

DEFINITIONS

Amortization – is the accounting process of allocating the costs less the residual value of a tangible capital asset to operating periods as an expense over the 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 service, regardless of how the acquisition of TCA is funded. Depreciation accounting is another commonly used term used to describe the amortization of TCA.

Betterment – is a material cost incurred to enhance the service potential of an asset and will:

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

Capital Budget – is an estimate of expenditures for a capital project.

Capital Financing – is an allocation from the current budget to finance capital programs that consists of debt charge payments.

Capital Project – is an activity during which expenditures are incurred that result in the creation of a capital asset.

Capital Reserve – is an allocation of funds established as a result of legislation, board resolution or contractual obligations for the funding of potential future capital projects.

Component – is a part of an asset with a cost that is significant in relation to the total cost of that asset. Component accounting recognized that each part might have a different useful life and requires separate accounting for each component that has different useful life than the whole asset does.

Costs – is the amount of consideration given up to acquire, construct, develop or better a capital asset and includes all cost, including non-refundable taxes, directly attributable to its 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 asset is considered to be equal to its fair market at the date of contribution.

Depreciation Accounting – is the accounting procedure in which the costs 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 allocations not valuation.

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

Fair Value – is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties.

Functional Asset Category – is the service area in which the asset is used (i.e. transportation).

Gains – can arise from transactions and events including the disposition of assets purchased for use and not resale.

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.

Historical Cost – of an asset is the amount of consideration given up to acquire, construct, develop or better an asset and includes all costs directly attributable to acquisition, construction, development or betterment of the asset including installing the asset at the location and in the condition necessary for its intended use.

Impairment – occurs when conditions indicate that a tangible capital asset no longer contributes to the 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.

Infrastructure – is composed of linear assets and their associated specific components generally constructed or arranged in a continuous and connected network and may include computer components like cabling systems.

Land – is the surface that is used to support structures and purchased or acquired for value, for building sites, infrastructure and other program use but not land held for resale. Land normally has an unlimited life and is not amortized.

Leased Capital Assets – are non-financial assets leased by the division for use in the delivery of goods and services. Substantially all of the benefits and risks of ownership are transferred to the division without requiring the transfer of legal ownership (i.e. buses).

Losses – can arise from transactions and events affecting local government. Such transactions and events include the disposition of assets purchased for use and not for resale.

Market Value – is defined as the estimated amount for which a property would be exchanged on the sale of valuation between a willing buyer and willing seller in an arm's length transaction wherein the parties had each acted knowledgeably.

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 TCA 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.

Pooling of Assets – refers to assets of value below the materiality threshold when considered on an individual basis but collectively make up a significant group of assets that exceeds the threshold level (i.e. computers on network).

Primary Asset Category – what an asset is, i.e. land, building, equipment

1st level – general asset or infrastructure

2nd level – identifies more specifically if it's one of the following:

- land, land improvements;
- building, leasehold improvements
- machinery and equipment, vehicles;
- capital work-in-progress.

Repairs and Maintenance – are reoccurring expenditures, periodically or regularly required as part of the anticipated schedule of work required to ensure that the asset achieves its useful life. It is an expenditure that keeps an asset in a condition that helps maintain or ensure realization of the future economic benefits that are expected from the asset over its initially assessed useful life.

Residual Value – is the estimated net realizable value of a capital asset at the end of its estimated useful life. A related term, salvage value, refers to the realizable value at the end of an asset's life. If the division expects to use a capital asset for its full life, residual and salvage value are the same.

Straight-Line-Method – is amortization that allocates the costs less estimated residual value of a capital asset over each year of estimated useful life.

Tangible Capital Assets (TCA) – are non-financial assets having physical substance that are acquired, constructed or developed and are held for use in the production or supply of goods and services; have useful lives extending beyond the fiscal year; are intended to be used on a continuing basis; and are not intended for sale in the ordinary course of operations.

Threshold – is generally the minimum cost that an individual asset must have before it is to be treated as a tangible capital asset. The threshold amount is to be used as a guide in addition to the Deputy Director of Corporate Services' judgment.

Useful Life – is the estimate of the period over which it is expected to be used as a tangible capital asset. The life of the tangible asset may extend beyond its useful life. The life of a tangible capital asset, other than land, is limited as demonstrated in Schedule B.

Work in Progress – is the 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 capital asset as a result of a decrease in the quality or quantity of its service potential. A write-down should be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

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