

CAPITALIZATION AND AMORTIZATION POLICY

Context

Capital assets constitute a significant resource and involve significant expenditures for the City. In this context, it is fundamental to obtain complete and consistent information about them.

Persons entrusted with capital assets, as well as capital-works budgets, must promptly notify the Finance Department of any relevant information such as:

- the construction, the acquisition or the significant modification of a capital asset;
- the disposal or retirement of a capital asset;
- the exchange of a capital asset (for example, a vehicle);
- significant damage to a capital asset that affects its useful life span.

This policy complies with the accounting standards of the *Manuel de la présentation de l'information financière municipale*, updated in December 2018.

In the event of ambiguity as to its interpretation, the final decision rests with the Finance and Treasury Department.

OBJECTIVES

1. Establish a framework for identifying and accounting for capital expenditures and amortization for the City.
2. Define what constitutes a capital asset, specify a minimum capitalization threshold for each category and identify the criteria for recognizing, measuring and amortizing capital assets.
3. Address the decommissioning, the obsolescence, the donations, the costs incurred for improvements and the revision of useful life.
4. Maintain a permanent register of capital assets as accurate as possible.

DEFINITIONS

Capital assets

Capital assets must meet the following criteria:

- they are intended to be used for the production of goods, the rendering of services or for the operation of the municipal administration;
- they have been acquired, built, developed or promoted with the intention of being used in a sustainable manner;
- they are not intended to be sold in the normal course of operations of the municipal entity.

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Capital assets (continued)

It should be noted that pursuant to Section PS 3150 - Tangible Capital Assets of the *CPA Canada Public Sector Accounting Handbook*, software are recognized as tangible capital assets.

Cost

Cost represents the amount of the consideration given to acquire, build, develop, enhance or improve a capital asset.

Cost includes all costs directly related to the acquisition, construction, development, enhancement or improvement of the capital asset, including fees incurred to bring the asset to its intended location and condition for purpose of its intended use.

Amortization

Amortization constitutes the method of apportioning the cost of the asset over its useful life.

Maintenance and repair

Maintenance and repair expenses allow for the maintenance of the service potential of a capital asset and therefore are not part of the cost of the capital asset.

MEASURING CRITERIA

Cost

Capital assets should be accounted for at cost. The cost of a capital asset includes the purchase price and other acquisition costs.

Other acquisition costs include, among others:

- net taxes (purchase taxes, after applicable deductions from reimbursements);
- installation fees;
- design fees;
- professional fees such as those of notaries, engineers, architects;
- remediation and land development fees;
- transportation fees and customs duties, if applicable;
- other incidental fees of the same nature (decals, custom painting, etc.)

In the course of a transaction involving the exchange of a capital asset (for example, a vehicle), the same rules apply and the asset must be accounted for at cost; i. e. the gross cost of the acquired capital asset on the one hand and the proceeds of the transfer on the other hand, must be recorded.

Registration fees at the time of purchase of a vehicle (as well as at the time of exchange) are not part of the cost and must be charged as an operating expense in the statement of income.

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Construction

In addition to the purchase cost, the cost of a capital asset built by the municipal organization includes:

- a) the direct cost of construction, development or enhancement such as:
 - raw materials, including materials and supplies in inventory used;
 - manpower, that is, wages paid and social security contributions paid by the employer to employees directly assigned to the execution of the authorized work;
 - architect fees and other technical costs directly related to the preparation of plans and specifications and the supervision of the work.

General administrative fees and other similar expenses that cannot be directly related to the purpose of the projects are not part of the project costs.

In the same vein, costs incurred before the requirements for carrying out the project are confirmed (e.g. a needs and/or feasibility analysis), are not capitalizable.

Improvements

Improvement expenditures are those that add future economic benefits to the capital asset and have the effect of increasing its production or service capacity, particularly when:

- the useful life span is extended;
- the related operating costs are thereby reduced;
- the previously estimated production or service capacity is increased.

Costs incurred for improvements to a capital asset are deemed to be part of the capital asset.

Donations

The cost of a capital asset received as a contribution includes:

- the fair value of the property received, at the acquisition date;
- other costs related to the acquisition.

If it is not possible to estimate the fair value, the capital asset is accounted for a symbolic value.

Donations of capital assets are accounted for at the date of the contribution, for example, at the date they are granted by a legal deed, if applicable. In this case, the recognition criterion corresponds to the official date recorded in the legal document.

