

Town of Trinity Tangible Capital Asset Policy

1. Definitions

The following definitions have been provided to assist in the understanding and application of the tangible capital asset policy.

Accumulated Amortization: The total consumed or used value of a tangible capital asset. It is the sum of all amortization charges recorded for a tangible capital asset.

Additions: Additions are tangible capital assets acquired, developed, constructed or contributed during the current accounting period.

Amortization: The process of allocating the cost (less residual value) of a tangible capital asset over its estimated useful life to match costs with revenues or the public service that is provided. Amortization of tangible capital assets does not commence until the asset is available to use.

Bargain Purchase Option: This is a provision permitting the Town to purchase leased property for a price that is significantly lower than the expected fair value of the property and the exercise of the option appears reasonably assured at the inception of the lease.

Basket Purchases: Basket purchases are purchases made when a group of assets are acquired for a single amount generally in a single transaction.

Betterment: The cost incurred to significantly enhance the service potential of a capital asset is a betterment. Service potential may be significantly enhanced when there is an increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the useful life of the asset is extended or the quality of output is improved. A betterment results in the creation of a “significantly better” tangible capital asset. This is to be distinguished from repairs or maintenance where a substitution is made for a similar component to facilitate continued utilization of the existing asset.

Capital Lease: A capital lease is a lease that transfers substantially all of the benefits and risks of ownership of the asset to the Town.

Canadian Institute of Chartered Accountants (CICA): The Canadian Institute of Chartered Accountants is the body that sets the accounting standards within Canada.

Contributed Assets: Assets that have been contributed by a third party (either public or non-public) to the Town.

Cost Shared Asset: A cost shared asset is an asset for which the Town has received revenues to offset a portion of the cost of acquisition, construction, development or betterment of the tangible capital asset.

Disposals: Disposals involve the removal of a tangible capital asset from the use and control of the Town. Disposals can involve the sale, destruction or abandonment of an asset such that it is no longer involved in the Town's operations.

Estimated Historic Cost: This is the estimated original cost of a tangible capital asset.

Expenditure: The cost involved with acquiring a good or service regardless of whether payment has been made or an invoice received.

Fair Market Value: The consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties, who are under no compulsion to act.

Gain on Disposal: The amount of consideration received on disposal of a tangible capital asset, in excess of the book value of the tangible capital asset.

Historic and Cultural Assets: Historic and cultural assets include those assets which may be of a historic or cultural nature and may not have a value easily established. Assets included under this category include items such as paintings, sculptures, historical documents, cultural or historic artifacts.

Historic Buildings: These are buildings which have been designated through an appropriate body to be considered to have significant relevant cultural or historic value.

Historic Cost: Historic cost is the amount of consideration given up to acquire, construct, develop or better a tangible capital asset and includes all costs directly attributable to its acquisition, including installation and where permitted interest. Acquisition costs include architectural fees, design fees, engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation, insurance, duties and testing.

In the case of purchased buildings and in addition to the above, the cost should include all expenditures required to bring the building to its intended use at the time of acquisition including upgrading of plumbing, wiring, structural changes, exterior and interior renovation and building additions.

In the case of contributed tangible capital assets, the cost is considered equal to its fair value at the date of contribution. This value may be estimated using market or appraised values. Where an estimate of fair value cannot be made, the asset should be recorded at a nominal value.

Inception of the Lease: Inception of the lease is the earlier of the date of the lease agreement and the date of the commitment which is signed by the parties to the lease transaction.

Infrastructure: Infrastructure refers to the network of assets required to support a safe, secure and sustainable municipality. Infrastructure includes but is not limited to; roads, bridges, water delivery system, sewage treatment systems, landfills, waterways, dams, recycling systems, playgrounds and trails.

Lease: A lease is the conveyance, by a lessor to a lessee, of the right to use a tangible capital asset, usually for a specified period of time in return for payment.

Leasehold Improvements: These are additions or improvements made to a leased property that cannot be removed upon termination of the lease because they are attached to, or form a part of the leased premises.

Lease Term: Lease term is the fixed non-cancellable period of the lease plus:

- all periods covered by bargain renewal options;
- all periods for which a failure to renew would impose a penalty sufficiently large that renewal appears, at the inception of the lease, reasonably assured;
- all periods covered by ordinary renewal options during which the lessee has undertaken to guarantee the lessor's debt related to the leased property;
- all periods covered by ordinary renewals option preceding the date on which a bargain purchase option is exercisable; and
- all periods representing renewals or extensions of the lease at the lessor's option; provided that the lease term does not extend beyond the date that a bargain purchase option becomes exercisable.

