THE CORPORATION OF

THE TOWNSHIP OF SOUTH-WEST OXFORD

BY-LAW NO. 41-2010

BEING A BY-LAW TO ESTABLISH THE TANGIBLE CAPITAL ASSETS POLICY FOR THE TOWNSHIP OF SOUTH-WEST OXFORD

WHEREAS the Canadian Institute of Chartered Accounts have approved and passed Public Sector Accounting Board (PSAB) Handbook 3150 relating to a municipality's tangible capital assets;

AND WHEREAS all Canadian municipalities are required to record and report their tangible capital assets on their financial statements effective January 1, 2009;

NOW THEREFORE THE COUNCIL OF THE CORPORATION OF THE TOWNSHIP OF SOUTH-WEST OXFORD ENACTS THE FOLLOWING:

1. The Township of South-West Oxford adopts the Tangible Capital Assets Policy as contained in Schedule "A" attached to this By-Law.
2. That Schedule "A" forms part of this By-Law.
3. This By-Law shall come into force and take effect as of January 1, 2009.

READ a First and Second time this 3rd day of August 2010.

READ a Third time and finally passed this 3rd day of August 2010.

James Hayes

MAYOR: James Hayes

Mary Ellen Greb

CLERK: Mary Ellen Greb

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1. **POLICY**

1.1. The Township of South-West Oxford will follow a prescribed policy to record and manage their owned or controlled tangible capital assets. The treatment of tangible capital assets for accounting purposes will be in accordance with Generally Accepted Accounting Principles (G.A.A.P.), pronouncements of the Public Sector Accounting Board (P.S.A.B.) and the requirements of the Province of Ontario.

2. **PURPOSE**

2.1. This policy will provide the Township with information for assessing their stewardship of physical resources by providing a framework for:

2.1.1. Establishing guidelines for activities relating to program planning, financing and administration of resources for the acquisition, development or construction of tangible capital assets;

2.1.2. Maintaining manageable levels of long-term debt;

2.1.3. Ensuring that tangible capital assets are recorded appropriately and accurately due to their role in the delivery of local programs and services.

3. **ACCOUNTABILITY**

Council

3.1. Accountable to the public for acquisition, control and disposal of tangible capital assets;

3.2. Accountable to the public for approving policies, procedures and guidelines as they relate to the management and financing of tangible capital assets.

Clerk/Administrator

3.3. Accountable for development of processes to reflect corporate priorities;

3.4. Accountable for development of a tangible capital asset plan for Council that will provide long-term sustainability of services.

Operating Departments

3.5. Accountable to ensure tangible capital asset management is developed in such a manner as to reflect departmental business plans and is in compliance with policies and procedures;

3.6. Accountable to the Clerk Administrator and Council to ensure that management of tangible capital assets are carried out within departmental approved budgets;

3.7. Accountable for reporting capital budget variances as it relates to tangible capital assets to the Clerk Administrator, Municipal Treasurer or designate and Council; reporting to the designated person in the Treasury Department on a timely basis when tangible capital assets are received, constructed, bettered, put into use, or disposed;

3.8. Responsible for preparing a capital expenditure budget in co-operation with the Treasury Department for submission, review, approval and inclusion in the annual budget;

3.9. Responsible for tracking tangible capital expenditures to approved budgets regularly;

3.10. Safeguarding tangible capital assets;

3.11. Reviewing tangible capital lists on a regular basis to ensure accuracy.

Treasurer

3.12. Accountable for recommending policies and procedures surrounding the management of tangible capital assets and for the preparation of reports for presentation to Council;

3.13. Accountable for ensuring adherence to statutory and policy requirements governing use of capital funds;

3.14. Accountable for recommendation of capital funding decisions for tangible capital assets to departments and Council;

3.15. Accountable for development and recommendation of financial plan to support tangible capital asset program that is sustainable;

3.16. Accountable for reporting significant budget variances to Council.

3.17. Responsible for valuing tangible assets and betterments in the financial accounting system including amortization and disposals.

3.18. Ensuring there is sufficient evidence available to support ownership, completeness, existence and valuation for internal and external audit purposes.

4. Directives

4.1 TCAs must be accounted for and reported in the Township's financial statements when:
- 4.1.1. The acquisition or construction costs are known or can be reasonably estimated;
- 4.1.2. Future economic benefits associated with the asset are likely to be received; and
- 4.1.3. The value of the asset exceeds the Threshold Value of Schedule A.

4.2 All assets not meeting the established Threshold Value of Schedule A must be expensed as an operation's expenditure.

4.3 The costs of a TCA must be capitalized when it is brought into use and amortized over its Useful Economic Life in accordance with Schedule A.

5. Tracking Tangible Capital Assets

5.1. Tangible capital assets are non-financial assets with physical substance that are acquired, constructed or developed and:
- 5.1.1. Held for use in the production or supply of goods and services;
- 5.1.2. Have useful lives extending beyond an accounting period;
- 5.1.3. Are intended to be used on a continuing basis; and
- 5.1.4. Are not intended for sale in the ordinary course of operations.

5.2. Tangible capital assets are a significant economic resource and a key component in the delivery of programs and services. To capitalize tangible capital assets you will:
- 5.2.1. Maintain appropriate accountability for government-owned tangible capital assets;
- 5.2.2. Ensure accounting consistency across the organization;
- 5.2.3. Ensure efficient and effective use of assets; and
- 5.2.4. Provide information that will support measuring the cost of programs and services.

