

STAFF REPORT: Financial & Information Services REVISED



REPORT TO: Finance & Administration
MEETING DATE: April 20, 2010
REPORT NO.: FIS.10.33
SUBJECT: Tangible Capital Asset Accounting Guidelines Policy - FIS.10.13

PREPARED BY: Robert Cummings, Director of Financial & Information Services
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A. Recommendations

THAT Council receive Staff Report FIS.10.33 “Tangible Capital Asset Accounting Guidelines Policy – FIS.10.13”, and,

WHEREAS PSAB 3150 requires municipal accounting practices to incorporate tangible capital assets as of January 1st, 2009; and,

WHEREAS policies in accordance with PSAB 3150 and generally accepted accounting practices are required to establish accounting policies for tangible capital assets;

THEREFORE Council hereby adopts the Tangible Capital Asset Accounting Guidelines Policy – FIS.10.13, as The Blue Mountains’ policy for Tangible Capital Asset accounting.

B. Background

Commencing January 1st, 2009 Tangible Capital Assets (TCA) through PSAB 3150 will be incorporated into municipal accounting practices. The purpose of this Policy is to establish accounting guidelines for tangible capital assets in accordance with PSAB 3150 and CICA Sections 3060 and 3065 and their respective representation on the Financial Statements of the Town. This will ensure consistent approaches in Town accounting practices and create policies for the effective transition to full accrual accounting. This Policy will establish accountabilities and responsibilities for the Financial and Information Services department and managerial responsibilities for Directors and Town Staff that purchase, contract and construct tangible capital assets of the Town.

This Policy addresses consistent and transparent treatment of all TCA of the Town and establishes and delegates authority to Town departments as it relates to the TCA accounting and asset management.

The objective of this policy is to prescribe the accounting treatment for TCA so users of the financial statements can distinguish information about the investment in property, plant and equipment and the changes in such investment. The principal issues in accounting for TCA are the recognition of the assets, the determination of their carrying amounts, amortization charges, and the recognition of any impairment losses.

This Policy applies to all Town departments, boards and commissions, agencies and other organizations falling within the reporting entity of the Town.

C. The Blue Mountains' Strategic Plan

“Providing a strong, well managed municipal government”.

D. Environmental Impacts

No significant impact at this time.

E. Budget Impact

No significant impact at this time.

F. Attached

1. Tangible Capital Asset – Accounting Guideline Policy – FIS.10.13

Respectfully submitted,

Signature

Signature

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TOWN OF THE BLUE MOUNTAINS

POLICY & PROCEDURES

Subject Title: Tangible Capital Assets Accounting Guidelines

Corporate Policy (Approved by Council)

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 Policies 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 excluded 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 and 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:
 - i. installation costs
 - ii. design and engineering fees
 - iii. legal fees
 - iv. survey costs
 - v. site preparation costs
 - vi. freight charges
 - vii. transportation insurance costs; and
 - viii. 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 staff are 100% chargeable 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 $1/36 \times \$1$ 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 TA 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

4. 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
<p>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.</p>	<p>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).</p>

Land

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
<p>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).</p> <p>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.</p>	<p>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.</p>

APPENDIX 1 – ASSET CLASSIFICATIONS

Land Improvements

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
<p>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.</p> <p>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.</p>	<p>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.</p>

Buildings

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
<p>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.</p>	<p>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.</p>

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.

