Regular Council Meeting

To:	Mayor and Council
Date:	January 18, 2021
From:	Bill Balfour, Fire Chief Wayne Hancock, Director of Public Works Kimberley Pope, Director of Finance
Report Number:	Fire Department 2021-01
Subject:	Township of Cavan Monaghan Vehicles

Recommendation:

That Council receives Township of Cavan Monaghan Vehicles Report 2020-01 for all municipal vehicles (Fire Dept, Public Works & Parks and Facilities) for information and further consideration during the 2021 Budget process.

Overview:

During the 1st Draft 2021 Special Budget meeting held on December 10, 2020 staff had requested Capital funds be set aside in reserves for the future replacement of vehicles. Council requested staff to bring forward a consolidated report pertaining to all vehicles within the Township, by department, to include historical designated reserves and asset management reserves for the future replacement of the identified rolling stock assets within the township.

The requested information has been provided by the following departments; Fire, Parks and Facilities and Public Works Department. The break down (Attachment 1) identifies the vehicles description, the year in which it was purchased, the useful life of the asset in accordance with the Township's Tangible Capital Asset Policy (Attachment 2) and replacement year. The breakdown also identifies funds that have been allocated to the Asset Replacement Reserve (ARR), as a percentage of annual depreciation calculations, future ARR funding calculations (estimated @ 85%), other reserves and the remaining funding required (in excess of Reserves allocated).

The following is an overview by department:

Fire Department

The Fire Department has eleven vehicles and one shared vehicle with Parks and Facilities. The average age within the fleet is 13 years old. The Fire Departments total vehicle inventory is outlined in the attached table with the asset replacement reserve presently totaling $411,350.76 and future funding required presently totaling

$1,607,013.09. Indexed future cost is used to estimate this value. Indexed future costs have been estimated by staff utilizing historical changes in tender pricing.

The Fire Department's 2021 capital requests the for transfer to reserves to ensure that once the replacement of Fire Station One is completed the required vehicles can be purchased.

Public Works Departments

The Public Works Department has nineteen pieces of equipment. The Tangible Capital Asset Policy estimates a useful life of 300,000 km on licensed vehicles. The four pickup trucks, 1-08, 2-16, 3-19, and 4-12, are estimated to reach end of useful life in 7 years while our other Public Works licensed vehicle assets are estimated to reach end of useful life in 12 years. Council has approved for staff to tender two of our oldest pieces being a 19-07 International Tandem & a 34-08 John Deere Excavator. Development charges are in place to cover the 19-07 Tandem and reserves are available in the amount of $143,917.56 for the 34-08 John Deere Excavator. The Public Works total vehicle inventory is outlined in the attached table with the asset replacement reserve presently totaling $1,111,297.22 and future funding required presently totaling $2,110,838.13. Indexed future cost is used to estimate this value. Indexed future costs have been estimated by staff utilizing historical changes in tender pricing.

Parks and Facilities

The Parks and Facilities have three vehicles one of which is a shared vehicle with the Fire Department. The average age within the fleet is 7 years old. The Parks and Facilities total vehicle inventory is outlined in the attached table with the asset replacement reserve presently totaling $38,808.25 and future funding required presently totaling $20,369.55. Indexed future cost is used to estimate this value. Indexed future costs have been estimated by staff utilizing historical changes in tender pricing.

Financial Impact:

The Asset Replacement Reserve (ARR) was established in 2010 and Council has approved an annual transfer to the ARR as a percentage of the depreciation identified in previous year's audited financial statements. The funding transfers have increased from 24% (in 2010) to 81% (in 2020) which averages approximately 74% contribution over the ten-year period.

The total historical cost of the municipal fleet was $5,017,432 with a total Indexed Future Cost of $7,812,514 for replacement. The municipality has allocated $1,561,456 (24.2%) in Reserves (ARR & Other Reserves) plus $2,187,837 (28%) estimated future Reserve contributions with $3,738,221 (47.8%) remaining to be funded.

