

**TOWN OF
KIRKLAND LAKE**

POLICY

SECTION:	SUBJECT:	Repeal policy dated June 4, 2010
CORPORATE SERVICES	TANGIBLE CAPITAL ASSETS	DATE: July 17, 2012

PURPOSE

A Tangible Capital Asset Policy (TCA) promotes compliance with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150. It provides overall direction for the capitalization of assets, technical guidance in the creation of a tangible capital assets accounting system and addresses areas of PSAB 3150 that may require professional judgment. In addition, a TCA policy provides a framework in which to make consistent and sound decisions, plan ahead for future needs and provide public confidence in accounting and financial reporting processes.

SCOPE

This policy applies to all Town of Kirkland Lake departments, boards and commission, agencies, and other organizations falling within the reporting entity of the Town. Ownership of assets requires safeguarding, maintenance, amortization for replacement and possibly write-downs.

DEFINITIONS

Tangible Capital Asset (TCA):

In accordance with PSAB 3150, 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 operation (PSAB 3150.05 (a)).

They are to be recorded at historical cost. Where historical cost information is not available, valuation approaches such as appraisals, the deflated replacement cost the deflated reproduction cost or fair value are to be applied where appropriate.

Betterments:

Subsequent expenditures on tangible capital assets that fulfill one or more of the following requirements:

- a) Increase previously assessed physical output or service capacity;
- b) Lower associated operating costs;

- c) Extend the useful life of the asset; or
- d) Improve the quality of the output.

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

Pooled Assets:

Similar assets that have a unit value below the capitalization threshold (on their own) but have a material value as a group. Such assets shall be pooled as a single asset with one combined value. Examples would include the following:

- Streetlights
- Furniture and Fixtures
- Fire Bunker Suits

As similar items are purchased or deleted from active use, they will be added or subtracted from the pool. An inventory will be taken on a periodic basis to be determined by the Treasurer or CAO.

Capital Leases

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 are transferred to lessee, then the lease payment should be expensed and no liability is recorded. Capital leases are recorded as if the lessee 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 reasonable assurance that the Town will obtain ownership at the end of the lease;
- The Town will receive substantially all of the economic benefits of the asset; and
- The leaser is assured of recovering the investment in the asset and earning a return.

If the threshold is met, 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.

Fair Value

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 (PSAB 3150.05 (c)).

Heritage Assets

Heritage Assets 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 furtherance of public service may be considered heritage assets. Heritage assets will not be recognized as TCA's in the financial statements, but should be disclosed in the notes (PSAB 3150.08).

POLICY STATEMENTS

Capitalization:

Capitalization thresholds are established to determine whether expenditures are to be capitalized as assets and depreciated or treated as current year expenditures. For financial reporting purposes thresholds are set fairly high, however, details may be useful for the Town's capital asset management program. Therefore, an optimal threshold for each asset category is a balance between the two. Please see Schedule A for the capitalization thresholds.

Cemetery Land and Land under Roads and Sidewalks:

Land owned by the Town includes parkland, land for Town owned facilities and land under roads and sidewalks. All land owned by the Town is segmented by each parcel held. Town parkland and the land for Town facilities and leased facilities is quantified and included in the Town's land database. Due to the age of the land under the roads and sidewalks and since this land has no other use or purpose, it is considered to have a nominal value (one dollar). The Cemetery is also being valued at a nominal value (one dollar).

Asset categories:

The level of detail required in the capital asset inventory is a balance between the cost of data collection, tracking and analysis and the beneficial use of the information gathered. A primary category of assets is a grouping of assets of a similar nature. A functional category is a grouping of assets based on the service area in which the asset is used.