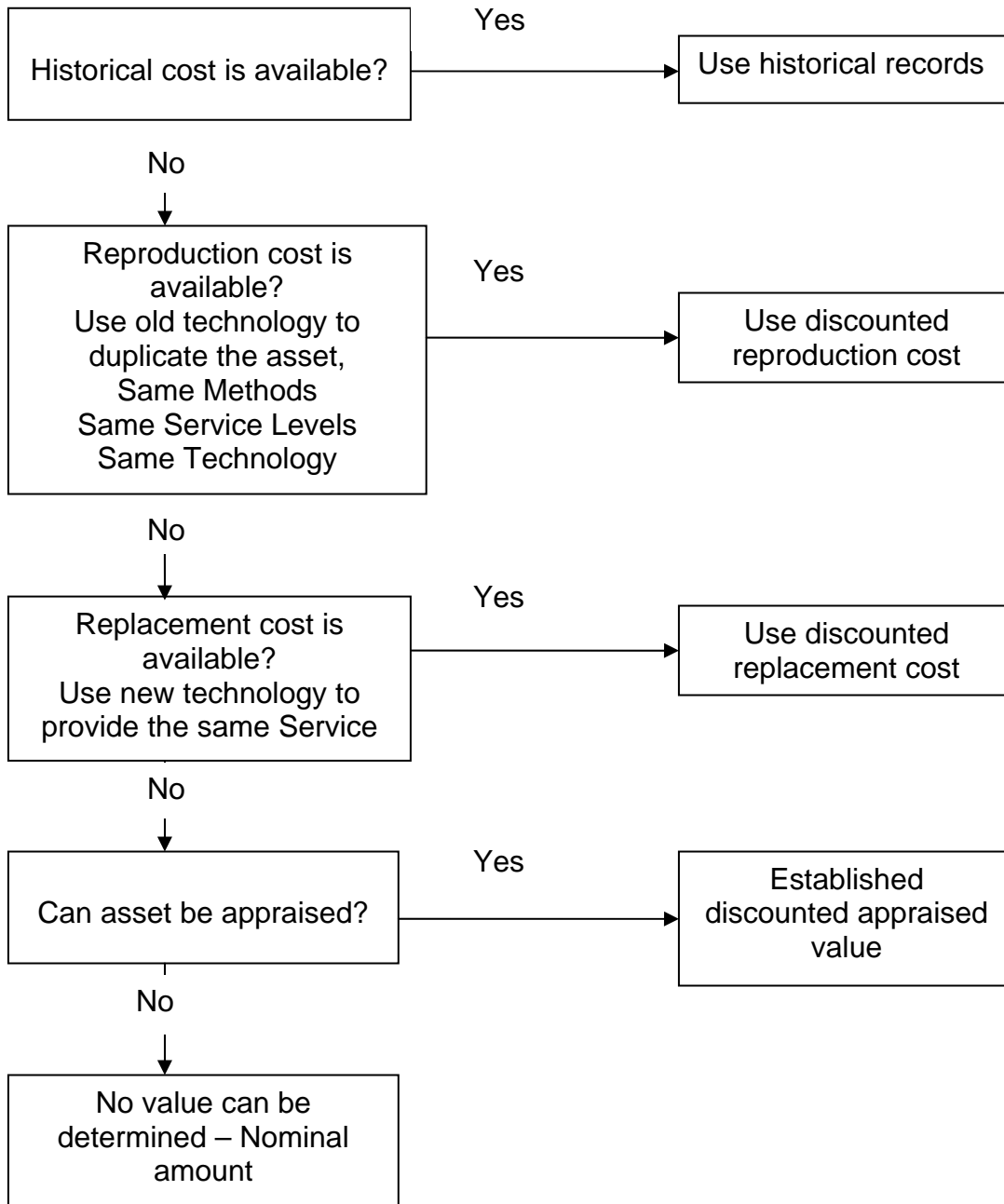
Vehicles

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
	<p>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 :</p> <ul style="list-style-type: none"> • 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	ASSET	YEARS
Land		Building	
Land Improvements		Structure	40
Parking Lot		Roofing	
Asphalt	30	Metal	30
Gravel	30	Flat	25
Landscaping		Asphalt Shingle	25
Irrigation System	15	Tile	30
Plantings	15	HVAC	
Walkways	20	System	25
Street Furniture	10	Boiler	15
Golf Course	20	Plumbing	
Exterior Lighting	15	System	30
Scale Foundation	50	Sprinkler System	25
Laneway - Gravel	30	Water Treatment	15
Compost Pad Base	40	System	
Compost Pad Surface	20	Water Storage	50
Baseball Diamond	15	Cistern	
Trails	30	Hot Water Boiler	20
Tennis Court	20	Septic System	20
		Electrical	
		System	25
		Interior Lighting	20
		Ice Surface	20
		Lighting	
		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