Minimum Lease Payments: Minimum lease payments comprise:

- the minimum rental payments called for by the lease over the lease term;
- any partial or full guarantee of the residual value of the leased property at the end of the lease term, the amount to be included in the minimum lease payments would be the stated guarantee amount rather than an estimate of the deficiency;
- any penalty required to be paid for failure to renew or extend the lease at the end of the lease term; and
- additional payments that can reasonably be estimated at the inception of the lease.

Where the lease contained a bargain purchase option, only the total of the minimum rental payments over the lease term and the payment amount called for by the bargain purchase option is included in the minimum lease payments.

Net Book Value: The net book value represents the difference between the cost of a tangible capital asset and both its accumulated amortization and the amount of any write-downs. It represents the unconsumed cost of a tangible capital asset attributable to its remaining service life.

Operating Lease: An operating lease is one in which substantially all of the benefits and risks of ownership have not been transferred to the Municipality. This is a rental situation where the lease payments represent rent for the use of the asset over the lease term.

Permanent Fixtures: Assets which cannot be removed from a building without causing damage to either the original asset or the fixture. They are considered to be part of the attached structure.

Public Sector Accounting Board (PSAB): The Public Sector Accounting Board is the branch of the CICA that develops accounting standards for the federal, provincial and municipal levels of government in Canada.

Repairs and Maintenance: The cost incurred to maintain the service potential of a tangible capital asset is a repair or maintenance cost. These costs are considered routine in nature and are expensed in the year in which they occur.

Residual Value: This is the estimated net realizable value of a tangible capital asset at the end of its useful life to the Municipality.

Straight Line Method of Amortization: The straight line method of amortizing a tangible capital asset considers the consumption of the asset as a function of time rather than usage. Under this method, the cost of the asset is divided over the estimated useful life of the asset so that the amortization charge is the same for each year.

Tangible Capital Asset: a tangible capital asset is a non-financial asset having physical substance that is acquired, constructed or developed for the provision of services or the production or supply of goods. The asset is intended for use on a continuing basis with a useful life that extends beyond one fiscal year and is not intended for sale in the ordinary course of operations.

Threshold: this represents the minimum historic cost an individual asset must meet before it is to be reported as a tangible capital asset and added to the proper asset category for the purposes of capitalization and amortization. The threshold amount is to be used as a guide in addition to professional judgement.

Useful Life: Useful life is the estimate of the period over which a tangible capital asset is expected to provide economic value. This period may be considered to be that in which the asset is expected to be used. The actual 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 or legal life.

Work-in-Progress: Work-in-progress includes all costs related to the construction or development of a tangible capital asset. These costs are incurred to get an asset into

service, therefore accumulation of these costs cease when the asset is placed into service. Tangible capital assets included in the work-in-progress account are not amortized. Once in service, the tangible capital asset must be transferred into a specific asset category to begin the amortization process.

Write-Down: A write-down occurs when the net book value of a tangible capital asset is reduced to reflect the permanent decline in a tangible capital asset's remaining service potential. The tangible capital asset remains in the records of the Municipality at its reduced net book value.

Write-Off: A write-off occurs when a tangible capital asset is deemed not to have any remaining service potential to the Municipality. The net book value of a tangible capital asset is reduced to nil and the asset is removed from the accounting records.

2. Policy Statement

It is the policy of the Town of Trinity to record and report tangible capital assets controlled by the Municipality in the consolidated financial statements.

Tangible capital assets will be recorded in accordance with generally accepted accounting principles as pronounced by the Canadian Institute of Chartered Accountants and the Public Sector Accounting Board. Further, this policy is meant to comply with pronouncement PS 3150.

3. Policy Objectives

This document outlines the accounting policies for tangible capital assets in the financial statements of the Town of Trinity. The objective of this policy is to ensure that the Municipality's investment in tangible capital assets:

- is recorded and reported appropriately and accurately;
- provides an accurate accounting of the use and investment in tangible capital assets;
- provides management with meaningful data upon which informed decisions can be made; and
- facilitates conformance with public sector generally accepted accounting principles, for tangible capital assets, specifically PS 3150.

4. Application

This policy applies to Council and all its committees, organizations, etc. that are affiliated with its regular operations i.e., Trinity and Area Volunteer Fire Department; Recreation/Festival Committee and the Trinity Library & CAP Site.

Council and its affiliates mentioned above are responsible for the implementation of an internal control system that ensures tangible capital assets are accounted for in accordance with this policy and that the policy is applied consistently from year to year.

