

TOWN OF THREE RIVERS

Capitalization Policy

Policy Number: TRF-1
Approved By: Town Council Date of Approval: November 12, 2019

Policy Objective

This policy establishes the criteria for the capitalization of expenditures made by the Town of Three Rivers in relation to tangible capital assets. The objective is to provide guidance to safeguard the Town's investment in tangible capital assets and ensure they are appropriately and accurately recorded in the Town's accounts.

This policy is meant to comply with the guiding Canadian Public Sector Accounting Standards, specifically Section 3150 – Tangible Capital Assets.

Policy Scope

This policy applies to all departments, organizations and entities controlled by, and included on the consolidated financial statements of the Town of Three Rivers. All accounts and budgets are to be prepared in compliance with this capitalization policy.

Policy Definitions – Outlined in Appendix A

Capitalization of Assets

Tangible capital assets and betterments with a cost of \$1,000 or more should be capitalized. All acquisitions of land, despite the cost, will be capitalized.

Donations of land or other tangible capital assets will be assigned a cost equal to the fair value at the date of contribution using market or appraised values. If a value cannot be determined, a nominal value of \$1.00 will be assigned.

Assets that individually do not meet the threshold, but which are purchased in large quantities and together meet the capitalization threshold, will be recognized as a pooled asset.

Amortization of Assets

All tangible capital assets shall be amortized on a straight-line basis over the estimated useful life of the asset. Land is deemed to have an unlimited life and as such is not subject to amortization.

Disposal of Assets

Any tangible capital asset that is disposed of, by sale, destruction, or otherwise, shall be reflected in the Town's accounts. The gain or loss on disposal will be calculated as the difference between the proceeds received and the net book value at the time of disposal.

Lease of Assets

When the Town has entered into a lease agreement, the classification under the Public Sector Accounting Standards will be determined as either a capital lease or operating lease, in accordance with such accounting standards.

Effective Date

This policy will be effective November 12, 2019.

Appendix A

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

- i. Are held for use in the production or supply of goods or services, for rental to others, for administrative purposes, or for the development, construction, maintenance or repair of other tangible capital assets;
- ii. Have useful economic lives extending beyond an accounting period;
- iii. Are to be used on a continuing basis; and
- iv. Are not for sale in the ordinary course of operations.

Accumulated amortization is the total amortization allocated over the span of the expected useful life of an asset.

Amortization (also known as depreciation) is the systematic process of allocating the cost of an asset over the useful life. The method matches the cost of the asset to the revenues or services for each asset or group of assets. Amortization of tangible capital assets does not commence until they are available for use.

Asset class is a group of tangible capital assets that are similar in nature or useful life.

Betterment is a subsequent expenditure on a tangible capital asset that:

- i. Increases previously assessed output or service capacity;
- ii. Lowers associated operating costs;
- iii. Significantly extends the useful life of the asset; or
- iv. Improves the quality of the output.

Capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership to the Town. One or more of the following conditions must apply:

- i. There is reasonable assurance that the Town will obtain ownership of the leased property by the end of the lease term;
- ii. The lease term is of such duration that the Town will receive substantially all the economic benefits expected to be derived from the use of the leased property over its life span; or
- iii. The lessor 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.

Cost of the tangible capital asset is the amount of consideration, net of any applicable HST rebate, 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, including installing the asset at the location and in the condition necessary for its intended use. The cost of a tangible asset is considered to be equal to its fair value at the

date of contribution. Capital grants will not be netted against the cost of the related tangible capital asset.

Pooled asset is a group of assets that individually are insignificant but are deemed significant as a group due to monetary value assigned to the group in total.

Repairs and maintenance are the costs incurred to maintain the operating condition of a tangible capital asset. These costs are expensed in the year they occur.