ASSET	YEARS	ASSET	YEARS
Machinery & Equipment		Machinery & Equipment	
Office Furniture	15	Air Cart	20
Office Chairs	5	HP Air Bags	20
Furniture & Fixtures	20	Multipod	20
Office Equipment	5	Bunker Suit	10
Computer Software	5	Auto Extractication Jaws	20
Computer Equipment	5	Ice Rescue Suit	10
Book Collection	7	Thermal Imaging	10
Piano	30	SCBA Suit	10
Sound Equipment	5	SCBA Bottle	15
Vehicle Scale	15	MCC	25
Vehicle Scale Equipment	5	Submersible Pump	25
Tractor	15	Surge Tank	25
Heavy Duty Vehicle Tires	5	Vertical Motor	25
Waste Containers	15	Septage Unloader	25
Signage	15	Flowmeter	25
Landscaping Equipment	10	Clarifier Driver	25
Play Equipment	15	Compressor	20
Skateboard Ramp	16	Tank - Aluminum	50
Sound System	15	Ice Resurfacers	12
Fuel Pump	15	Side Screen	20
Fuel Tank	25	Grit Collector	20
Docks	25	Grit Auger	25
Dock Hydro Supply	15	UV System	25
Pumps - Light Duty	10	Lab Equipment	20
Tempered Glass	25	Inlet Pump	20
Protective Netting	30	WAS Pump	20
Dasher Boards	20	Centrifugal Pump	30
Score Clock	20	RAS Pump	30
Chiller	20	Control Bridge	30
Compressor Motor	20	Membrane Filter	50
Soft starts	20	Comminutor	25
Brine Pump	15	SCADA System	15
Cooling Pump	20	Blower	40
Header Line	20	Biosolid Mixer	25
Condenser	20	Water Storage Tank	75
Dehumidifier	15	Power Washer	5
Radiant Heater	20	Pipe Thawer	25
Communication Radios	8	Backhoe	10
Communication Equipment	15	Grader	20
Communication Tower	50	Generator	30
Water Meters	15		

APPENDIX 3 – USEFUL LIFE SCHEDULE

ASSET	YEARS	ASSET	YEARS
Vehicles		Linear	
Light Duty - Pick-up, SUV	10	Pipe	
Heavy Duty - Dump, Plow	10	PolyVinylChloride	100
Fire Tankers	20	Asbestos Cement	
Fire Rescue	20	Water	50
Fire Pumpers	25	Wastewater	75
		Vitrified Clay Tile	50
		High Density	100
Linear		PolyEthylene	
Bridges		Concrete	100
Built after 1979	75	Schedule 160	
Built prior to 1980	60	PolyEthylene	100
Culverts		Ductile Iron	50
Concrete Built	79	Cast Iron	50
After 1979		PolyEthylene	50
Concrete Built	60	PolyVinylChloride	100
Prior to 1980		DR 18	
Corrugated Steel	40	PolyVinylChloride	100
Storm water management	40	DR 25	
facilities		PolyVinylChloride	100
Unopened road allowances		SDR 26	
Sidewalks		PolyVinylChloride	50
Concrete	50	Series	
Asphalt	30	PolyVinylChloride	75
Loose Stone	20	Series 160	
Road base		Stainless Steel	20
Asphalt - curbed	50	Valves	
Asphalt - ditched	40	Pressure Release	50
Surface treatment	40	Globe	50
Gravel	30	Gate	25
Earth	10	Air Release	25
Road surface		Power Actuated	50
Asphalt - curbed	30	Valve Chamber	50
Asphalt - ditched	25		
Surface treatment	10		
Streetlights	30		
Traffic signals	25		
Manholes	75		
Fire Hydrants	20		