The attached appendices are an integral part of this policy;

Appendix A: Tangible Capital Asset Classes, Descriptions, Thresholds and Amortization Rates

5. Financial Accountability

The Town Clerk is responsible for maintaining tangible capital asset information as provided through the application of these policies.

The Town Clerk is required to record and report periodic changes in tangible capital assets to the Finance Committee consistent with the application of these policies.

The Town Clerk is required to verify tangible capital assets under their control through the completion of periodic physical counts. A reconciliation of each physical count to the Finance Committee's accounting records should be completed as a part of this process.

It is recommended that physical counts on moveable tangible capital assets be conducted at least annually and that verification of non-moveable tangible capital assets be conducted at least every three years.

The Town Clerk is required to maintain tangible capital information such as location, usage, condition and maintenance records and ensure that proper control of tangible capital assets is maintained.

The Town Clerk is required to submit periodic tangible capital asset information in the designated format as requested by the Finance Committee.

The Finance Committee is responsible for monitoring the application of this policy and updating the policy on a regular basis.

The Finance Committee is responsible for facilitating the approval of the capital budget and accounting for tangible capital assets in accordance with this policy, including the application of proper capitalization, categorization and amortization policies of the tangible capital assets.

The Finance Committee is responsible for the accurate recording and reporting of tangible capital assets in the financial statements of the Town of Trinity.

6. Policy Directives

6.1 Inclusions

All assets that meet the definition of a tangible capital asset, meet the threshold values, fall within the classifications outlined in Appendix A and have not been specifically excluded, shall be recorded in the accounts of the Municipality in accordance with this policy.

Leased assets are considered to be tangible capital assets when they meet the definitions of both a capital lease and a tangible capital asset in accordance with generally accepted accounting principles.

For the Municipality's purposes, if either of the following criteria exist, a lease is considered to be a capital lease:

- transfer of ownership at the end of the lease;
- the existence of a bargain purchase option'
- lease term is 75% or more of the economic life of the asset; or
- the present value of the minimum lease payments is 90% or more of the fair value of the asset.

Where the Municipality receives capital grants, loans or assistance for the acquisition, construction or development of a tangible capital asset, the amount of the contribution is to be recorded as revenues and not as a reduction in the cost of the tangible capital asset.

Where the Municipality receives a tangible capital asset by virtue of a transfer from a public or non-public body the receipt of the tangible capital asset is to be recorded as revenues with the asset subsequently being capitalized in the accounting records of the Municipality.

6.2 Exclusions

The following shall not be considered tangible capital assets for the purposes of these policies;

- land and other assets acquired by right;
- natural assets such as forests, water or mineral resources;
- tangible capital assets which fall below the established category threshold levels;
- historical and cultural assets; and
- assets acquired through operating leases

As indicated above, assets which fall below category thresholds are not to be considered tangible capital assets for the purpose of this policy. However, while these items are not to be capitalized, they must be recorded for control and management purposes by the Town Clerk.

Bundling (grouping) of assets does not make a tangible capital asset. Each individual asset must meet the capitalization criteria for that category.

6.3 General

Tangible capital assets are to be recorded and reported based on the category into which they best fall.

Within each category of tangible capital assets, individual assets would be recorded and accounted for in accordance with this policy.

For control and consistency purposes, the Town Clerk shall not capitalize assets whose historic cost falls below the specified category threshold.

The harmonized sales tax (HST) will not be considered by Council in the determination of whether specific tangible capital assets meet a category threshold.

6.4 Valuation

Tangible capital assets should be recorded at historic cost. Where historic cost cannot be reasonably determined, estimated historic cost shall be used for recording purposes. Historic cost for new assets is considered to be equal to the acquisition cost.

Historic cost shall not include the HST.

The historic cost of a tangible capital asset under a capital lease shall be recorded as the lesser of the present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease.

Cost-shared assets are to be recorded at gross historic cost. Contributions received for the acquisition, development, construction or betterment of tangible capital assets will be treated as revenues to be recognized in the year of acquisition of the related asset.

Contributed tangible capital assets will be recorded at fair market value. The fair market value of the contributed tangible capital asset will be treated as revenues to be recognized in the year of acquisition of the related asset.

The cost of tangible capital assets acquired as part of a basket purchase, will be determined by allocating the price paid for the basket to each item on the basis of estimated proportional relative cost at the time of the acquisition.

6.5 Useful Life

The useful life for each tangible capital asset category shall be determined by Council. When an estimation of remaining useful life is required, the determination will be made by the Finance

Committee.

