POLICY

LEGISLATION

1. The financial statements of the Manitoulin-Sudbury DSB are prepared in accordance with accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

2. This policy is effective January 1, 2009.

PROCEDURE

PURPOSE

The objective of this policy is to prescribe the accounting treatment for tangible capital assets so that users of the financial report can discern information about the investment in property, plant and equipment and the changes in investment. The principal issues in accounting for tangible capital assets are the recognition of the assets; the determination of their carrying amounts and amortization charges; and the recognition of any related impairment losses.

In addition the policy provides measures to:

a. protect and control the use of all tangible capital assets;
b. provide accountability over tangible capital assets; and
c. gather and maintain information needed to prepare financial statements.

DEFINITIONS

The words and phrases listed below when used in this policy shall have the following meanings ascribed to them:

"*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.

"*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 cost incurred to enhance the service potential of a tangible capital asset. Betterments increase service potential (and may or may not increase the remaining useful life of the tangible capital asset). Such expenditures would be included in the tangible capital asset's cost.

"*Capital-type expenses*" are costs for assets that meet the definition of a capital asset but are less than the thresholds. These assets are expensed in the year in which they are purchased.

"*Capitalization 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.

"*Component*" is 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.

"*Cost*" is`1 the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisitions, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. The cost of a 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.

"*Disposal*" refers to the removal of a capital asset from service as a result of sale, destruction, loss or abandonment.

"*Estimated useful life*" is the estimate of the period over which a capital asset is expected to be used or the number of units of production that can be obtained from the asset. It is the period over which an asset will be amortized and is normally the shortest of the physical, technological, commercial or legal life.

"*Fair value*" is the amount of 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*" is the amount by which the net proceeds realized upon as asset's disposal exceeds the asset's net book value.

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

"*Leased capital assets*" are non-financial assets leased by the organization for use in the delivery of goods and services. Substantially all of the benefits and risks of ownership are transferred to the municipality without requiring the transfer of legal ownership.

"*Loss on disposal*" is the amount by which the net book value of a capital asset exceeds the net proceeds realized upon the asset's disposal.

"*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 and repairs*" maintain the predetermined service potential of a tangible capital asset for a given 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 both accumulated amortization and the amount of any write-down.

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

"*Tangible Capital Asset*" means a non-financial asset having physical substance that:

a. are held for use in the production or supply of goods or services, for rental to others, for administration purposes or for the development, construction, maintenance of other tangible capital assets;
b. have useful economic life extending beyond an accounting period;

c. are to be used on a continuing basis; and are not for sale in the ordinary course of operations.

"*Service Potential*" is the output or service capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.

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

"*Useful life*" is the estimate of either the period over which a tangible capital asset is expected to be used by a government, or the number of production or similar units that can be obtained from the tangible capital asset by a government. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a government. 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.

"*Work in progress*" is an accumulation of capital costs for partially constructed or developed projects.

"*Works of art and historical treasures*" are property that has cultural, aesthetic, or historical value that is worth preserving perpetually. These assets are not capitalized as their service potential and expected future benefits are difficult to quantify.

"*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.

Department Responsibilities

1. Title or ownership of capital assets held by departments rests with the Manitoulin-Sudbury DSB. Departments maintain stewardship for the Manitoulin-Sudbury DSB. A department generally has stewardship of a capital asset if the department provides for its operation and maintenance and controls the ability to change the asset's future service potential. The Finance department is responsible for maintaining accounting records and preparing reports for capital assets.

2. For tangible capital assets under their stewardship, departments are

required to :
- manage them to provide effective, efficient and economical program delivery;

3. The Finance department is required to establish and maintain accounting systems to collect, record, and report information; and establish and maintain adequate internal control systems to ensure the accuracy and reliability of information and reports.

Tangible Capital Asset Categories

4. Tangible capital assets should be assigned to a category outlined in Schedule A based on their nature, characteristics and useful life.

5. Where departments are uncertain as to which category a tangible capital asset belongs, or where no appropriate category exists, they should contact the finance department.