Elements of Cost

5.3. The cost of a tangible capital asset (PSAB 3150.10) is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset and includes direct construction or development costs (such as materials and labour) and overhead costs directly attributed to the acquisition, construction or development of the asset.

5.4. These costs may include but are not limited to:
- 5.4.1. Amounts paid to vendors;
- 5.4.2. Transportation/freight charges to the point of initial use;
- 5.4.3. Handling and storage charges;
- 5.4.4. Design/production costs for labour, equipment rentals, materials and supplies;
- 5.4.5. Engineering, architectural and other outside services for designs, plans, specifications and surveys;
- 5.4.6. Acquisition and preparation costs of buildings and other facilities;
- 5.4.7. Fixed equipment and related installation costs for activities in a building or facility;
- 5.4.8. Direct costs of inspection, supervision and administration of construction contracts and work;
- 5.4.9. Legal and recording fees and damage claims;
- 5.4.10. Fair values of land, facilities and equipment donated;
- 5.4.11. Appraisal costs;
- 5.4.12. Advertising costs;
- 5.4.13. Application fees;
- 5.4.14. Supervisory fees;
- 5.4.15. Utility costs;
- 5.4.16. Site preparation costs;
- 5.4.17. Transportation insurance costs; customs and duty charges;

5.4.18. Interest charges incurred during acquisition, construction or development (up to substantial completion of 90%) or in the case of major projects (up to the issuance of the certificate of substantial completion).

Accounting

5.5 All tangible capital assets and amortization must be identified and valued using an appropriate cost base; namely, historical cost. Departments should consider reasonableness and materiality in their approach. Where practical and cost effective, existing tangible capital assets will be valued using historical costs 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.

5.6 Where it is not practical and cost effective to establish a reasonable estimate of historical cost, departments may use appraised or some appropriate measure of current value and extrapolate back to estimate historical cost using relevant price/cost index (PSAB 3150.47). Replacement cost should not be used unless it is the lower of cost alternatives.

5.7 Tangible capital asset classifications that were historically established on whole asset or pooled asset approaches may be recorded using a component approach on a "go-forward" basis.

Recognition

5.8 A tangible capital asset shall be recognized when it is probable that future benefits associated with the asset will be obtained, there is an appropriate basis of measurement and a reasonable estimate of the amount can be made. The recognition and valuation of an asset is based on its service potential. The acquisition date of an asset is the earliest of the date on which the asset being constructed is complete and ready for productive use (i.e. in the case of subdivision road development, the date of initial acceptance by the Township).

Capitalization Threshold

5.9 Capitalization threshold relates to the minimum dollar threshold that is used to assist in determining which expenditures will be capitalized as assets and amortized and which expenditures will be treated as current year expenses. The capitalization threshold has an impact on the size of the asset inventory and the complexity of managing subsequent acquisitions and disposals. The capitalization threshold levels established in section 4.52 of this policy are a balance between the accurate presentation of information for decision-making and the cost of acquiring and maintaining such information.

5.10 Departments within a Township may hold their own views of thresholds. Departments may recognize that it might be important to track and inventory items for management purposes but not necessarily capitalize and amortize those assets (controlled assets). There may also be exceptions to the application of a threshold level. For example, a personal computer may be below the threshold level but when several computers are acquired then the bulk purchase would warrant treatment as a capital asset.

Pooled Assets

5.11. Departments must be aware of the impact that pooling of assets (i.e. furniture, streetlights or road resurfacing) might have. For example, when the value of an individual item is less than the threshold level, but upon acquiring several of these assets in a single purchase or when these costs are aggregated, the asset makes up a significant group that exceeds the threshold level then they must be capitalized. Assets to be pooled are designated in section 4.52 of this policy and shall be reviewed with the Municipal Treasurer on an annual basis.

Controlled Assets

5.12. Controlled assets are assets with values below the capitalization threshold for a particular asset classification; a useful life in excess of one year and/or at the discretion of the Municipal Treasurer requires identity and control. It is mandatory that each department maintains a written listing of these controlled assets. Such assets must be identified and controlled because of their sensitive, portable or theft-prone nature. Controlled assets are similar to capitalized assets except that these assets are not amortized. Controlled assets are subject to the same requirements regarding security, maintenance and utilization and must be inventoried on a regular basis due to the nature of the item. Examples of controlled assets include scientific equipment, cameras, specialized tools and equipment.

Complex Assets

5.13. For purposes of capitalization and amortization, the two methods of defining a capital asset are whole asset approach and component approach. 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 computer network, signage or a building may be considered as a single asset. Under the component approach different components are individually capitalized and amortized. For computers, the servers, routers, lines, software may be listed as individual assets. For buildings, the roof, foundation, HVAC and framing may be components. Either approach is equally acceptable. Operating department personnel shall review with the Municipal Treasurer the preferred method that best serves the departmental needs. 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. Additional factors that may influence the choice of method include:

- Significance of amounts;
- Quantity of individual asset components (volume);
- Availability of information with respect to specific components;
- Specific information needs of management for decision-making and asset control purposes.

Useful Life

5.13 Useful life (PSAB 3150.28) is the estimate of the period over which a tangible capital asset is used. The economic or physical life of an asset may extend beyond the useful life of an asset. Depending on the nature of the asset, useful life may be expressed in terms of time (years or machine hours) or output (production or service units). Estimating useful lives of assets is a matter of judgment based on experience and should be applied on a consistent basis. Factors to be considered in estimating the useful life include:

5.13.1. Expected future usage;
5.13.2. Technical obsolescence;
5.13.3. Expected wear and tear through the passage of time;
5.13.4. Maintenance program; and
5.13.5. Condition of existing comparable items.

