1. Purpose

Effective January 01, 2009, all tangible capital assets shall be budgeted, financed and reported as such on the books of the Municipality.

2. Objectives

a) To prescribe the accounting treatment for Tangible Capital Assets so that users of the financial report can understand information about the investment in property, plant and equipment and the changes in such investment.

b) To determine the carrying amounts and amortization charges.

c) To recognize any related impairment losses.

d) To protect and control the use of all tangible capital assets.

e) Provide accountability over tangible capital assets.

f) Gather and maintain information needed to prepare financial statements.

3. Definitions

Tangible Capital Assets – means assets having physical substance that;

a) Are used on a continuing basis in the Municipality’s operations.

b) Have useful lives extending beyond one year.

c) Are not held for re-sale in the ordinary course of operations.

Betterments – means subsequent expenditures on tangible capital assets that:

a) Are used on a continuing basis in the Municipality’s operations.

b) Have useful lives extending beyond one year.

c) Are not held for re-sale in the ordinary course of operations.

d) Improve the quality of the output

Any other expenditure would be considered a repair or maintenance and expensed in the period.

Group Assets – means assets that have a unit value below the capitalization threshold but have a material value as a group. Normally is recorded as a single asset with one combined value. Although recorded in the financial systems as a single asset, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance.

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

Capital Lease – means a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the Municipality. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met;

a) There is reasonable assurance that the Municipality will obtain ownership of the leased property by the end of the lease term.

b) The lease term is of such duration that the Municipality will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.

c) The lesser would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.

4. Overview

The attached policy protects capital assets by clearly showing capitalization thresholds and breakdowns of all asset categories and sub-categories with a listing of the useful life for replacement and amortization purposes.

5. Capital Asset Policy

The Capital Asset Policy is attached in Appendix A.

6. Review Cycle

This policy will be reviewed on an as needed basis.

7. Repeals

This Policy repeals a previous version, and all revisions.

This Policy was previously referred to as AD-39.

8. Related Information

Revisions to this document may impact the following policies, procedures, and/or by-laws.

#	Document Title
N/A	No related documents were identified at the time the policy was passed

9. Policy Revisions

Version	Date Approved	Council Resolution
1	December 16, 2008	R2008-735
2	June 20, 2017	R2017-312

Appendix A

Policy 5.17

Municipality of Trent Lakes

Capital Asset Policy

Revision Date: December 1, 2015

Capitalization

Tangible capital assets should be capitalized (recorded in the fixed asset sub- ledger) according to the following thresholds:

Asset Category	**Threshold**
Land	Capitalize Only
Land Improvements	$12,500
Buildings	$25,000
Building Improvements	$25,000
Infrastructure (Water/Roads/Culverts)	$25,000
Rolling Stock	$2,500
Equipment /Furniture	$2,500/$1000 Library Board

If an asset does not meet the threshold it can be grouped with other assets that are in the same category and were purchased in the same year, so that the overall group acquisition cost meets the threshold.

Inventory

The manager of each operating unit that has a tangible capital asset inventory shall sign a declaration that the year-end asset inventory is complete and accurate to the best of his/her knowledge.

Categories and Sub-categories

A category of asset is a grouping of assets of a similar nature or function in the Municipality's operations.

A sub-category is a description of items within each category of assets. The following list of categories and sub-categories shall be used:

a) **Land**

Sub- categories: Land and Land Improvements

b) **Building**

Sub- categories: Building Structures and Building Improvements

c) **Equipment**

Sub- categories: General fixed Equipment and Machinery (incl. attachments / fixtures), Radios, Bunker Gear

d) **Furniture**

Sub-categories: Cabinets, Tables, Bookcases, Chairs, Shelves

e) **IT**

Sub-categories: Desktop, Laptop, Monitors, Printers, Faxes, Software

f) **Vehicles (Rolling Stock)**

Sub- categories: all Licensed Vehicles and Unlicensed Rolling Equipment

g) **Infrastructure - Roads**

Sub- categories: all Roads (Gravel, HCB & LCB), Bridges, Culverts

h) **Infrastructure – Water**

Sub- categories: Water Mains, Water Valves

Valuation

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use.

a) **Purchased assets**

Cost is the gross amount of consideration paid to acquire the asset. It includes all taxes and duties. It is net of any trade discounts or rebates.

Cost of land includes purchase price plus legal fees, land registration fees, transfer taxes, etc. Costs would include any costs to make the land suitable for intended use, such as pollution mitigation, demolition and site improvements that become part of the land. The cost of land cannot be recorded as being more than fair market value.

When two or more assets are acquired for a single purchase price, it is necessary to allocate the purchase price to the various assets acquired. Allocation should be based on the fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

b) **Acquired, Constructed or Developed assets**

Cost includes all costs directly attributable (e.g., construction, architectural and other professional fees) to the acquisition, construction or development of the asset.

Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized. Capitalization of general administrative 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.

c) Capitalization of Interest Costs

Borrowing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use should be capitalized as part of the cost of that asset.