PRIMARY

- **Land:** includes, but is not limited to, land purchased or acquired for value of parks and recreation, building sites, infrastructure (roadways, bridges, water treatment systems, etc.) and other program uses, but not land held for resale.
- **Land Improvements:** consists of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use, which generally decay or break down over time (i.e. parking lots, fencing, sports fields, playground equipment, landscaping, etc)
- **Buildings and Improvements:** all structures that are permanent, temporary or portable in nature that provide shelter from the elements (i.e. sport and recreation facilities, office buildings, fire/police stations, libraries, mausoleums, waste depots, etc). Building improvements are major repairs that will extend the useful life or increase the value of the asset (i.e. structural changes, upgrades to HVAC, plumbing or electrical)

- **Vehicles:** a means of transportation, usually having wheels, for transporting person or things or designed to be towed behind such an apparatus (i.e. trucks, automobiles, trailers, snowmobiles, etc.)
 - **Cars, and light trucks** such as passenger vehicles and light trucks less than 4,536 kg GVWR (five ton).
 - **Heavy equipment trucks** such as trucks greater than 4,537 kg GVWR. This would include dump trucks, flushing trucks, snowplow trucks,

- **Machinery and Equipment:** an apparatus, tool, device, implement or instrument that likely uses energy to facilitate a process, function or completion of a task. This can also include furniture and fixtures. It may be installed within a building, but is generally capable of being moved and reinstalled at a different location, if need be (that is, it is not permanently affixed to or integrated into the building or structure in which it resides).
 - **Furniture and fixtures** such as office furniture, park furniture, desks, tables, filing cabinets, fax machines, photocopier, and videoconferencing stations.
 - **Operating equipment** specific to maintenance and sanitation, safety appliances, such as forklifts, welding machines, security systems, snow plows, radios, freezers, refrigerators, washers, meters, defibrillators, and lawn mowers.
 - **Heavy equipment and machinery** such as chillers, graders, tractors, cranes, loaders.
 - **Computer hardware** such as servers, voice logging equipment, scanners, printers, hard drives, modems, tape drives, and plotters.
 - **Computer software** and related upgrades, software licenses after removing any maintenance or similar charges.

- **Infrastructure:** assets generally constructed or arranged in a continuous and connected network which includes: 1) surface systems such as roads, sidewalks, bridges, and drainage ditches; 2) underground systems such as water distribution pipe systems, wastewater collection pipe systems, manholes, catch basins, and storm drainage collection systems and tunnels. Infrastructure assets usually will be valued using the “component” approach.

- **Capital Work-in-Progress:** the cost of tangible capital assets under construction, constructed or in an uncompleted process of acquisition by the municipality, and that are not yet in service. Work or construction in progress represents the costs incurred to date on a project that has not yet reached substantial completion (i.e. 90%) or the asset has not been placed into production/service/use. The point of substantial completion typically occurs when the architect, engineer or consultant issues the certificate of substantial completion. Examples of work in progress assets might include road, water and sewer infrastructure that have yet to be opened for use.

FUNCTIONAL

- **General Government** (administration, treasury)
- **Protection Services** (fire, police, emergency measures)
- **Transportation Services** (roads, winter control, street lighting, air transportation)
- **Environmental Services** (wastewater collection, treatment and control, storm sewer systems, solid waste collection and disposal, waste diversion)
- **Health Services** (cemeteries)
- **Social and Family Services** (assistance to aged persons, child care)
- **Recreation and Cultural Services** (parks and recreation, museum, library, Hockey Heritage North)
- **Planning and Development** (planning and zoning, commercial and industrial, residential development, tourism)

Asset 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.

PURCHASED ASSETS

All tangible capital assets are to be recorded at cost (PSAB 3150.09). Cost is the gross amount of consideration given up to acquire, construct, develop, or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development, or betterment of the tangible capital asset (PSAB 3150.10).

All directly attributable costs are to be included (i.e. installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation, insurance costs and duties). Directly attributable overhead (i.e. engineer salary and benefit, site preparation, interest costs, professional fees), incurred during the construction of a tangible capital asset are to be included in the cost of the asset.

Indirect costs are not to be included in the cost of the asset. Capitalization of carrying costs ceases when no construction or development is taking place or when a tangible capital asset is ready for its intended use.

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.

Interest costs will not be capitalized prior to January 1, 2009.

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 donation or contribution. Fair value may be determined using market or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset would be recognized at a nominal value (one dollar), to be disclosed in the financial statements (PSAB 3150.14).

Componentization:

Tangible capital assets may be accounted for using either the single or component approach. When 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.