5.14 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. The estimated useful life of an asset category and remaining useful life of individual assets should be reviewed on a regular (annual) basis and revised when appropriate. The rationale supporting the decision to revise useful life estimates of an asset should be documented.

5.15 Significant events that may indicate a need to revise the estimated useful life of an asset may include:

5.15.1. Completion of a major betterment;
5.15.2. Change in extent that the asset is used;
5.15.3. Change in manner that the asset is used;
5.15.4. Removal of asset from service for extended period of time;
5.15.5. Physical damage or destruction;
5.15.6. Significant technological developments;
5.15.7. Change in law, environment or public preference that affects usage and time periods over which the asset is used.

5.16 A number of factors may trigger the need for a review of the expected useful life of an asset or its components such as major investments including upgrades to critical components:

5.16.1. Significant changes in the market value;
5.16.2. Pattern of differences in rate of wear and tear compared to that previously expected;
5.16.3. Pattern of differences in levels of maintenance compared to that previously expected;
5.16.4. Results from engineering testing indicating higher than expected rates of structural deterioration;
5.16.5. Major changes in technology increasing the rates of obsolescence for critical components;
5.16.6. Major changes in government programs impacting the expected use of assets;
5.16.7. Major changes in government regulations, policies or standards impacting expected use of assets; and
5.16.8. Major damage to an asset.

Betterment

5.17 Betterments (PSAB 3150.19) are considered to be capital asset additions for the assets to which they relate and should be recorded as a life cycle event to the main asset. 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.

5.18 The minimum materiality threshold limit for the capitalization of betterments is:

5.18.1. Equal to or greater than 30% of the historical cost of the related asset and these costs may or may not meet the capitalization threshold for the main asset class; and
5.18.2. When one of the following criteria is 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; or
- The efficiency of the asset is increased by more than10%.

Maintenance

5.19. (PSAB 3150.21(a)) expenditures are costs to keep the condition of an asset at its expected operating standard. These expenditures are usually incurred on a more or less continuous basis. For example, regular maintenance activities prescribed by the manufacturer of a new heating, ventilation and air conditioning system (HVAC) would normally be required to ensure that the asset is able to provide service at a level and quality as originally intended by the manufacturer (i.e. lubrication of motor and compressors, replacement of filters). Performance of regular maintenance may also be required as part of the product warranty provided by the manufacturer. The costs of regular maintenance such as storm sewer cleaning and line painting will be expensed. Costs that do not increase the original assessed useful life, service capacity or quality of output would be expensed as incurred.

Examples of Capital versus Maintenance Expenditures:

Description	Capital	Operations / Maintenance
Roads	• New/reconstruction of roadways and related environmental studies • Street Resurfacing • Alteration of Intersections , street capacity / design	• Routine repairs, patching, crack sealing
Traffic	• New upgrade signal equipment • Other physical improvements enhancing safety / capacity	• Repair / Maintenance for systems operations
Fleet Equipment	• New or replacement vehicles / equipment with a useful life greater than one year	• Operational equipment with a useful life of less than one year
Facilities	• Design / Construction of new Facilities • Renovations / Upgrades / Replacement of existing facilities or major components thereof. i.e. roofing or HVAC	• Preventive Maintenance performed on regular basis that does not significantly upgrade the structure or increase useful life. i.e. paint.
Water and Sewer	• Upgrade/replacement of • Existing distribution /collection main servicing several properties	• Emergency repair to broken main isolated to one specific location
Waste Management	• New/replacement • containers/weigh scales	• Contract for waste collection/processing

Types of Betterment

Replacements

5.20. Replacements involve removal of component parts and substitution of a new part or component of essentially the same type and performance capabilities. If the component being replaced had been previously segregated in the accounting records as a distinct asset for amortization over its specific expected useful life, then the new component is capitalized and the old component is retired with its residual net book value removed from the accounts. Refer to "Disposal" section for financial implications.

If on the other hand, the component being replaced was not significant enough to be previously segregated from the whole property as a distinct asset, then the replacement is normally considered a repair and the costs are expensed as incurred. If the replacement of the component results in an enhancement of the service potential of the property as a whole, the replacement is considered betterment and the costs are capitalized. Enhancements to service potential only result from replacements which extend the useful life of the property as a whole, increase the capacity or usage of the property, improve the quality of the property to a higher building class or improve the operating efficiency of the property.

Additions

5.21. Additions are made to an existing asset to extend, enlarge or expand the existing asset. Examples include adding an extra wing/room to a building or the addition of a lane to an existing roadway. As additions increase service capacity or physical output of a property, they are betterments. The costs of additions should be capitalized. The key consideration is increase of quantity of service or output.

Upgrades

5.22. Upgrades involve the removal of a major part or component of an asset and the substitution of a different component having significantly improved performance capabilities beyond the property's original design standard. Refer to "Disposal" section for financial implications. An upgrade increases the overall efficiency (i.e. increasing utilization, lowering operating costs, or increasing output of service), quality (i.e. transforms the asset into a higher class property) or extends expected service life of an asset. The costs of upgrades are capitalized. The following examples would have characteristics of an upgrade:

- Installing air conditioning in a building that was previously not air-conditioned increasing the service quality of the property;
- Replacing existing lighting with energy saving lighting reducing future operating costs;
- Substituting a tile roof for wooden shingle increasing the expected useful life of the building beyond its currently estimated life;
- Replacing an elevator with a new high speed elevator improving the building class of the overall property; or
- Replacing a furnace with a high efficiency furnace decreasing future operating costs.