Capitalization of interest costs should commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization should be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

d) Donated or Contributed Assets

The cost of donated or contributed assets that meet the criteria for recognition is equal to the fair value at the date of contribution. Fair value may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost. Ancillary costs should be capitalized.

Componentization

Tangible capital assets may be accounted for using either the single asset or component approach. Whether the component approach is to be used will be determined by the usefulness of the information versus the cost of collecting and maintaining information at the component level.

Factors to consider when determining whether to use a component approach include:

a) Major components have significantly different useful lives and consumption patterns than the related tangible capital asset.

b) Value of components in relation to the related tangible capital asset.

Infrastructure systems should use the component approach. Major components should be grouped when the assets have similar characteristics and estimated useful lives or consumption rates

The Whole Asset Approach will be used for buildings, and the Component Approach will be used for building betterments acquired in the future.

Building Components:

a) Exterior Shell (Brick, Masonry, Vinyl, Wood)

b) Roof (Asphalt Shingles, Steel, Tar & Gravel, EPOM: Ethylene Propylene Diene M-Class Rubber)

c) HVAC System

Roads will be viewed as two components: the road surface and the road base.

Amortization

The cost, less any residual value, of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use.

All tangible capital assets shall be amortized on a straight-line basis (based on original life), except in conditions where it would be deemed more appropriate to use a different method. The Treasurer shall approve any alternative methods considered.

Amortization will be calculated at the end of every year. The asset will start to be amortized in the year subsequent to the year it was purchased in.

Land and land components of tangible capital assets (e.g. land on which a building is situated) shall be recorded at cost and not amortized.

Tangible capital assets shall be deemed to have no residual value for purposes of calculating amortization. For items that have been fully amortized, any eventual sale proceeds received shall be recorded as a "gain on sale of asset" and added back into the associated reserve. Any costs relating to the disposal of a fully amortized item shall be recorded as a "loss on disposal of asset" and taken from the associated reserve.

Where applicable, capital assets may be segmented to identify the appropriate components of the system or network. With the components recorded as individual units, it will be possible to capitalize the new component and dispose of the old component, thus continually updating the capital cost. If the asset was not segmented, the appropriate accounting treatment of a partial replacement would be to expense in the year incurred (as it ultimately would not qualify as a betterment).

If the acquisition date of an asset is unknown, then the Municipality will use the date of amalgamation (1998) for amortization purposes.

Estimates of useful life (for purposes of the monthly amortization calculation) will be determined by The Municipality of Trent Lakes based on reasonable assumptions. A comprehensive list of estimated useful lives of assets and amortization rates is attached.

Municipal departments, in consultation with the Finance Department are responsible for establishing and utilizing an appropriate estimated useful life for assets acquired.

In the event of disagreement on the interpretation or implementation of these policies and procedures, the Treasurer shall make the final decision, guided by the Municipal Act, Public Sector Accounting Handbook Section 3150, and Ontario Municipal Benchmarking Initiative's "Municipal Guide for Accounting for Tangible Capital Assets".

Capital Leases

Account for a capital lease as acquiring a capital asset and incurring a liability. Account for a lease as an operating lease when the net present value of the future minimum lease payments or fair value, whichever is less, is less than $10,000.

Asset Useful Life

Asset Type	Examples	Depreciable Life in Years
Non-Infrastructure		
Computer Equipment		
Computer Hardware	Monitors, CPU, printer	5
Telephone Equipment		10
Rolling Stock		
Cars, vans and light trucks		5
Fire trucks		20
Mini fire trucks/Heavy Rescue		15
Heavy construction equipment	Backhoes, dozers, loaders, tractors	15
Tandem/Plow Trucks		10
Equipment		
Furniture, office equipment	Desks, tables, chairs	15
Kitchen equipment	Appliances	5
Firefighting equipment	Ladder, hoses, bunker	10
Medical equipment		5
Traffic control equipment	Stop lights	10
Communication equipment	Mobile, portable radios	10
Library books		7
Grounds equipment	Mowers, tractors and attachments	15
Roads equipment	Welder	10
Small generators	Used in Fire trucks	10
Large generators	Used in Buildings	15
Buildings		40
Temporary buildings	T-buildings, other portable	25

Exterior Shell		
Brick / Masonry/Steel		40
Vinyl		25
Wood	Finishing maintenance	10
Windows		20
Roofing		
Asphalt		15
Steel		40
Tar & Gravel		15
EPDM		20
Carpet Replacement		5-8
HVAC systems	Heating, ventilation systems, air-conditioning	10
Electrical		40
Mechanical Systems		
Piping		30
Fixtures		15
Streetlights		20
Land		**No depreciation**
Land improvements – structure	Parking lots, sidewalks, bus ramp, fencing, running track, flagpole	20
Land improvements – ground work	Ball field, park landscaping	30
Landfill disposal systems		25
Infrastructure		
Roads – Surface Treatment	LCB	8
Roads – Gravel		4
Roads – Gravel		5
Roads – Gravel		6
Roads – Base		60
Roads – Asphalt	HCB	25
Water – Mains		60
Water – Valves		50
Culverts		40