairs and Maintenance – costs incurred to keep the Tangible Capital Asset in working condition. These costs are expensed annually and shown on the Town's Statement of Operations.

Residual Value – the estimated net realizable value of a Tangible Capital Asset at the end of the Tangible Capital Asset's useful life. The Town generally assumes a Residual Value of $0.

Tangible Capital Asset – non-financial Tangible Capital Assets having physical substance that include all of the following criteria:

- Are held for use and intended to be used on a continuous basis by the Town in the delivery of the goods and services provided to the citizens, businesses and visitors of the Town
- Have useful life greater than one year
- Are not intended for sale
- The ownership and control clearly rest with the Town

Procedures

Tangible Capital Assets PSAB 3150

This accounting standard outlines that all Tangible Capital Assets be held at historical cost and shown on the Town's Statement of Financial Position. In addition, the Town has a Tangible Capital Asset Note to the Financial Statement, which includes the following information:

- The Tangible Capital Assets recorded at cost
- The Net Book Value of all Tangible Capital Assets
- The Accumulated Amortization
- The annual Amortization that is expensed on the Statement of Operations
- The Disposals that occurred in the given year

This note allows the reader of the Financial Statements the ability to see what changed during the year in the Tangible Capital Assets owned by the Town.

Capital Leases

The Town may enter into an agreement with a third party to lease a Tangible Capital Asset. The lease is deemed a capital lease and will be treated as all other Tangible Capital Assets, if the Town receives substantially all the benefits and risks associated with the Tangible Capital Asset. At least one of the following criteria must exist for a lease to be capitalized:

- There is a reasonable chance that the Town will assume ownership of the Tangible Capital Asset at the end of the lease. This can be achieved if there is bargain purchasing (75% of the Fair Market Value of the Tangible Capital Asset) option for the Town.
- The lease term is for more than 75% of the Estimated Useful Life of the Tangible Capital Asset.
- The present value of the minimum lease payments is equal to 90% or more of the Fair Market Value of the Tangible Capital Asset at the inception of the lease.

If the thresholds are met, then a Tangible Capital Asset will be recorded with an offsetting capital lease liability for the present value of the minimum lease payment.

Tangible Capital Asset Classification

For the purpose of reporting, Tangible Capital Assets need to be classified. Tangible Capital Assets will be classified in the following groups for the Financial Statements:

- Land
- Land Improvements
- Buildings
- Machinery, Equipment and Vehicles
- Linear
    - Water System
    - Sewer System
    - Roads
- Work In Progress

In addition, each Tangible Capital Asset will be assigned to the department to which is responsible for the Tangible Capital Asset. This will allow annual amortization to be expensed to the correct department as well as it ties the Tangible Capital Assets in the annual Financial Information Return.

Recording and Valuing Tangible Capital Assets

When recording Tangible Capital Assets, the Town has two approaches that are both accepted under GAAP, Whole Tangible Capital Asset and component.

Whole Tangible Capital Asset – this approach would see the entire Tangible Capital Assets and all components recorded and amortized as one Tangible Capital Asset. An example would be a snow plow truck.

Component Approach – under this approach, major components of a Tangible Capital Asset are recorded and amortized as separate pieces. An example of this would be a building that would be recorded as structure, roof, electrical, plumbing, and HVAC.

The Component approach is more appropriate for large scale Tangible Capital Assets that can easily be broken down into smaller Tangible Capital Assets, which can have different values and estimated useful lives.

Additional factors to consider when choosing an approach:

- Significance of the amounts
- Quantity of individual Tangible Capital Assets
- Availability/reliability of the information with respect to the specific components
- Information needs to make future decisions

Segments

Linear Tangible Capital Assets (roads, water, wastewater and stormwater pipes) will be broken down into logical segments as determined by the department responsible for the Tangible Capital Asset.

Pooled Tangible Capital Assets

In certain situations the Town makes a large purchase of several smaller items. For example, books or computers. In this situation, the individual Tangible Capital Asset is below the threshold, however the combined total is well over the threshold. If this is the case, the Tangible Capital Assets will be capitalized as a pooled Tangible Capital Asset and recorded; and amortized over the useful life.