Excluded Assets

6. The following assets should not be capitalized and amortized:
   - land (or other assets) acquired by right, such as Crown, forests, water and mineral resources;
   - works of art and historical treasures; and
   - intangible assets such as patents, copyrights and trademarks.

Assets Held for Sale

7. Assets held for sale which otherwise would have been reported as capital assets may be required to be reported as financial assets.

Costs

8. The cost of a capital asset includes the purchase price of the asset and other acquisition costs, such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs and duties.

9. The cost of a constructed asset includes direct construction or development costs such as materials, including inventories held for consumption and use, and labour and overhead costs directly attributable to the construction or development activity. Capitalization of administrative costs should be limited to salaries, benefits and travel for staff directly involved in the project delivery (eg project management or construction).

10. Where several tangible capital assets are purchased together, the cost of each asset is determined by allocating the total price paid in proportion to each asset's relative fair value at the time of acquisition.

11. Interest expense related to financing costs incurred during the time a capital asset is under construction or development can be included in the cost of the capital asset until the asset is put into service.

12. If the construction or development of a capital asset is not completed to a usable state, the costs that would be otherwise capitalized should be expensed.

Thresholds

13. The thresholds for each category represents the minimum cost an individual asset must have before it is to be recorded as a tangible capital asset on the statement of financial position.

14. Tangible capital assets not meeting the threshold are expensed in the year in which they are purchased. Costs for these assets are referred to as capital-type expenses.

15. Thresholds should be applied on an individual asset or per item basis.

16. Schedule B outlines the thresholds for each tangible capital asset category.

Estimated Useful Life

17. The estimated useful life is the period over which a tangible capital asset is expected to provide services. An asset's useful life can be estimated based on its expected future use, effects or technological obsolescence, expected wear and tear from use or the passage of time, the level of maintenance and experience with similar assets.

18. All capital asset categories have predetermined estimated useful lives as outlined in Schedule B. The estimated useful lives shown here are intended to apply to assets in new condition.

19. When used assets are acquired the estimated useful lives should be reduced based on the age and condition of the asset.

Amortization

20. Amortization is calculated using the straight-line method based on the estimated useful life of each asset.

21. Land has an unlimited estimated useful life and should not be amortized.

22. Amortization should be calculated based on the full cost of the tangible capital asset. Where an asset's residual value is expected to be significant in comparison to the asset's costs (20% or more), the amount would be deducted from the cost when calculating amortization.

23. A full year's amortization should be recorded in the year of acquisition, construction or development and put into use, regardless of when this event occurs in the fiscal year.

24. No amortization should be recorded in the year an asset is disposed of. This does not apply to deemed disposals.

25. No amortization should be recorded on work in progress or tangible capital assets which have been removed from service but not yet disposed of.

Disposals

26. The disposal of a tangible capital asset results in its removal from service as a result of sale, destruction, loss or abandonment.

27. When a tangible capital asset is disposed of, the cost and the accumulated amortization should be removed from the accounting records and any gain or loss recorded.

28. Costs of disposal paid by the DSB should be expensed.

29. A gain or loss on disposal is the difference between the net proceeds received and the net book value of the asset and should be accounted for as a revenue or expense, respectively, in the period the disposal occurs.

Write-downs

30. A tangible capital asset should be written down when a reduction in the value of the asset's service potential can be measured and the reduction is expected to be permanent.

31. Conditions that may indicate that a write-down is required include an expectation of providing services at a lower level than originally planned, a change in use for the asset, technological advances which render the asset obsolete or other factors such as physical damage which reduce the asset's service potential. Documentation for write-down should be retained.

32. Write-downs of tangible capital assets should be accounted for as an expense in the current period.

33. Annual amortization of an asset that has been written down should be calculated using the net book value after the write-down and the remaining estimated useful life.

34. Regardless of any change in circumstances, a write-down should not be reversed.

Betterments

35. Betterments are enhancements to the service potential of a tangible capital asset, such as
    - an increase in the previously assessed physical output or service capacity;
    - a reduction in associated operating costs;
    - an extension of the estimated useful life; or
    - an improvement in the quality of output.