Attachments:

1. Cavan Monaghan Municipal Fleet (Includes Fire Department, Public Works and Parks and Facilities

2. Tangible Capital Asset Policy

Respectfully Submitted by,

Bill Balfour
Fire Chief

Wayne Hancock
Public Works Director

Kimberley Pope
Director of Finance/Treasurer

Reviewed by,

Yvette Hurley
Chief Administrative Officer

Cavan Monaghan Municipal Fleet

Updated January 11, 2021

Department	Historical Cost (Purchase Price)	Asset Replacement Reserve (ARR) YEAR 2020	Other Reserves	Estimated Future ARR Funding @ 85% YEAR 2021+	Indexed Future Cost (Replacement)	Funding Required (in excess of Reserves)
Fire Department	**$1,633,075**	$ 411,351	$ 325,000	$ 754,150	**$ 3,097,514**	$ 1,607,013
Public Works	**$3,336,916**	$ 1,111,297	$ -	$ 1,422,865	**$ 4,645,000**	$ 2,110,838
Parks & Facilities	**$47,441**	$ 38,808	$ -	$ 10,822	**$ 70,000**	$ 20,370
TOTAL	**$5,017,432**	**$1,561,456**	**$325,000**	**$2,187,837**	**$7,812,514**	**$3,738,221**

	Fire Department											
	Vehicle Description	Year	Useful Life (Years)	Useful Life Remaining	Historical Cost (Purchase Price)	Asset Replacement Reserve (ARR) YEAR 2020	Other Reserves		Estimated Future ARR Funding @ 85% YEAR 2021+	Indexed Future Cost (Replacement)	Funding Required (in excess of Reserves)	Replacement Year
1	Pumper 1- 2018	2018	20	18	**$317,514.52**	$ 26,829.98			$ 242,898.61	**$417,514.00**	$147,785.42	2038
2	Tanker 1 - 1999	2000	20	0	**$139,730.31**	$ 56,874.18	$ 225,000.00	Tanker #1	n/a	**$350,000.00**	$68,125.82	2028
3	Rescue 1 - 2003	2003	20	3	**$136,002.97**	$ 55,353.21			$ 17,340.38	**$350,000.00**	$277,306.41	2023
4	Unit 5 - 1989	1989	10	-21	**$37,404.48**	n/a			n/a	**$80,000.00**	$80,000.00	1996
5	Car 1 - 2017	2017	10	7	**$40,150.43**	$ 9,756.55			$ 23,889.51	**$60,000.00**	$26,353.94	2024
6	Car 3 - 2021	2021	10	10	**$59,164.70**	n/a			$ 50,290.00	**$60,000.00**	$9,710.01	2028
7	Pumper 2 - 2010	2010	20	10	**$220,108.00**	$ 85,181.80	$ 100,000.00	Emergency Equipment RSV	$ 93,545.90	**$500,000.00**	$221,272.30	2029
8	Tanker 4 - 2015	2015	20	15	**$299,738.32**	$ 58,748.71			$ 191,083.18	**$450,000.00**	$200,168.11	2035
9	Tanker 2 - 2013	2013	20	13	**$210,561.56**	$ 61,483.98			$ 116,335.26	**$450,000.00**	$272,180.76	2033
10	UTV & Trailer - 2016	2016	20	16	**$27,599.00**	$ 4,305.44			$ 18,767.32	**$45,000.00**	$21,927.24	2036
11	Rescue 2 - 2000	2000	20	0	**$112,774.03**	$ 45,899.03			n/a	**$300,000.00**	$254,100.97	2020
12	2003 Ford (50% shared with P&F)	2003	10	-7	**$32,326.56**	$ 6,917.88			n/a	**$35,000.00**	$28,082.12	2020
	TOTAL				**$1,633,074.88**	**$411,350.76**	**$325,000.00**		**$754,150.15**	**$3,097,514.00**	**$1,607,013.09**	

Note: 2021 Estimates

1. Pumper One (1) is a Commercial Cab & Chassis - replacement required - Custom Chassis depending on future development
2. Tanker One (1) is a 1999 however, took possession of truck in 2000
3. Pumper Two (2) Purchased in 2009 however, truck ownership is 2010
4. UTV historical cost did not include trailer donated by Association
5. The Emergency Equipment Reserve has $434,591.13 available towards Fire specific Capital purchases