In the case of a work of art, it may be necessary to consult an expert to objectively determine its fair value.

Because of the special nature of artworks, the minimum capitalization threshold is set at \$10,000.

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Useful life span

The useful life span is the total estimated period during which a capital asset is likely to provide services to the municipal organization.

Occasionally, certain events may indicate the need to change the estimate of the remaining useful life of a capital asset, such as:

- material damages;
- significant technological advances;
- the asset being taken out of service for a long period of time;
- modifications in the legislation or the environment that affect the useful life of the asset.

RECOGNITION CRITERIA

Capital assets are accounted for at acquisition cost as expenses are incurred.

AMORTIZATION CRITERIA

Capital assets are amortized over their useful life span starting the year following their acquisition or commissioning date. Assets under development, if applicable, are not amortized. Capital assets are amortized on a straight-line basis (Appendix 1).

MINIMUM CAPITALIZATION THRESHOLD

Infrastructure	\$25,000
Electricity network	\$25,000
Buildings	\$25,000
Vehicles	\$15,000
Office furniture and equipment	\$5,000
Machinery, tools and equipment	\$5,000
Lands	\$5,000

The capitalization threshold also applies to the acquisition of several identical items with a minimum unit purchase cost of \$1,000.

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Depreciation and obsolescence

The recognition of depreciation may be appropriate in such cases as the following:

- the capital asset no longer contributes to the ability to provide goods and services;
- the value of the future economic benefits associated with the asset is less than its net carrying amount, which may result from:
 - o a significant material damage;
 - o a significant technological change or obsolescence of the asset;
 - o a decommissioning of the asset.

In these rare instances, the cost of the asset must be adjusted to reflect its decrease in value. The recognition of a depreciation is permanent. Under any circumstances, no reversal of depreciation is recorded.

Removal of a capital asset from the City's estate

The removal of a capital asset from the estate represents a reduction in the investment for the municipal organization resulting from:

- the transfer of the capital asset;
- the destruction of the capital asset;
- the loss of the capital asset;
- the abandonment of a capital asset.

When the asset is removed from the estate, the cost of the asset and the corresponding accumulated amortization are written off from the books.

Transfer of capital assets

From an accounting point of view, the proceeds of transfer do not represent income. Only the difference between the proceeds of transfer and the net book value of the capital asset should be recognized as a gain or loss in the statement of operations upon disposal of capital assets.

Proceeds of transfer in a transaction involving an exchange (for example, a vehicle) must be identified separately for the purpose of calculating the gain or loss upon disposal.

Responsibilities and coming into force

The Finance Department is responsible for the development, implementation, monitoring and evaluation of this policy.

Managers of the various departments are responsible for the application of this policy.

This policy is expected to come into effect as soon as it is adopted by Council and as of the 2019 fiscal year.

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Appendix 1 - Capital asset categories and useful life span

CATEGORY	GENERAL DESCRIPTION	Useful life span
INFRASTRUCTURE	Drinking water: - Drinking water pipes (aqueduct)	40 years
	Used water: - Sewer pipes	40 years
	Road network: - Roads, streets, routes, sidewalks, bridges, tunnels and overpasses - Original surfacing or major resurfacing	40 years 15 years
	Other infrastructure: - Incinerator ¹ - Street lighting system - Landscaping of parking areas - Landscaping of parks and playgrounds - Environmental health	40 years 20 years 20 years 20 years 20 years or 40 years
ELECTRICITY NETWORK	Electrical energy distribution	40 years
	Sub-stations	40 years
	Tranformers	20 years
BUILDINGS	Administrative buildings	40 years
	Community and recreational buildings	40 years
VEHICLES	Automobiles	10 years
	Heavy-duty vehicles	20 years
	Other motor vehicles	10 years
OFFICE FURNITURE AND EQUIPEMENT	Computer equipment and software	5 years
	Telephone equipment	5 years
	Office furniture and equipment	10 years
MACHINERY, TOOLS AND EQUIPMENT	Heavy machinery	20 years
	Equipments ²	10 years
LANDS	All land, whether or not attached to capital assets	Not amortized

¹ The building housing the incinerator, on the other hand, is part of the Buildings category.

² Equipment is grouped in the asset register into sub-categories as follows: Administration, Library, Cultural-Works of Art, Electricity, Recreation, Transportation and Public Safety.