36. Betterments which meet the threshold of the applicable capital asset category are capitalized. Otherwise, they are expensed.

37. Repairs and maintenance which are necessary to obtain the expected service potential of a tangible capital asset for its estimated useful life are not betterments. These costs should be expensed when incurred. They include:
    - repairs to restore assets damaged by fire, flood, accidents or similar events, to the condition just prior to the event; and
    - routine maintenance and expenditures, such as repainting, cleaning and replacing minor parts.

38. Where a betterment enhances the service potential of a capital asset without increasing its estimated useful life, the amortization period should remain the same.

39. Where a betterment increases the estimated useful life of a capital asset, its useful life should be changed.

40. Where a betterment involves the replacement of an identifiable component of a tangible capital asset, the original cost of that component and the related accumulated amortization should be removed from the accounting records.

Capital Contribution

41. When the Manitoulin-Sudbury DSB receives funds from a third party, such as a 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 should be recognized as revenue.

Donated Assets

42. If a tangible capital asset is donated to the Manitoulin-Sudbury DSB, the cost is its fair value at the date of contribution. Fair value of a donated capital asset may be estimated using market or appraised value.

Capital Leases

43. Capital leases are a means of financing the acquisition of a tangible capital asset where the lessee carries substantially all of the risks and benefits of ownership. Capital leases are recorded as if the lessee had acquired the asset and assumed the liability.

44. 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 Manitoulin-Sudbury DSB will obtain ownership at the end of the lease. (Transfer of ownership occurs at the end of the lease or the lease has a bargain purchase option.)
    - The Manitoulin-Sudbury DSB will receive substantially all the economic benefits of the assets. (The lease term is 75% or more of the economic life of the asset.)
    - The lessor is assured of recovering the investment in the asset and earning a return. (The present value of the minimum lease payment is 90% or more of the fair value of the asset.)

45. Where at least one of the conditions in the preceding paragraph is not president, other factors may indicate that a capital lease exists.

46. For example, a capital lease may exist if:
    - the Manitoulin-Sudbury DSB owns or retains control of the land on which a leased asset is located and the asset cannot be easily moved;
    - the Manitoulin-Sudbury DSB contributes significant assistance to finance the cost of acquiring or constructing the asset that it will lease; or
    - the Manitoulin-Sudbury DSB bears other potential risks, such as obsolescence, environmental liability, uninsured damage or condemnation of the asset and any of these are significant.

47. Operating leases are leases in which the lessor does not transfer substantially all the benefits and risks of ownership. If the arrangement is an operating lease, the lease payment should be expensed and no liability recorded.

48. If the arrangement is a capital lease, the Manitoulin-Sudbury DSB should apply the thresholds of the appropriate tangible capital asset category.

49. If the thresholds are not met, an expense and a liability should each be recorded for the present value of the minimum lease payments.

50. If the thresholds are met, a tangible 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 tangible capital assets as outlined in Schedule B.

51. Executory and maintenance costs should be excluded when calculating minimum lease payments. The discount rate should be the lesser of the Manitoulin-Sudbury DSB's incremental borrowing rate or the interest rate implicit in the lease, if determinable.

Work In Progress

52. Where the construction or development of a capital asset occurs over several years, capital costs should be accumulated until the asset is ready for use.

53. Identify these costs as work in progress for any interim and year-end reporting.

54. The Manitoulin-Sudbury DSB should not record amortization on work in progress.

55. A work in progress account should be established to allow work in progress capital costs to be tracked separately from assets subject to amortization.

56. Examples of work in progress are the construction of a new building or the development of an asset which occurs over several years. Work in progress would also include down payments and deposits which are to be applied to the cost of a tangible capital asset.

General Guidelines for Disposal of Machinery, Equipment & Furnishings

57. For any **apparatus, tool, device or instrument including** computers, **servers,** laptops, monitors, **photocopiers**, **phones, phone systems,** hand held devices, storage media, peripherals, office equipment, office furniture, furnishing etc. that are deemed to have a cash resale value, the item(s) will be declared Surplus to DSB requirements, **cleared of all data (including destruction of Hard Disk Drive/Solid State Drive where applicable)** and sold / disposed of through a public online auction, for example: eBay, Kijiji, Bargain Hunter etc. All items placed on an *on-line action will have a set minimum acceptable price and be placed for sale for a **minimum of 10 to 15 days based on the individual online auction requirements.** Items will be sold to the highest bidder.