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	Public Works										
	Vehicle Description	**Year**	**Useful Life** (Years)	**Useful Life Remaining**	**Historical Cost** (Purchase Price)	**Asset Replacement Reserve (ARR) YEAR 2020**	**Other Reserves**	***Estimated Future ARR* Funding @ 85% YEAR 2021+**	**Indexed Future Cost (Replacement)**	**Funding Required** (in excess of Reserves)	**Replacement Year**
1	1-08 Dodge Pickup	2008	7	-5	$30,190.00	$ 17,510.20		n/a	**$50,000**	$32,489.80	2021
2	2-16 Dodge Pickup	2016	7	3	$36,525.11	$ 16,279.76		$ 13,305.58	**$50,000**	$20,414.66	2028
3	3-19 Ford F-250	2019	7	6	$54,120.67	$ 6,262.53		$ 39,430.77	**$70,000**	$24,306.69	2031
4	4-12 Dodge Pickup	2012	7	-1	$29,380.35	$ 24,805.41		n/a	**$50,000**	$25,194.59	2024
5	10-17 International Single Axle	2017	12	9	$209,427.85	$ 42,409.14		$ 133,510.25	**$250,000**	$74,080.61	2029
6	11-05 International Tandem water truck	2005	12	-3	$180,394.56	$ 101,020.95		n/a	**$300,000**	$198,979.05	2017
7	14-18 International Tandem	2018	12	10	$228,033.46	$ 32,114.71		$ 161,523.70	**$300,000**	$106,361.59	2030
8	15-20 International Tandem	2020	12	12	$283,567.11	n/a		$ 241,032.04	**$300,000**	$58,967.96	2032
9	16-13 International Tandem	2013	12	5	$191,314.85	$ 93,106.56		$ 67,757.34	**$300,000**	$139,136.10	2032
10	17-03 International Tandem calcium truck	2003	12	-5	$182,937.96	$ 61,894.01		n/a	**$300,000**	$238,105.99	2015
11	18-20 International Tandem	2020	12	12	$283,567.11	n/a		$ 241,032.04	**$300,000**	$58,967.96	2032
12	19-07 International Tandem	2007	12	-1	$183,101.21	$ 118,100.28		n/a	**$300,000**	$181,899.72	2019
13	20-17 International Tandem	2017	12	9	$238,735.41	$ 48,343.92		$ 152,193.82	**$300,000**	$99,462.26	2029
14	30-08 Champion Grader	2008	12	**0**	$263,812.00	$ 178,952.47		n/a	**$450,000**	$271,047.53	2020
15	31-10 JD Grader	2010	12	2	$250,883.34	$ 161,819.75		$ 35,541.81	**$450,000**	$252,638.44	2022
16	34-08 Rubber Tired Excavator	2008	12	**0**	$223,128.00	$ 151,355.16		n/a	**$275,000**	$123,644.84	2021
17	35-18 Trackless	2018	12	10	$186,667.53	$ 26,289.01		$ 132,222.83	**$200,000**	$41,488.16	2030
18	36-20 JCB Loader	2020	12	12	$186,129.75	n/a		$ 158,210.29	**$200,000**	$41,789.71	2032
19	37-15 JD Loader	2015	12	7	$95,000.00	$ 31,033.33		$ 47,104.17	**$200,000**	$121,862.50	2035
	TOTAL				**$3,336,916.27**	**$1,111,297.22**	**$0.00**	**$1,422,864.65**	**$4,645,000.00**	**$2,110,838.13**	

Note:
The Tangible Capital Asset Policy includes Public Works Vehicles at 300,000 kms. The Useful Life is calculated as; 25,000 kms/year (12 years) or 43,000 kms/year (7 years).
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	Parks & Facilities										
					Historical	Asset		Estimated	Indexed	Funding	
					Cost	Replacement		Future ARR	Future	Required	
	Vehicle		**Useful Life**	**Useful Life**	(Purchase	**Reserve (ARR)**	**Other**	**Funding @ 85%**	**Cost**	(in excess of	**Replacement**
	Description	**Year**	(Years)	**Remaining**	Price)	**YEAR 2020**	**Reserves**	**YEAR 2021+**	**(Replacement**	Reserves)	**Year**
1	2009 Chev Silverado	2009	10	-1	$25,162.92	$ 27,825.30		n/a	**$35,000.00**	$7,174.70	2020
2	2014 Dodge Ram	2014	10	4	$22,277.79	$ 10,982.95		$ 10,822.20	**$35,000.00**	$13,194.85	2021
3	2003 Ford (50% shared with FD)	2003	10	-7	*as reported in Fire Department Vehicles						2020
4											
5											
6											
7											
8											
9											
10											
	TOTAL				**$47,440.71**	**$38,808.25**	**$0.00**	**$10,822.20**	**$70,000.00**	**$20,369.55**	

