Policy F06-2009-03

Capital Asset Amortization

Department:	Finance and Accounting	**Policy Number:**	F06-2009-03
Section:		**Effective Date:**	December 7, 2009
Subject:	Capital Asset Amortization	**Revised Date:**	
Authority:	Applies to All Municipal Departments		

Purpose:

The objective of this policy is to define the amortization periods, by subcategory or component, of a Tangible Capital Asset. The amortization period is based on the estimated useful life of the asset. The cost of a Tangible Capital Asset will be amortized over the estimated useful life, on a straight-line basis

Definitions:

Tangible Capital Assets
For a definition of Tangible Capital Assets refer to the policy and procedures “Tangible Capital Assets”.

Asset Cost
Tangible Capital Assets are recorded at cost. As a general rule, cost includes the purchase price and other acquisition costs such as installation costs, freight charges, transportation, taxes and duties. For a donated capital asset, cost is considered to be the fair value of the date of donation. Fair value may be estimated using market or appraisal values.

Amortization
Amortization or depreciation is an accounting cost allocation concept in which the recorded cost of a capital asset less estimated residual value (if any) is distributed over its estimated useful life in a consistent manner. This is a process of allocation, not valuation. Amortization is to begin in the month following the month of “in service” date (acquisition and/or invoice date).

Residual Value
Residual Value is the amount the Municipality expects to be able to realize on disposal of a capital asset at the end of its useful life.

Straight-line Basis
This is a method of amortization in which the periodic charge is computed by dividing the amortization base by the estimated number of periods of service life.

Useful Life
A tangible capital assets useful life is the time duration over which benefits are expected to

be derived from the asset. It is not to be confused with the assets physical life.

Policy Statements:

Amortization Periods

Tangible capital assets will be placed into subcategories or components and amortized monthly over its estimated useful life as defined below:

Table 1: Sub-Category – Useful Life

Sub-Category	Components	Est. Useful Life
Land	Land	N/A
Equipment	Operational Other	10 10
Vehicles	Liscensed Vehicles Heavy Trucks Fire Trucks	10 15 30
Machinery	Machinery	10
Furniture/Fixtures	Office Furniture Office Equipment Furniture	15 10 10

Table 2: Building – Useful Life

Sub-Category	Components	Est. Useful Life
Building	Structure	40
Mechanical/Electrical	Heating/Cooling System Refridgerating System	40
Elevator	Mechanical Elevator	35

Table 3: Infrastructure Component – Useful Life

Sub-Category	Components	Est. Useful Life
Bridges	Footings Super-Structures Deck Whole	75 50 25 75
Roads – Base	Urban Rural	80 80
Roads – Surface	Hot Mix – HCB Surface Treatment	35 20
Waterworks	Watermains Sewer Lines • Concrete • Brick • Metal	80 80 80 80

Sub-Category	Components	Est. Useful Life
	• Polyethylene (PVC) Storm Drains • Plastic • Metal - Corrugated • Concrete	100 75 40 75
Traffic Signals/Street Lights	Traffic Signals/Streetlights	30
Sidewalks	Concrete Walkway	30

Guidelines:

A regular periodic review of the estimate of the remaining useful life of a Tangible Capital Asset will be done to determine whether estimated life of the asset is appropriate. A revision to a Tangible Capital Assets' estimated useful life is considered a change in estimate and is to be made on a go forward basis (ie., no adjusting entries are made for prior periods) and this change in estimate will be documented in the financial statements.

There are also significant events that may indicate a need to revise the estimate of the remaining useful life of a tangible capital asset. Some examples of those events are below:

- A material change to how much the Asset is used.
- A change in what it is used for.
- Removal from service for an extended period of time.
- Damaged – physically
- Significant technical improvements
- Obsolescence
- Change in the demand of the asset
- Environmental or legal effects on the item
- Etc.