    If an item does not sell on the public on-line auction or **is deemed to have no cash resale value** and where a **client, community group, community facility**, municipality or non-profit agency has approached the DSB for a specific surplused item, the DSB at its sole discretion, where the item is estimated to be less than $200 in value, may donate the item to the municipality or non-profit agency as is where is. **If the equipment can be redeployed in this manner, then the Information Services Manager will ensure the equipment has been cleared of all data before the transfer occurs.**

    *** DSB employees who are directly involved in the procedures set out in this Policy for the disposal of surplus assets and their immediate family or agents shall be excluded from bidding to acquire surplus assets offered for sale.**

Recycle Process

58. Items with no reusable value will be disposed of as soon as reasonably possible, in an **environmentally responsible** waste facility.

Schedule A

Tangible Capital Asset Primary Classifications

Each tangible capital asset will be classified by a primary category, which describes what an asset is objectively used for. The following primary asset classifications will be used.

a) Land
Real property in the form of a plot, lot or area. Includes all expenditures made to acquire land and to ready it for use where the improvements are considered permanent in nature and includes purchase price, closing costs, grading, filling, draining, clearing, removal of old buildings (net of salvage), assumptions of liens or mortgages, and any additional land improvements that have an infinite life. The costs associated with improvements to land are added to the cost of the land if those improvements can be considered permanent (such as re-grading or filling of the land).
Excludes land held for resale.

b) Land improvements
Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land fir its intended use, which generally decay or break down over time. Land improvements that are removable and can degrade or deplete over the course of time through use or due to the elements should be separately capitalized and their value amortized over the useful life of the improvement.

General capital land improvement examples include but are not limited to construction of driveways, parking lots, retaining walls, drop-off locations, sidewalks, fencing, patios, water fountains and the like.

c) Buildings
General capital buildings include all structures that provide shelter from the elements which function independent of an infrastructure network (including capital betterments to capital buildings).

Examples include but are not limited to EMS stations, office buildings, public housing buildings, sheds and the like.

d) Machinery and equipment
An apparatus, tool, device, implement or instrument that likely uses energy (human, electrical, hydraulic fuel, or thermal) to facilitate a process, function or completion of a task. Machinery and equipment also includes furniture, fixtures, and computer hardware/software. It may be installed within a building or vehicle, but is generally capable of being moved and reinstalled at a different location.

e) Vehicles
A means of transportation, usually having wheels, for transporting persons or things or designed to be towed behind such an apparatus.

f) Capital work-in-progress
The cost of tangible capital assets under construction, constructed or in an uncompleted process of acquisition by the DSB, and that are not yet in service.

Tangible Asset Categories

The following table lists the tangible capital asset categories and examples of assets and costs included in each category.

Tangible Capital Asset Category	Examples of Tangible Capital Assets	Examples of TCA Costs
Land	▪ land acquired for building sites, etc	▪ purchase price ▪ professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys ▪ improvement and development costs such as land excavation, filling, grading, drainage, demolition of existing buildings (less salvage)
Land improvements	▪ fencing and gates, parking lots, paths and trails, landscaping, swimming pools and playgrounds	▪ original purchase price or completed project costs including costs of material and labour or costs of a contractor
Buildings – high quality construction Buildings – medium quality construction Buildings – average quality construction Buildings – short term	▪ buildings with fireproofed structural steel frames with reinforced concrete or masonry floor and roofs ▪ buildings with reinforced concrete frames and concrete or masonry floors and roofs ▪ buildings with masonry or concrete exterior walls, and wood or steel roof and floor structures, except for concrete slabs on grade ▪ operational storage facilities, sheds, small buildings, and pump houses	▪ original purchase price or completed project costs including basic cost of material and labour or cost of a contractor ▪ costs to remodel, recondition or alter a purchased building to make it ready to use for the acquired purpose ▪ preparation of plans, blueprints, and specifications ▪ costs of building permits, studies, test (pre-acquisition costs) ▪ professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys ▪ operating costs such as temporary buildings used during construction
Building improvements	▪ major repairs that increase the value or useful life of the building such as structural changes, installation or upgrade of heating and cooling systems, plumbing, electrical, telephone systems	▪ complete project costs including basic costs of material and labour or costs of a contractor ▪ preparation of plans, blueprints, and specifications ▪ cost of building permits, studies, test ▪ professional fees for architect, legal, engineering, appraisals, environmental surveys ▪ operating costs such as temporary buildings used during construction