Note: 2021 Estimates
Updated January 11, 2021

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 such 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 covers policy and procedures to:

a) Protect and control the use of all tangible capital assets.
b) Provide accountability over tangible capital assets.
c) Gather and maintain information needed to prepare financial statements.

SCOPE:

This policy applies to all Township Departments, Boards and Commissions, Agencies and other organizations falling within the reporting entity of the Township.

AUTHORITY:

This policy is under the Authority of the CICA's Public Sector Accounting Handbook – specifically PS 3150 Tangible Capital Assets. The Treasurer has the authority to ensure compliance with this and all standards.

DEFINITIONS:

Tangible Capital Assets:

Assets having physical substance that;

a) Are used on a continuing basis in the Township's operations.
b) Have useful lives extending beyond one year.
c) Are not held for re-sale in the ordinary course of operations.

Betterments:

Subsequent expenditures on tangible capital assets that:

- increase previously assessed physical output or service capacity;
- lower associated operating costs;
- extend the useful life of the asset; or
- improve the quality of the output.

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

Group Assets:

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:

Fair value is 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:

A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the Township. 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 Township will obtain ownership of the leased property by the end of the lease term.
b) The lease term is of such duration that the Township 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 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.

POLICY STATEMENTS:

Capitalization

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

a) all land;
b) all buildings;
c) Infrastructure systems (built assets such as roads, bridges, sewers, water, etc.) with unit cost of $25,000 or greater;
d) all others with unit cost of $5,000 or greater.

Different thresholds may be used for group assets. Capitalize betterments to existing assets when unit costs exceed the threshold.

Categories and Sub-categories

A category of assets is a grouping of assets of a similar nature or function in the Township'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:

- Land and Improvements
  Sub- categories; Land and Land Improvements.
- Building and Improvements
  Sub- categories; Building Structure and Improvements, Shelters, Exterior Components, Mechanical / Heating / Electrical System, Interior Components, Site Services and Fire & Security Systems.
- Machinery & Equipment;
  Sub- categories; General fixed Equipment and Machinery (incl. attachments / fixtures), Fencing, Park Benches and Playground Equipment.
- Vehicles (Rolling Stock);
  Sub- categories; all Licensed Vehicles and Unlicensed Rolling Equipment.
- Infrastructure - Roads;
  Sub- categories; all Roads (Gravel, HCB & LCB), Bridges , Culverts, Sidewalks, and Tunnels.
- Infrastructure - Sewer;
  Sub- categories; Sewer Mains, Manholes and Services.
- Infrastructure – Water;
  Sub- categories; Water Mains, Hydrants and Services.
- Infrastructure – IT;
  Sub- categories; Telephone / Computer Networks, Photocopiers and Hardware.

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.

1.1 Purchased assets

Cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc. 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.

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.

1.2 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.

1.3 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.

1.4 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 construction or 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.

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 and posted to the operating unit on a regular monthly basis. The first amortization posting will occur the month of the “in service” date. For example, if an asset is purchased July 4th, 2007 and put in service on August 8th, 2007, a full month of amortization will occur in August 2007.

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.

Annual amortization expense shall be estimated and included in the annual budget of each respective operating unit. The actual amortization expense shall be charged against the operating unit.

Where applicable (see Whole Asset / Component Approach), 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).

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

The useful life estimate for leasehold assets will be restricted by the terms of the lease agreement. The useful life will be the lesser of the actual estimate, and the sum of the number of years remaining in the current and ensuing lease terms.

Township 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".

Disposal

Disposal of real property and / or tangible capital assets (that are moveable personal property) is the responsibility of the Economic and Community Development Department unless delegated to operating departments. Department heads should notify the Manager of Community Development and Facilities when assets become surplus to operations.