Recording a Tangible Capital Asset

A Tangible Capital Asset should be recorded and recognized on the Financial Statements when both of the following criteria exist:

- It is probable that a future benefit to the Town will be obtained from the Tangible Capital Asset
- There is a reliable/appropriate base of measurement

The acquisition date of the Tangible Capital Asset is the earlier of:

- The date that the legal ownership of the Tangible Capital Asset is transferred to the Town
- The date that the construction of the Tangible Capital Asset is completed and ready for use

Determining when a Tangible Capital Asset is complete and ready for use requires situation specific considerations. These considerations will be made with the responsible department in conjunction with the Finance Department.

Capitalization Threshold

The threshold represents the minimum cost that an individual (or pooled) Tangible Capital Asset must have before being capitalized and shown on the Statement of Financial Position.

Costs must meet the criteria to be considered a Tangible Capital Asset and meets or exceeds the following capitalization threshold.

Tangible Capital Asset	Threshold
Land	All Land purchases are capitalized
Land Improvements	$5,000
Buildings	$5,000
Vehicles, Machinery and Equipment	$5,000
Pooled Tangible Capital Assets	$5,000
Linear (Water, Wastewater, Roads)	$10,000

Betterment versus Maintenance

Costs of Betterment are considered to be part of the Tangible Capital Asset and therefore capitalized whereas maintenance costs are expensed annually on the Statement of Operations. Major Betterments should be included in the annual Capital Budgets whereas repairs and maintenance should be included in the annual Operating Budgets of the respective department.

To be considered a Betterment, the cost must be equal to or greater than 20% of the historical cost for both individual and pooled Tangible Capital Assets. In addition to criterion, one of the following must also exist:

- The Estimated Useful Life is extended by 25%
- The costs result in an increased capacity of at least 25%
- The efficiency of the Tangible Capital Asset is increased by 15%
- The operational costs decreased by 15%

When a cost cannot be differentiated between a Betterment and maintenance, the cost will be considered an expense and shown on the annual Statement of Operations.

Valuing Tangible Capital Assets

Tangible Capital Assets are considered non-financial Tangible Capital Assets and are included on the Statement of Financial Position. In accordance with GAAP, the historical cost of the Tangible Capital Asset must be used when capitalizing the expenditures.

Costs can include:

- Purchase price of the Tangible Capital Asset
- Direct construction costs including labour (external) and materials
- Installation costs
- Design and engineering fees
- Legal and surveying fees
- Site preparation
- Freight and duty costs
- Insurance costs related to the transportation of the Tangible Capital Asset

For projects that result in multiple Tangible Capital Assets, for example a building, the general costs will be distributed based on the percentage of the individual Tangible Capital Assets.

Town staffing costs (salaries and benefits) can be allocated to the capital project, however the staff member's time must be clearly attributable to the project and not include hours working on other items. Whether staffing costs can be capitalized is at the sole discretion of the Director of Finance and IT Services.

Interest costs related to the financing of a Tangible Capital Asset will not be capitalized, rather expensed through the annual Statement of Operations.

Contributed or Donated Tangible Capital Assets

The Town can have Tangible Capital Assets either donated or contributed for the delivery of the services provided by the Town. A donated Tangible Capital Asset could be a piece of land given for the purposes of a park and a contributed Tangible Capital Asset could be linear works received during the assumption of a subdivision.

These Tangible Capital Assets need to be capitalized at the Fair Market Value on the date of contribution and included on the Statement of Financial Position.

For donated Tangible Capital Assets, the department receiving the Tangible Capital Asset should obtain an independent valuation from a third-party, such as an appraisal or engineering professional opinion. This third party valuation will be the Fair Market Value assigned to the donated Tangible Capital Asset.

For contributed Tangible Capital Assets, the department receiving the Tangible Capital Assets will obtain the Fair Market Value of the Tangible Capital Assets through the development contract or agreement.

If a Fair Market Value cannot be determined by the process outlined above, then a nominal value will be used and a note to disclose this information will be included with the Statement of Financial Position.