Tangible Capital Asset Category	Examples of Tangible Capital Assets	Examples of TCA Costs
Leasehold and occupancy improvements	▪ improvements that increase the functionality of leased or similar accommodations (refer to the assets listed under the "building improvements" category)	▪ costs similar to those listed under the "building improvements" category
Operating equipment	▪ equipment specific to service delivery ▪ examples include refrigerators, stoves, washers, dryers, lawn tractors, defibrillators, etc	▪ original contract price or invoice price ▪ freight charges ▪ sales taxes on acquisition ▪ installation charges ▪ charges for testing and preparation ▪ costs of reconditioning used items when purchased ▪ parts and labour associated with the construction of equipment
Vehicles	▪ used primarily for transportation purposes such as automobiles, trucks under one tonne, vans, boats, all terrain vehicles, snowmobiles and ambulances	▪ original contract price or invoice price ▪ freight charges ▪ sales taxes on acquisition ▪ costs of reconditioning used items when purchased
Computer software	▪ off the shelf software and related upgrades, software licenses after removing any maintenance or similar charges	▪ purchase price of off the shelf software and related upgrades ▪ sales taxes on acquisition ▪ installation charges
Computer hardware	▪ servers, voice logging equipment, scanners, hard drives, modes, tape drives, etc	▪ purchase price ▪ installation charges ▪ freight and transit charges ▪ sales taxes on acquisition
System development	▪ consultant fees, web site development and custom developed software	▪ external direct costs of materials and services such as consultant fees ▪ web site development costs ▪ costs to acquire software and any custom development ▪ salary and related benefits of employees directly associated with the application development stage ▪ costs of upgrades that improve the functionality of the system
Office furniture and equipment	▪ desks, tables, chairs, filing cabinets, fax machines, photocopiers, video-conferencing stations, projectors, digital cameras, etc	▪ original contract price or invoice price ▪ freight and installation charges ▪ sales taxes on acquisition ▪ costs of reconditioning used items when purchased ▪ parts and labour associated with the construction of furniture

Schedule B

Tangible Capital Asset Thresholds, Estimated Useful Lives and Amortization

The table below outlines the threshold and estimated useful life applications to each tangible capital asset category. A threshold of ALL means that all capital asset purchases, regardless of cost, are recorded.

Tangible Capital Asset Class and Category	Threshold	Estimated Useful Life	Amortization
Land			
Land	ALL	Indefinite	n/a
Land Improvements			
Land improvements	$10,000	5 – 10 Years	Straight-line
Buildings			
Buildings – high quality construction	$10,000	25 – 30 Years	Straight-line
Buildings – medium quality construction	$10,000	25 – 30 Years	Straight-line
Buildings – average quality construction	$10,000	25 – 30 Years	Straight-line
Buildings – short term	$10,000	5 – 10 Years	Straight-line
Building improvements	$10,000	5 – 10 Years	Straight-line
Leasehold and occupancy improvements	$10,000	5 – 10 Years	Straight-line
Machinery and Equipment			
Operating equipment	$5,000	3 – 5 Years	Straight-line
Computer software	$5,000	2 – 5 Years	Straight-line
Computer hardware	$5,000	3 – 5 Years	Straight-line
System development	$5,000	2 – 5 Years	Straight-line
Office furniture and equipment	$5,000	3 – 5 Years	Straight-line
Vehicles			
Vehicles	$5,000	3 – 10 Years	Straight-line