Re-arrangements are the re-installation, re-routing of asset components to achieve greater service efficiency or effectiveness of the asset. It is a change in the internal arrangement or other physical characteristics of an existing asset so that it may be effectively used. Examples include increasing the number of partitions in the office area to increase office space (i.e. better utilization of office space), re-routing the wires in the building to increase the number of computer workstations connections. Re-arrangements of the building that increase service capacity or physical output meet the definition of betterment and should be capitalized as part of the building.

5.22.1. The cost of a highway realignment to achieve a more efficient traffic flow would be capitalized provided the efficiency gain is measurable and documented. Refer to "Disposal" section for financial implications.

Factors Affecting Assets

Trade In

5.23. A trade in occurs when an asset is disposed and replaced with a new asset through the same supplier in the same transaction. This transaction should be accounted for as two separate entries. The trade in value should be treated as proceeds of disposal and is used in calculating the gain or loss on the disposal of the assets being traded in. The new asset acquired is recorded at its full cost; trade in value for the old asset does not affect cost.

Disposal

5.24. In the case of legacy-pooled assets acquired prior to January 1, 2007, such as personal computers, office furniture and equipment and the pool of assets has been fully amortized, that pool must be written off. This deemed disposition takes place the year following the final year in which amortization is posted for the asset pool. On disposal of an asset, the historical cost and accumulated amortization must be removed from the books. The disposal shall be documented in a memorandum, e-mail or by invoice as appropriate to the Municipal Treasurer. The difference between the net proceeds on disposal and the net book value must be recorded in the Statement of Operations as a gain or a loss for the accounting period (PSAB 3150.38).

Write Down/Off

5.25. A write down is used to reflect a partial impairment in the value of an asset (PSAB 3150.31). A write off is used to reflect total impairment in the value of an asset. Capital assets are written off in instances where they are destroyed, stolen, lost, sold or obsolete. The write off of an asset requires approval by a properly authorized officer. Any abandoned or indefinitely postponed projects must be written down to their net realizable value and charged to the period in which the abandonment or indefinite postponement occurs. When the reduction in the value of the asset can be objectively estimated and it is expected to be permanent, the asset must be written down. Conditions that indicate a write down is necessary may include a change in the manner or extent to which the asset is used:

- Removal of the asset from service;
- Physical damage;
- Significant technological developments;
- A decline in, or cessation of the need for the service provided by the asset;
- A decision to halt construction of the asset before it is complete or in useable or saleable condition; or
- A change in the law or environment affecting the extent to which the asset can be used.

Amortization

5.26 Amortization is the allocation of the cost of an asset less its estimated residual value to expense over the estimated useful life of the asset (PSAB 3150.22). The asset will be used to provide services or deliver programs to the public over the assets' estimated useful lives. Where the residual value of the asset is significant then it should be factored into the calculation of amortization otherwise assume zero residual value for the components. Amortization should be recognized in a rational and systematic basis appropriate to the nature and use of the asset. Amortization should reflect as closely as possible the extent to which an asset's service potential is consumed over its useful life. Amortization should start as soon as an asset is completed and ready for use. This would be the case even if the decision were made to delay placing the asset into service. Where construction of an asset is comprised of distinct, multiple and self-contained phases, amortization must begin for the distinct phases that are completed. The start date will be the first day of the month following the month the asset is placed into service and a straight-line method of amortization will generally be used. Various methods of amortization are available depending on the driver behind the actual decline in serviceability of the asset.

Straight-Line Method

5.27 The Township has selected the straight-line method as a preference with the unit-of-output method being used in specific situations such as number of hours of operation for certain heavy equipment. Pooled assets will be amortized according to an average year of implementation.

The straight-line method is the most common and preferred method of amortization and is calculated by dividing an asset's original cost by its estimated life in years yielding a constant annual depreciation amount each year. For example, a building that costs $3,000,000 has an estimated useful life of 40 years would yield annual depreciation of $75,000 ($3,000,000 / 40 years).

Unit-Of-Output Method

5.28 Some assets deteriorate based on their usage. Such assets are designed to produce a finite amount of service. This method determines amortization based on asset output by dividing an asset's cost by its total expected productive output. The amortization cost per unit is then multiplied by the actual production to the inventory date to determine the accumulated amortization of that asset. The amortization cost applied to units of service costs will vary as service outputs increase or decrease from year to year. For example, a generator is designed to have a lifetime of 10,000 hours at a cost of $150,000. During the first year of operation, the generator was used 1,500 hours. The amortization for the year is $22,500 or ($150,000 / 10,000 hours x 1,500 hours). If the generator was operated for only 500 hours in year 2, the amortization would be $7,500 or ($150,000 / 10,000 hours x 500 hours).

6. CATEGORIZATION OF ASSETS

Primary Asset Class

6.1. (see **APPENDIX A)**

Excluded Assets

6.2. The following assets should not be capitalized or amortized:

- Land acquired by right, such as Crown, forests, water and mineral resources;
- Works of art and historical treasures; and
- Intangible assets such as patents, copyrights, official plans, studies and trademarks.

Land

6.3. Land normally has an indefinite useful life that exceeds the useful lives of the buildings, roads or structures situated on the land. The cost of acquired land is separated from the other costs of an asset and maintained as a component. The cost of the acquired land is not amortized as land normally maintains its value over time.

Landfills

6.4. The site has a pre-determined life expectancy or tonnage capacity that is reported in the original feasibility study for the capital project. The capital assets, along with the Landfill, can be amortized on the basis of either project life expectancy or annual tonnage processed. For the equipment used in the landfill such as bulldozers and loaders, they will be accounted for and recorded as TCA.