When other constructed tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, it is the responsibility of the Department Head of the corresponding operating department.

Each Department Head or designate must notify the Treasurer of the asset description and effective date including funds received / trade in value on disposition. The Finance Department is responsible for adjusting the asset registers and accounting records recording a loss / gain on disposal.

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, which ever is less, is less than $10,000.

Asset Useful Life

Department	Asset Category	Asset Sub-category	Estimates Useful Life
Roads & Environmental Services			
	Building & Improvements	Building Structures & Improvements	40/75 yrs
	Machinery & Equipment	Fencing	25 yrs
	Vehicles (Rolling Stock)	Licensed Vehicles	300,000 km
		Unlicensed Vehicles	25 yrs
	Infrastructure - Roads	Roads - Gravel	50 yrs
		Roads - HCB	15 yrs
		Roads - LCB	7 yrs
		Bridges	50 yrs
		Concrete Culverts	50 yrs
		Steel Culverts	40 yrs
		Side Walks	40 yrs
Economic & Community Development			
	Building & Improvements	Building Structures & Improvements	40 yrs
		Shelters	40 yrs
		Exterior Components	30 yrs
		Mechanical/Heating Systems	25 yrs
		Electrical Systems	15 yrs
		Interior Components	15 yrs
		Fire & Security Systems	15 yrs
	Machinery & Equipment	Fencing	25 yrs
		Park Benches	20 yrs
		Playground Equipment	15 yrs
	Vehicles (Rolling Stock)	Licensed Vehicles	300,000 km
		Unlicensed Vehicles	10 yrs
I.T.			
	Infrastructure - IT	Telephone/Computer Network	10 yrs
		Photocopiers	5 yrs
		Hardware	4 yrs
Fire Department			
	Building & Improvements	Building Structures & Improvements	40 yrs
		Mechanical/Heating Systems	25 yrs
		Electrical Systems	15 yrs
	Machinery & Equipment	General Machinery/Equipment	3-15 yrs
	Vehicles (Rolling Stock)	Licensed Vehicles	10/20 yrs
	Infrastructure - IT	Telephone/Computer Network	10 yrs
		Hardware	5 yrs
		Photocopiers	5 yrs
Water/Sewer			
	Infrastructure - Sewer	Sewers	80 yrs
		Manholes	75 yrs
	Infrastructure - Water	Watermains	50 yrs
		Hydrants	30 yrs

Glossary of Terms

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. Amortization expense is an important part of the cost associated with providing local government services, regardless of how the acquisition of tangible capital assets is funded. Depreciation accounting is another commonly used term to describe the amortization of tangible capital assets.

Assets are economic resources controlled by a local government as a result of past transactions or events and from which future economic benefits may be obtained. Assets have three essential characteristics:

a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
b) the local government can control access to the benefit; and
c) the transaction or event giving rise to the local government's control of the benefit has already occurred.

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.

Capitalization threshold (recognition 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. Typical carrying costs could include:

- technical and administrative work prior to commencement of and during construction;
- overhead charges directly attributable to construction or development; and
- interest.

Component is a 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 the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to the asset's acquisition, construction, development or betterment, 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. The cost of a leased tangible capital asset is determined in accordance with Public Sector Guideline PSG-2 Leased Tangible Capital Assets.

Depreciation is the expense in an accounting period arising from the application of depreciation accounting.

Depreciation accounting is the accounting procedure in which the cost or other recorded value of a fixed asset less any estimated value on disposal is distributed over its useful life in a systematic and rational manner. It is a process of allocation, not valuation.

Directly attributable overhead costs refers to direct incremental expenses incurred for technical and administrative activities related to the construction of a tangible capital asset. These costs could include the salaries and benefits for internal staff doing design work related to the construction project. It would not include an allocation of fixed costs incurred by the local government such as occupancy costs for the design department or an allocation of the costs of corporate departments such as human resources, legal, purchasing and accounting. These latter costs are incurred whether or not the construction project is undertaken and, therefore, would not be incremental overhead expenses directly attributable to the cost of the project. Refer also to the definitions of direct costs and indirect costs.

Direct costs are incremental costs incurred by a local government for the acquisition, construction or development of a tangible capital asset. Direct costs would not have been incurred other than to acquire, construct or develop the tangible capital asset. For example, directly related employee salary and benefits, materials and supplies, equipment, temporary site buildings, legal and other professional fees, etc., could be considered direct costs.