Amortization

Amortization reflects the annual cost to the Town of the Tangible Capital Assets. As the Tangible Capital Asset is consumed (through the Estimated Useful Life) a portion is allocated as an operating expense through amortization.

The Town will utilize the straight-line method of amortization which includes the Half Year Rule. This rule states that only 50% of the annual amortization will be booked in year one.

Land is the only category of Tangible Capital Assets that will not be amortized.

As per section PSAB 3150.29, the amortization method of Estimated Useful Life of a Tangible Capital Asset should be adjusted if one of the following events occurs:

- A change in how the Tangible Capital Asset is used
- Removal of the Tangible Capital Asset out of service for an extended period of time (one year)
- Physical damage to the Tangible Capital Asset
- Significant technological advancements
- Change in the demand of the service (that the Tangible Capital Asset provides)
- Change in legislation that affecting the period of time over which a Tangible Capital Asset can be used.

Amortization is reviewed on an annual basis through the completion of the Financial Statements.

Estimated Useful Life

The estimated useful life (included in Appendix A) is the shorter of either the physical, technological, commercial or legal life. Using professional judgement, staff have assigned an estimated useful life for the various Tangible Capital Assets that are owned and operated by the Town. Although the physical life of the Tangible Capital Asset may differ, the intent is to try and make these two useful lives the same. Factors that go into setting the estimated useful life include:

- Experience with similar Tangible Capital Assets
- Third party knowledge of the Tangible Capital Assets
- Expected usage of the Tangible Capital Asset in conjunction with the maintenance program

Impairment of a Tangible Capital Asset

When a Tangible Capital Asset is no longer able to provide the good and or service that it was purchased to perform, the Net Book Value of that Tangible Capital Asset needs to be reduced to reflect the new Fair Market Value of the Tangible Capital Asset to the Town.

Any impairments will be expensed to the responsible department and will be shown on the annual Statement of Operations.

Indications of an impairment include:

- A change in how the Tangible Capital Asset is used
- A change in the manner to which a Tangible Capital Asset is used
- Physical damage to the Tangible Capital Asset
- Significant technological advancements
- Change in the demand of the service (that the Tangible Capital Asset provides)
- A decision to halt construction before the Tangible Capital Asset is in a useable condition

Disposals

On disposal, the historical cost and accumulated amortization is removed from the Statement of Financial Position. As per PSAB 3150, the difference between the net proceeds on disposal and the Net Book Value of the Tangible Capital Asset is accounted for as either a revenue (Gain on Disposal) or expense (Loss on Disposal) through the Statement of Operations.

Disposals of a Tangible Capital Asset may occur by sale, trade-in, destruction, loss or abandonment.

Tangible Capital Assets under Construction (Work In Progress)

During construction or the ordering process of a Tangible Capital Asset the costs will be recorded to the Work In Progress inventory account. Once the Tangible Capital Asset is completed and ready to be transferred into use, the Tangible Capital Asset is then transferred to the correct Tangible Capital Asset classification.

Tangible Capital Assets included in the Work In Progress account are not amortized until they are considered in service. All costs included in Work In Progress must be written off if construction of the Tangible Capital Asset is terminated or deferred indefinitely, or have been in Work In Progress for five years, whichever is earlier.

Exclusions

There are no exclusions from this policy.

References and Related Policies

1. Public Sector Accounting Board 3150
2. Disposal of Physical Tangible Capital Assets Policy FS.08.07
3. Purchasing of Goods and Services Policy POL.COR.07.05
4. Purchasing of Goods and Services Procedures FS.08.08
5. Tangible Capital Asset Management Policy and Strategy POL.COR.17.07

Consequences of Non-Compliance

As per section 294.1 of the Municipal Act, 2001:

A municipality shall, for each fiscal year, prepare annual financial statements for the municipality in accordance with generally accepted accounting principles for local governments as recommended, from time to time, by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

Included in the Town's consolidated Financial Statements are The Blue Mountains Public Library, Blue Mountains Attainable Housing Corporation, Thornbury Business Improvement Area, and Thornbury Clarksburg Union Cemetery Trust. These entities are required to follow this policy to ensure compliance with PSAB 3150.

Review Cycle

This policy will be reviewed once every term of Council.