At the termination of operations, it is with reason to assume that the buildings at the landfill site have no residual value, unless they can be moved, and that the entire property normally has no commercial value. However, if the site is to be used as a green space or recreational purposes after it has been dormant for 50 years, the Township may place a residual value on the land.

Cemeteries

6.5. Since the land is like a special-purpose landfill, where the site becomes permanently impaired for all other future uses, all site improvements made to prepare the land for the use of a cemetery should be treated as costs of a tangible capital asset. Site improvements include general grading and landscaping, drainage works and grading of access roads. A cemetery should be broken down into four major components:

- buildings and operational areas as a works yard;
- landscaped gardens or grounds and;
- access roads and paths to get to the plots; and
- the burial plots

Cemetery plots that are available are to be treated as inventory and as such they are tangible capital assets. If the lease is in perpetuity, the plot may therefore not be available to others and should be accounted for as though it was sold.

Unopened Road Allowances

6.6. Unopened Road Allowances be valued at $1,000.00

Shoreline Allowances

6.7. Shoreline Allowances should be valued at $1,000.00

Equipment and Technology

6.8. Equipment includes fixed or moveable TCAs to be used for operations, the benefits of which extend beyond one year from date of receipt and are above the ***Threshold*** level.

Technology includes computers and consists of hardware and software (purchased and created) that can be considered a component of, is typically attached to, or communicated with an information system, including, but not limited to:

- memory apparatus
- input and output devices
- storage devices
- connectivity equipment
- printers and copiers

Work-In-Progress

6.9. Work in progress (WIP) is the construction and development of a capital asset that extends over several years. Work in progress is not capitalized or amortized until the asset is in use. The capital costs for such an asset should be established to allow capital costs to be tracked separately for easy identification in reporting. Amortization is calculated and begins the first fiscal year that the asset is in use.

Examples of WIP are the construction of a new road, building or the development of an asset which occurs over several years. WIP would also include the down payments and deposits which are applied to the cost of a capital asset.

Contributed Assets

6.10. A tangible capital asset may be gifted or contributed *(PSAB 3150.14)* by an external third party with no cash outlay. For example, a developer may install services such as storm systems mains or roads within a subdivision at its own cost and then turn them over to the Township to operate, maintain and replace. Where an asset is acquired through a third party contribution, the amount to record the asset at is the cost provided by the contributor. If the cost cannot be provided, a fair value may be estimated using either market or appraised values or a qualified third party evaluation.

When the Township receives funds from a third party, such as the provincial or federal government, to assist with the construction or purchase of a capital asset, the full cost of the asset should be recorded. The funds received are to be recognized as revenue.

Acquired, Constructed or Developed Assets

6.11. Cost includes all costs directly attributable (e.g., construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized. Capitalization of general administrative overheads is not allowed.

Capitalization of carrying costs ceases when no construction or development is taking place or when the tangible capital asset is ready for use.

Heritage Assets

6.12. Heritage assets *(PSAB 3150.08)* are works of art and historical treasures considered irreplaceable and preserved in trust for future generations. Collections or individual items of significance that are owned and not held for financial gain but rather public exhibition, education or research in maintenance of public service may be considered heritage assets. Heritage assets will not be recognized as TCA in financial statements, but the existence of such property should be disclosed *(PSAB 3150.42 (e))*

Amortization of heritage assets does not apply as the economic benefit or service potential of heritage assets are used up so slowly and the estimated useful lives are extraordinarily long.

Capital Leases

6.13. Capital leases are a means of financing the acquisition of a capital asset where the lessee carries substantially all of the risks and benefits of ownership. If the arrangement is an operating lease, not all benefits and risks transferred to the leaseholder, then the lease payments should be expensed and no liability is recorded. Capital leases are recorded as if the leaseholder had acquired the asset and assumed liability.

If one or more of the following criteria exists, the lease should be accounted for as a capital lease:

- There is a reasonable assurance that the Township will obtain ownership at the end of the lease;
- The Township will receive substantially all of the economic benefits of the asset;
- The leaser is assured of recovering the investment in the asset and earning a return.

Where at least one of the conditions in the preceding paragraph is not present, other factors may indicate that a capital lease exists. For example:

- The Township owns or retains control of the land on which a leased asset is located and the asset cannot be easily moved;
- The Township contributes significant assistance to finance the cost of acquiring or constructing the asset that it will lease; or
- The Township bears other potential risks, such as obsolescence, environmental liability, uninsured damage or condemnation of the asset and any of these are significant

If the minimum threshold value is exceeded, a capital asset and a liability should each be recorded for the present value of the minimum lease payments. The leased asset should be amortized over the lesser of the lease term or estimated useful life for similar capital assets as presented in **Schedule A**. Maintenance costs should be excluded when calculating minimum lease payments. The discount rate should be the lesser of the Township's incremental borrowing rate or the interest rate implicit in the lease, if determinable.

Classification, Threshold and Useful Life

6.14. A capitalization or recognition threshold is the minimum amount established by the Township of South-West Oxford to qualify as a tangible capital asset for asset accounting purposes without excluding significant material assets or asset pools. Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:

Pooled (similar) Assets with a unit value < $10,000 but a combined value > $50,000 may be capitalized as a group (pooled asset) under the appropriate Asset Category. Examples of such assets may include personal computers, small movable equipment, appliances, etc.