- The whole asset approach considers an asset to be an assembly of connected parts. Costs for all parts would be capitalized and amortized as one asset. For example, a computer network would be considered as one asset.
- The component approach allows different components to be individually capitalized and amortized. Under this approach, the servers, routers, lines, software, etc. used in a network would all be individual assets.

Both methods are equally acceptable under Generally Accepted Accounting Principles. Additional factors influencing the choice of method include:

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

Amortization:

Amortization is 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 by the corporation. Tangible capital assets shall be deemed to have no residual value unless it is determined that the residual value of the asset in question is significant.

The Town will use a straight-line method for calculating the annual amortization in most situations and shall be calculated the year the asset is put into service. The amortization charges related to the asset should be reviewed for reasonableness at year-end. Useful life is normally the shortest of the asset's physical, technological, commercial or legal life. Useful life should be measured in terms of years. Please refer to Schedule A for estimated useful lives for the categories and subcategories.

Land normally has an unlimited useful life and would not be amortized.

Internal Transfers of Tangible Capital Assets:

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

DISPOSALS AND WRITE DOWNS

A Tangible Capital Asset (TCA) Disposal/Out of Service form must be completed and authorized for all asset disposals (see Schedule B).

Disposal of tangible capital assets identified as surplus must follow Part VI, Disposal of Surplus or Scrap Materials and Equipment, of the Town's Purchasing and Materials Management policy.

When tangible capital assets are taken out of service, destroyed, or replaced due to obsolescence, scrapping or dismantling, the department head or designate must notify treasury as they are responsible to write down the net carrying amount of the asset to its net realizable value.

A disposal is the difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset and should be accounted for as revenue or expense in the statement of operations (PSAB 3150.38).

A write down occurs when the conditions indicate that a tangible capital asset no longer contributes to the Town's ability to provide goods and services or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value (PSAB 3150.31). The net write downs of tangible capital assets should be accounted for as an expense in the statement of operations (PSAB 3150.32). A write down should not be reversed (PSAB 3150.33).

SCHEDULE A

Asset Category	Capitalization Threshold	Estimated Useful Life
Land	Capitalize Only	Indefinite
Land Improvements		
Parking Lots/Landscaping/Runways	\$5,000	20 years
Playground Equipment	\$5,000	20 years
Other (fencing, sports fields, etc)	\$5,000	20 years
Buildings and Improvements		
Building Structure	\$5,000	50 years
Mechanical/Electrical	\$5,000	25 years
Roof	\$5,000	25 years
Vehicles		
Cars, light trucks	\$5,000	10 years
Heavy equipment trucks	\$5,000	20 years
Fire trucks	\$5,000	20 years
Machinery & Equipment		
Furniture & Fixtures	\$5,000	10 years
Operating equipment & machinery	\$5,000	10 years
Heavy equipment & machinery	\$5,000	20 years
Computer hardware/dispatch equipment	\$5,000	5 years
Computer software	\$5,000	10 years
Infrastructure		
Water Distribution System (pipes, hydrants, valves etc.)	\$20,000	50 years
Sanitary Sewer Collections System (pipes, force mains, etc)	\$20,000	50 years
Storm Sewer System – PVC / CI, Concrete	\$20,000	50 years
Roads Surface	\$20,000	50 years
Guard rails	\$20,000	10 years
Culverts	\$20,000	40 years
Sidewalks – Paving Stone / Concrete	\$20,000	45 years
Sidewalks – Asphalt	\$20,000	20 years
Bridges	\$20,000	50 years
Traffic Lights / Street Lights / Road Signs	\$20,000	25 years
Capital Work in Progress	Project Based	Not Amortized

Schedule B

Capital Asset Disposal/Out of Service Form

Asset ID _____

Department _____

Location _____

Asset Verification

Make/Model _____

Serial #/ VIN# _____

Manufacturer _____

Details of Disposition

Date of Disposal _____

Purchaser _____

Other Method _____

Value Received \$ _____

Comments _____

Print Name _____

Signature _____

Date _____

Note: Attach a copy of any sales information (sales slip, invoices for new asset indicating trade-in, etc)