Expenses, including losses, are decreases in economic resources, either by way of outflows or reductions of assets or incurrence of liabilities, resulting from the operations, transactions and events of the accounting period. Expenses include transfer payments due where no value is received directly in return. Expenses include the cost of economic resources consumed in, and identifiable with, the operations of the accounting period. For example, the cost of tangible capital assets is amortized to expenses as the assets are used in delivering local government programs. Expenses do not include debt repayments or transfers to other local governmental units in a local government reporting entity.

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.

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash, investments, accounts receivable, inventory held for resale, etc.

Full accrual basis of accounting recognizes the financial effects of transactions in the period(s) in which they occur irrespective of when the cash has been received or paid.
It requires that tangible capital assets be reported on the balance sheet (statement of financial position) at historical cost and expensed (amortized) in the annual results of operations over their estimated useful lives.

Gains can arise from peripheral or incidental transactions and events affecting a local government. Such transactions and events include the disposition of assets purchased for use and not for resale, and the liquidation or refinancing of debt.

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

Local government reporting model describes the set of rules, parameters and content requirements that prescribe what must be presented in the summary financial statements. It prescribes the number, type and format of the financial statements, what information those financial statements should report, when it should be reported and how, as well as the notes required to explain what has been reported in the financial statements. It dictates the basis of accounting used in compiling a local government's accounting records.

Indirect costs are costs incurred for a common or joint purpose and, therefore, can not be identified readily and specifically with an activity related to the acquisition, construction or development of a tangible capital asset. For example, executive management, occupancy costs for general administrative buildings, corporate services (accounting, payroll, legal, technology, etc.), general local government, etc., would be considered indirect costs.

Liabilities are present obligations of a local government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. Liabilities have three essential characteristics:

a) they embody a duty or responsibility to others, leaving a local government little or no discretion to avoid settlement of the obligation;
b) the duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and

c) the transactions or events obligating the local government have already occurred.

Losses can arise from peripheral or incidental transactions and events affecting a local government. Such transactions and events include the disposition of assets purchased for use and not for resale, and the liquidation or refinancing of debt.

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 accumulated amortization and the amount of any write-downs.

Non-financial assets include tangible capital assets and other assets such as prepaid expenses and inventories of supplies. Non-financial assets are acquired, constructed or developed assets that are normally employed to deliver local government services, may be consumed in the normal course of operations and are not for sale in the normal course of operations.

Prospective application: A new accounting policy is applied only to events and transactions occurring after the date of the change and to any outstanding related balances existing at the date of the change. No cumulative catch-up adjustment is made to such balances.

Recognition threshold (capitalization threshold) is the value above which assets are capitalized and reported in the financial statements.

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

Responsibility cost is allocating costs to a particular unit. It is similar in nature to activity-based cost where costs are allocated to activities rather than responsibility centres.

Retroactive application with no restatement of prior periods. A new accounting policy is applied to events and transactions from the date of origin of such items and a cumulative adjustment representing the effect of the change in an accounting policy on prior periods is made in the period in which the change is made. Two different treatments of the cumulative adjustment have been followed: an item reflected in annual results or an adjustment of the opening balance of the accumulated surplus/deficit.

Retroactive application with restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items. The financial statements for each prior period presented for comparative purposes are restated to reflect the new policy. The balance of the accumulated surplus/deficit at the beginning of the earliest period presented is restated to reflect the cumulative effect of the change on periods prior to that date.

Revenues, including gains, can arise from: taxation; the sale of goods; the rendering of services; the use by others of local government economic resources yielding rent, interest, royalties or dividends; or receipt of contributions such as grants, donations and bequests. Revenues do not include borrowings, such as proceeds from debt issues or transfers from other local governmental units in a local government reporting entity.

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

- 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;
- have useful economic lives extending beyond an accounting period;
- are to be used on a continuing basis; and
- are not for sale in the ordinary course of operations.

Service potential is tangible capital asset's output or service capacity, 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 local government expects to use a tangible capital asset, or the number of production or similar units that it can obtain from the tangible capital asset. The 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 and legal life.

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.