SCHEDULE A - Classification, Threshold and Useful Life

Primary Asset Class	Description / Notes	Capitalization Threshold	Estimated Useful Economic Life
Land	Real Property in the form of a plot, lot or area. Includes the purchase price and all closing costs to acquire the land Examples: Municipal Park, Beach Property, Undeveloped Picnic Site, Festival Grounds, Playgrounds, Look Out Site, Heritage Area/Historic Sites, Cemetery, Subdivision, Trailer Park, Ecological Reserve, Training Grounds, Landfill Site, Waste Disposal Site/Dump and Road Allowances	All	Indefinite
Land Improvements	Includes all costs <u>excluding</u> land and buildings incurred in the development of land to facilitate various recreations and economic pursuits. Examples include but are not limited to landfill site development, driveways, parking lots, bike paths, sidewalks, fences, ball diamonds, and tennis courts. • Playground structures – 10 yrs • Soccer field & ball diamonds – 20 yrs • Basketball Courts – 10 yrs • Running Track – 10 yrs • Bowling Green – 20 yrs • Skateboard Park – 15 yrs • Campgrounds/Picnic Sites – 20 yrs • Trails & Boardwalks – 20 yrs • Fencing – 10 yrs • Fountains – 20 yrs • Outdoor lighting – 20 yrs • Tennis courts – 10 yrs • Landscaping – 10 yrs • Retaining walls – 15 yrs • Pavilion/Gazebo - 15 yrs • Erosion control structures: retaining wall, crib wall – 25 yrs • Waterfront development - 20 yrs • Tunnel - 50 yrs • Parking lots: (i) Gravel – 10 yrs (ii) Asphalt – 20 yrs (iii) Concrete – 30 yrs	$ 5,000.00	10 – 50 years
Buildings	All buildings, which function independent of an infrastructure network and are made of solid construction • Concrete/Brick/Steel – 40 yrs • Wood – 30 yrs Includes Town office, fire hall, office buildings, museum, library, sport and recreation facilities, municipal depot, maintenance garages, storage sheds, park washrooms, Heritage / Interpretation centers, pumping sites, pumping stations, water supply building / water towers, purification / chlorination plant and	$10,000.00	30 to 40 years

	equipment, sewer lift station, Airport Terminal.		
Vehicles	Automobiles, vans, light trucks (1 ton and under), trailers, snowmobiles, by-law enforcement vehicles, animal control vehicles, ice resurfacing machine, bus, mini bus	$ 5,000.00	5 years
Machinery & Equipment	All types of machinery or equipment used in the operation of delivery and providing municipal services.	$5,000.00	10 years
Heavy Equipment Vehicles	All types of machinery and equipment. Fire Trucks, Garbage trucks, salt trucks, Dump Trucks, Snow Plows, Snow Blowers, Sidewalk Blowers, Front End Loaders, Back Hoes, Dozers, Graders, Sidewalk / Road Sweepers, Heavy Equipment attachments (Buckets, blades)	$5,000.00	12 years
Computer Hardware & Software & Communication Equipment	Purchase installation of computers, peripherals and LAN servers Off-the-shelf and related upgrades or licenses for individual personal computers, as well as LAN or communication software Does not include the purchase, design and development of major applications. All major applications should be evaluated individually. Examples: PC, Laptops, printers, scanners, fax machines, photocopiers, telephones, cell phones, 2-way radios, paging system, cameras.	$5,000.00 (Pooled)	4 years
Furniture & Fixtures	Examples: Desks, Chairs, File Cabinets, Water Dispensers	$5,000.00	10 years
Leasehold Improvements	Costs to renovate, modify or improve accommodations leased by the Township	$10,000.00	Variable
Road Surface	• Asphalt – HCB/LCB – 20 yrs • Gravel surface – 10 years • Earth – 10 years • Guard Rails – 20 yrs • Chip and Seal – 10 yrs • Repaving – 15 yrs • Gravel resurface – 10 yrs	ALL	10 to 20 years
Road Grade	Includes formation works Includes the initial application of granular on gravel roads Future applications of gravel are an operating expense	ALL	30 years
Bridges	Structures of 2 or more meters in length, which span and give passage over a waterway, deep valley, depression or some other obstacle such as another transportation route • Timber / wood – 30 yrs • Precast concrete – 40 yrs	$25,000.00	30 to 50 years

	• Concrete Pre Stressed – 45 yrs • Steel w/o trusses – 45 yrs • Steel with trusses – 50 yrs		
Signs	Examples include Traffic, Road, Street, Construction, Advertising signs	$5,000.00 (Pooled)	15 years
Lighting / Traffic Lights	Includes traffic lights and street lights for illumination Traffic lights – 15 yrs	$5,000.00 (Pooled)	10 to 20 years
Safety Devices	Examples include Barricades, Pylons, Fire Fighter Gear	$5,000.00	15 years
Culverts	Culverts of any diameter • Plastic – 25 yrs • Steel / Corrugated Steel – 15 yrs • Concrete – 40 yrs • Aluminized – 50 yrs • Galvanized – 15 yrs	$5,000.00	15 to 50 years
Sidewalks & Curbs	Sidewalks • Asphalt – 20 yrs • Concrete – 30 yrs • Curbs – 30 yrs	$5,000.00	20 to 30 years
Drainage System	Ditch / Trench – 50 yrs	$5,000.00	50 years
Water Mains	Underground networks such as water distribution systems Plastic: PVC & HDPE – 25 yrs Ductile and Cast Iron – 30 yrs Reinforced Concrete Pipe – 60 yrs	$5,000.00	15 to 100 yrs
Sewer Mains	Underground networks of waste water collection storm drainage collection systems. Sanitary Sewer Lines and Storm Sewers • Metal Corrugated – 15 yrs • Concrete, not reinforced – 40 yrs • Reinforced Concrete Pipe – 60 yrs • Ductile Iron and Cast Iron – 30 yrs • Plastic: PVC and HDPE – 60 yrs • Manholes & Storm Drains – 40 yrs • Sewage Outfall – 25 yrs • Catch Basins (concrete) – 50 yrs	$5,000.00	15 to 100 yrs
Sewer Structure (Waste Water)	Septic Systems	$5,000.00	30 years
Fire Hydrants		$5,000.00	30 years
Water Meters		$5,000.00	15 years
Water Tanks & Stand Pipes		$5,000.00	25 years
Library Collections	Examples include Books, Audio and Film media collections. • Hardcover Books – 10 yrs • Paperback Books – 7 yrs • Audio Media – 5 yrs • Visual Media – 3 yrs	$2,500.00	3 to 10 years