Appendix A

Tangible Capital Asset	Years	Tangible Capital Asset	Years
Land	Indefinite	**Building**	
Land Improvements		Structure	40
Parking Lot		Roofing	
Asphalt	30	Metal	30
Gravel	30	Flat	25
Landscaping		Asphalt Shingles	25
Irrigation System	15	Tile	30
Plantings	15	HVAC	
Street Trees	25	System	25
Street Furniture	10	Furnace	15
Golf Course	20	Plumbing	
Weigh Scale Foundation	50	System	30
Laneway - Gravel	30	Sprinkler System	25
Compost Pad –Base	40	Cistern	50
Compost Pad – Surface	20	Boiler	20
Baseball Diamond	15	Septic System	25
Trails -Limestone	30	Electrical	
Tennis/Pickleball Court	20	System	25
Basketball Court	15	Interior Lighting	20
Fencing	15	Ice Surface Lighting	20
n/a		Exterior Lighting	15
Vehicles		Fire Alarms	20
Light Duty	10	Windows and Doors	25
Heavy Duty	10	Flooring	
Fire Tankers	20	Carpet	15
Fire Rescue	20	Vinyl	20
Fire Pumpers	25	Concrete	20
		Tile	20
		Hardwood	20
		Wet Well	50
		Dry Well	50
		Valve Chamber	50
		Holding Tank	50

Tangible Capital Asset	Years	Tangible Capital Asset	Years
Linear		**Machinery & Equipment**	
Bridges	75	**Water and Wastewater**	
Culverts		MCC	25
Concrete	75	Submersible Pump	25
Corrugated Steel	40	Surge Tank	25
Stormwater Facility	40	Vertical Motor	25
Sidewalk		Septage Unloader	25
Concrete	50	Flowmeter	25
Asphalt	30	Clarifier Driver	25
Paving Stone	20	Tank	50
Road Base		Side Screen	20
Asphalt – Curb	50	Grit Collector	15
Asphalt – Ditch	40	Grit Auger	25
Surface Treatment	40	UV System	25
Gravel	30	Lab Equipment	20
Road Top		Inlet/WAS Pump	20
Asphalt – Curb	30	Centrifugal Pump	30
Asphalt – Ditch	25	RAS Pump	30
Surface Treatment	6	Control Bridge	30
Streetlights	30	Membrane Filter	50
Traffic Signals	25	Comminutor	25
Manholes	75	SCADA Equipment	15
Fire Hydrants	20	Blower	40
Guiderails		Biosolid Mixer	25
Pipe		Gravity Filters	5
Polyvinyl Chloride DR18	100	Chlorine Analyzer	5
Polyvinyl Chloride DR35	100	Chlorine Pump	10
Stainless Steel	20	Level Transmitter	15
Concrete	100	Water Meters	15

Tangible Capital Asset	Years	Tangible Capital Asset	Years
Machinery & Equipment		**Machinery & Equipment**	
Office Furniture	15	**Fire**	
Office Equipment	5	Air Cart	20
Computer Software	5	Air Bags	20
Computer Hardware	5	Multipod	20
Book Collection	7	Bunker/Ice Rescue Suit	10
Sound Equipment	5	Auto Extraction Jaws	20
Vehicle Scale	15	Thermal Imaging Equipment	10
Waste Containers	15	SCBA Suit	10
Signage	15	SCBA Bottle	10
General Pump	10	**Large Equipment**	
Fuel Tank	25	Tractor	15
Pressure Washer	5	Compactor	15
Generator	30	Backhoe	10
Communications Equipment	15	Grader	20
Communication Tower	50	Ice Resurfacer	10
General			
Parks and Trails			
Landscaping Equipment	10		
Playground Equipment	15		
Skateboard Equipment	15		
Harbour			
Docks	25		
Docks –Hydro Supply	15		
Pump-out Tank	15		
Arena			
Tempered Glass	25		
Protective Netting	30		
Dasher Boards	20		
Score Clock	20		
Chiller	20		
Compressor	20		
Brine Pump	15		
Cooling Pump	20		
Header Line	20		
Condenser	20		
Dehumidifier	15		
Radiant Heater	20		