The maximum useful life for tangible capital assets (except land) will be sixty years.

Land shall be considered to have an unlimited useful life and as such will not be amortized.

6.6 Amortization

All tangible capital assets will be subject to amortization, with the exception of land and work-in-progress.

The straight line method of amortization will be used to calculate annual amortization for all tangible capital assets.

Leasehold improvements are to be amortized over the remaining term of the applicable lease.

Amortization will be calculated monthly, beginning with the first of the month following the date which the tangible capital asset is available for use and will continue over its useful life.

Amortization will cease when the tangible capital asset has been fully amortized or written off.

Tangible capital assets that have been fully amortized will remain in the accounting records of the Municipality until disposal or write-off.

6.7 Additions

Additions of all new tangible capital assets for the fiscal year must be added to the appropriate asset category at historic cost.

6.8 Betterments

The cost of betterments are to be added to the historical cost of the specific tangible capital asset and should be amortized accordingly. Where required, the useful life of that asset should be changed to reflect the betterment.

To be recorded as a betterment, the value of the expenditure must meet the threshold for the asset category to which the tangible capital asset subject to the betterment belongs.

6.9 Repairs and Maintenance

Repairs and maintenance on tangible capital assets are not to be capitalized.

6.10 Work-in-Progress

Work-in-progress includes all current construction or development in progress on all tangible capital assets. These are costs incurred to construct a tangible capital asset before it is available for use. Accumulation of these costs cease when the asset is put into service.

All work-in-progress costs are to be reported separately under the work-in-progress asset category. As assets or significant portions of assets become available for service, they must be transferred to the regular asset categories for similar assets.

Where an asset has been constructed or developed, the estimated cost of the asset to final completion should be compared with the threshold for the asset category, to determine whether the asset would meet the minimum requirements to be considered a tangible capital asset.

Interest costs incurred during the construction or development of tangible capital assets can be added to the relevant work-in-progress asset class only where specific financing, directly related to the project under construction or development, has been established. The interest cost will cease to be added to the asset class once the asset is ready for use and the asset is transferred to a regular asset category.

Where a tangible capital asset is being constructed all costs related to the work will be communicated to the Finance Committee and Council by the Town Clerk.

6.11 Transfers

Assets transferred to a public body, should be treated as a disposal in the period of the transfer.

6.12 Write-Downs

Where it can be objectively estimated that a reduction in a tangible capital asset's useful life or service potential has occurred, and the reduction is expected to be permanent, the net book value and / or the useful life of the tangible capital asset should be written down to the revised estimate.

A write-down shall not be reversed.

All write-downs must be approved by Council, with a copy of the approval placed on file.

6.13 Write-Offs

When a write-off occurs, the historic cost of the asset and the related accumulated amortization are reduced to zero. Any remaining net book value of the asset becomes an expense in the accounting period.

Costs of projects that have been abandoned or indefinitely postponed should be written off in the period of abandonment or indefinite postponement.

All write-downs must be approved by Council, with a copy of the approval placed on file.

6.14 Disposals

On disposal of a tangible capital asset, the asset and its associated accumulated amortization must be reduced to zero, and any gain or loss on disposal is recorded as a revenue or expense for the period.

All disposals with a cost in excess of \$5,000.00 must be approved by Council and a copy of the approval placed on file.

All disposals with a cost below \$5,000.00 are to be communicated to the Finance Committee by the Town Clerk through the completion of a Capital Asset Disposal Form that must be submitted in a timely manner.

6.15 Trade-Ins

Transactions which involve the trade-in of tangible capital assets will be treated as a disposal.

7. Transitional Provisions

These policies will be implemented at a date to be determined by Council.

As part of the implementation process, all tangible capital assets in use at the time of transition, will be recorded at historic cost or estimated historic cost. Accumulated amortization or estimated accumulated amortization will be recorded and fully amortized tangible capital assets still in use will be recorded.

Assets discovered after transition which existed prior to the transition date must be retroactively recorded in the accounting records.

Appendix A

Tangible Capital Asset Classes, Descriptions, Thresholds, Useful Lives and Amortization Rates

In the year of acquisition, amortization will be prorated from the month of purchase or the month a constructed asset is available for use.

The Town of Trinity has been following the Tangible Capital Asset Classes, Descriptions, Thresholds, Useful Lives and Amortization Rates as determined by the Public Sector Accounting Board Working Committee Group of the Department of Municipal Affairs. Please see the working document titled “Reference Manual Tangible Capital Assets” for more information.