SCHEDULE B - Glossary of Terms

Amortization is the accounting process of allocating the cost less the residual value of a tangible capital asset to operating periods as an expense over its useful life in a rational and systematic manner appropriate to its nature and use. Amortization expense is an important part of the cost associated with providing local government services, regardless of how the acquisition of tangible capital assets is funded. Depreciation accounting is another commonly used term to describe the amortization of tangible capital assets.

Assets are economic resources controlled by a local government as a result of past transactions or events and from which future economic benefits may be obtained. Assets have three essential characteristics:

a) They embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
b) The local government can control access to the benefit; and
c) The transaction or event giving rise to the local government's control of the benefit has already occurred.

Asset impairment occurs when conditions indicate that a tangible capital asset no longer contributes to a local government'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.

Betterment is a material cost incurred to enhance the service potential of an asset to:

a) Increase the previously assessed physical output or service capacity;
b) Significantly lower associated operating costs (efficiency);
c) Extend the life of the property; or
d) Improve the quality of the output.

Such expenditures would be included in the tangible capital asset's cost.

Capital budget is an estimate of expenditures for a capital project.

Capital financing is an allocation from the current budget to finance capital programs that consists of debt charge payments and capital levy contributions.

Capital program is a combination of capital projects to be executed within a defined timeframe to meet the requirements of a particular department.

Capital project is an activity during which expenditures are incurred that result in the creation of a capital asset.

Capital reserve is an allocation of funds from the current budget established for the funding of future capital projects.

Capital reserve fund is an allocation of funds established as a result of legislation, council bylaw or contractual obligations for the funding of potential future capital projects.

Capitalization threshold (recognition threshold) is the value above which assets are capitalized and reported in the financial statements.

Carrying amount is the amount at which a tangible capital asset is recognized after deducting any accumulated amortization and accumulated impairment losses.

Carrying costs are costs directly attributable to an asset's acquisition, construction or development activity where, due to the nature of the asset, it takes a long period of time to get it ready for its intended use. Typical carrying costs could include:

a) Technical and administrative work prior to commencement of and during construction;
b) Overhead charges directly attributable to construction or development; and
c) Interest.

Component is a part of an asset with a cost that is significant in relation to the total cost of that asset. Component accounting recognizes that each part might have a different useful life and requires separate accounting for each component that has a different useful life than the whole asset does.

Contributed assets are capital assets such as developer constructed services in new subdivisions (i.e. streetlights, sidewalks and roads infrastructure) acquired without cash outlay and will be valued at fair market value when the asset is placed into productive use/service (i.e. upon initial acceptance).

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 the asset's acquisition, construction, development or betterment, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset. The cost of a leased tangible capital asset is determined in accordance with Public Sector Guideline PSG-2 Leased Tangible Capital Assets.

Depreciation is the expense in an accounting period arising from the application of depreciation accounting.

Depreciation accounting is the accounting procedure in which the cost or other recorded value of a fixed asset less any estimated value on disposal is distributed over its useful life in a systematic and rational manner. It is a process of allocation, not valuation.

Directly attributable overhead costs refers to direct incremental expenses incurred for technical and administrative activities related to the construction of a tangible capital asset. These costs could include the salaries and benefits for internal staff doing design work related to the construction project. It would not include an allocation of fixed costs incurred by the local government such as occupancy costs for the design department or an allocation of the costs of corporate departments such as human resources, legal, purchasing and accounting. These latter costs are incurred whether or not the construction project is undertaken and, therefore, would not be incremental overhead expenses directly attributable to the cost of the project. Refer also to the definitions of direct costs and indirect costs.

Direct costs are incremental costs incurred by a local government for the acquisition, construction or development of a tangible capital asset. Direct costs would not have been incurred other than to acquire, construct or develop the tangible capital asset. For example, directly related employee salary and benefits, materials and supplies, equipment, temporary site buildings, legal and other professional fees, etc., could be considered direct costs.

Expenses, including losses, are decreases in economic resources, either by way of outflows or reductions of assets or incurrence of liabilities, resulting from the operations, transactions and events of the accounting period. Expenses include transfer payments due where no value is received directly in return. Expenses include the cost of economic resources consumed in, and identifiable with, the operations of the accounting period. For example, the cost of tangible capital assets is amortized to expenses as the assets are used in delivering local government programs. Expenses do not include debt repayments or transfers to other local governmental units in a local government reporting entity.

Fair value is defined in accounting standards as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction who are under no compulsion to act.

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash, investments, accounts receivable, inventory held for resale, etc.

Full accrual basis of accounting recognizes the financial effects of transactions in the period(s) in which they occur irrespective of when the cash has been received or paid. It requires that tangible capital assets be reported on the balance sheet (statement of financial position) at historical cost and expensed (amortized) in the annual results of operations over their estimated useful lives.

Gains can arise from peripheral or incidental transactions and events affecting a local government. Such transactions and events include the disposition of assets purchased for use and not for resale, and the liquidation or refinancing of debt.

Group assets are homogenous in terms of their physical characteristics, use and expected useful life. Group assets are amortized using a composite amortization rate based on the average useful life of the different assets in a group.

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

Indirect costs are costs incurred for a common or joint purpose and, therefore, can not be identified readily and specifically with an activity related to the acquisition, construction or development of a tangible capital asset. For example, executive management, occupancy costs for general administrative buildings, corporate services (accounting, payroll, legal, technology, etc.), general local government, etc., would be considered indirect costs.

Infrastructure is composed of linear assets and their associated specific components generally constructed or arranged in a continuous and connected network and may include transportation components like roads, bridges, tunnels, storm sewers, guide rails, traffic signals and signage.

Land is the surface or crust of the earth that is used to support structures and purchased or acquired for value, for building sites, infrastructure (roadways, bridges, or sidewalks etc.) and other program use but not land held for resale. Land normally has an unlimited life and is not amortized.

Local government reporting model describes the set of rules, parameters and content requirements that prescribe what must be presented in the summary financial statements. It prescribes the number, type and format of the financial statements, what information those financial statements should report, when it should be reported and how, as well as the notes required to explain what has been reported in the financial statements. It dictates the basis of accounting used in compiling a local government's accounting records.

Liabilities are present obligations of a local government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. Liabilities have three essential characteristics:

a) They embody a duty or responsibility to others, leaving a local government little or no discretion to avoid settlement of the obligation;
b) The duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and
c) The transactions or events obligating the local government have already occurred.

Losses can arise from peripheral or incidental transactions and events affecting a local government. Such transactions and events include the disposition of assets purchased for use and not for resale, and the liquidation or refinancing of debt.

Market value is defined as the estimated amount for which a property would be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion.

Maintenance is a recurrent expenditure, periodically or regularly required as part of the anticipated schedule of works required ensuring that the asset achieves its useful life. It is an expenditure that keeps an asset in a condition that helps maintain or ensure realization of the future economic benefits that are expected from the asset over its initially assessed useful life. Such expenditures are charged in the accounting period in which they are made.

Net book value of a tangible capital asset is its cost, less accumulated amortization and the amount of any write-downs.

Non-financial assets include tangible capital assets and other assets such as prepaid expenses and inventories of supplies. Non-financial assets are acquired, constructed or developed assets that are normally employed to deliver local government services, may be consumed in the normal course of operations and are not for sale in the normal course of operations.

Pooling of assets refers to assets of value below the materiality threshold when considered on an individual basis but collectively make up a significant group of assets that exceeds the threshold level (i.e. computers, furniture, streetlights, etc.).

Prospective application: A new accounting policy is applied only to events and transactions occurring after the date of the change and to any outstanding related balances existing at the date of the change. No cumulative catch-up adjustment is made to such balances.

Recognition threshold (capitalization threshold) is the value above which assets are capitalized and reported in the financial statements.

Residual value is the estimated net realizable value of a tangible capital asset at the end of its useful life to a local government.

Responsibility cost is allocating costs to a particular unit. It is similar in nature to activity-based cost where costs are allocated to activities rather than responsibility centers.

Retroactive application with no restatement of prior periods. A new accounting policy is applied to events and transactions from the date of origin of such items and a cumulative adjustment representing the effect of the change in an accounting policy on prior periods is made in the period in which the change is made. Two different treatments of the cumulative adjustment have been followed: an item reflected in annual results or an adjustment of the opening balance of the accumulated surplus/deficit.

Retroactive application with restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items. The financial statements for each prior period presented for comparative purposes are restated to reflect the new policy. The balance of the accumulated surplus/deficit at the beginning of the earliest period presented is restated to reflect the cumulative effect of the change on periods prior to that date.

Revenues, including gains, can arise from: taxation; the sale of goods; the rendering of services; the use by others of local government economic resources yielding rent, interest, royalties or dividends; or receipt of contributions such as grants, donations and bequests. Revenues do not include borrowings, such as proceeds from debt issues or transfers from other local governmental units in a local government reporting entity.

Tangible capital assets are non-financial assets having physical substance that:

a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
b) have useful economic lives extending beyond an accounting period;
c) are to be used on a continuing basis; and
d) are not for sale in the ordinary course of operations.

Service potential is tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

Site improvements consist of betterments and site preparation that ready land for its intended use such as parking lots, landscaping and fencing and are usually exhaustible and amortized.

Straight-line amortization allocates the cost less estimated residual value of a capital asset equally over each year of its estimated useful life.

Tangible capital assets are non-financial assets having physical substance that are acquired, constructed or developed and

a) Are held for use in the production or supply of goods and services;
b) Have useful lives extending beyond an accounting period;
c) Are intended to be used on a continuing basis; and
d) Are not intended for sale in the ordinary course of operations.

Threshold is generally the minimum cost that an individual asset must have before it is to be treated as a tangible capital asset. The threshold amount is to be used as a guide in addition to professional judgment.

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

Write-down is a reduction in the cost of a tangible capital asset to reflect the decline in the asset's value due to a permanent impairment.