



The mission of the Odanak Band Council consists in ensuring the representation of members of the Abenaki Community of Odanak and promoting the preservation of their identity, culture and quality of life. To do so, the Council seeks to provide quality services for youth, elders and for the entire community, according to the Band's resources.

Capitalization and amortization policy for capital expenditures

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1. Objective

The capitalization and amortization policy serves to identify and account for expenses related to capital assets, in keeping with the criteria established by the Abenakis of Odanak Council (AOC), which have a significant impact on its financial situation. Any ambiguity relating to the application of this policy is to be interpreted by the Finance Department in collaboration with the department concerned.

2. Definitions

Tangible capital assets

Non-financial assets with tangible existence:

- Intended to be used for the production and supply of goods, for the provision of services or for administration, to be leased to third parties, or to be used for the development or improvement, construction, maintenance or repair of other tangible assets;
- Whose economic life extends beyond one fiscal year;
- Which are intended to be used on a long-term basis;
- Which are not intended to be sold in the ordinary course of business.

Leased tangible capital assets

Non-financial assets with tangible existence, with a useful life extending beyond one fiscal year, which are held under a lease agreement for the purpose of producing or delivering goods or services on an ongoing basis. Under the terms of the lease, substantially all of the benefits and risks of ownership are transferred to the AOC, but not necessarily the right of ownership, see *Appendix B* for more details on this item.

Bundling for the purpose of tangible capital assets

Where several assets are required to make an asset/service/system operational, the choice of whether or not to capitalize shall be based on the amount resulting from the bundling of assets.

Cost

The amount of consideration given up to acquire, construct, develop or better a tangible capital asset. It includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including the costs of installing the asset at the location and in the condition necessary for its intended use. The cost of tangible capital assets received by way of contributions is their fair value at the date of contribution. The cost of a leased tangible capital asset is determined in accordance with *Appendix B*.

Betterment

Expenditures incurred to extend the useful life of an asset, increase its productive capacity, reduce operating costs.

Leasehold improvements

A leasehold improvement is characterized as follows:

- Changes are made to assets held under operating leases;
- Improvements must be sustainable over several years.

Residual value

This is the estimated net realizable value of an asset at the end of its useful life for the AOC. It is considered to be nil unless it is significant and can be readily determined.

Proceeds of disposition

Corresponds to the amount received, agreed upon by the parties, following the disposition of a tangible capital asset, less the selling expenses incurred.

Maintenance and repairs

Costs incurred to maintain the predetermined service potential of a tangible capital asset over a specified useful life. These costs are expensed in the year in which they are incurred.

Rental asset

Assets that are not destined to be sold under normal circumstances, but rather destined to be rented to third parties in order to generate profits. This includes properties intended for rental where renovation is in progress or has been completed. Also included is land intended to be developed for rental purposes.

Financial expenses directly attributable to the cost of a tangible capital asset

Financial expenses directly attributable to the acquisition, construction, development or betterment of the asset incurred between the beginning of the work and the commissioning of the asset.

Capitalizable asset

An asset or group of assets that is part of a whole that exceeds the capitalization threshold (see *Appendix A*). The asset class schedule establishes the useful life for the calculation of depreciation. These assets are recorded at gross cost and are presented in the ledger at amortized value.

Useful life

Estimated period during which a tangible asset is expected to be used at the AOC.

Capital assets, except land, have a finite useful life, which is normally the shorter of the physical, technological, commercial or legal life.

Management fees

Management fees directly attributable to the acquisition, construction, development or betterment of the asset incurred between the beginning of the work and the date the asset is put into service.

Amortization

Expense to reflect the fact that the useful life of a tangible capital asset is limited and to allocate, in a logical and systematic manner, the cost of that asset (minus its residual value) over the years in which the asset is used by the community. Land is not amortized. The method of amortization and the estimate of the useful life of tangible capital assets should be reviewed periodically.

Capital loss

Impairment of value made necessary by the fact that a tangible capital asset no longer contributes to the ability to provide goods and services or that the value of the future economic benefits associated with the asset is less than its net book value. The recognition of an impairment loss is permanent.

Works of art and historical treasures

Assets that have such cultural or historical value that they warrant preservation. These works of art and historical treasures are not recognized as tangible capital assets in the community's financial statements. Costs related to their conservation, cleaning and restoration are to be expensed in the year incurred.

3. General principles

3.1 Criteria for asset recognition

Tangible capital assets are recognized as follows:

- Complies with the definitions outlined in item 2;
- Cost of the asset or group of assets is equal to or greater than the capitalization threshold identified in the appendix and must be established on an appropriate measurement basis.
- Assets listed in the attached appendices are recognized to the extent that they meet the categories and corresponding definitions;
- Service potential or benefits are attributable to this asset;
- The AOC or an institution thereof has control over the benefits associated with that asset or the provision of access to those benefits where the asset is used by the community.

3.2 Cost

Purchase

Cost of an acquired asset includes the purchase price and other acquisition costs including the following:

- Installation costs;
- Design and engineering fees;
- Legal fees;

- Survey fees;
- Sanitation and land development fees;
- Shipping fees, shipping insurance fees, customs duties;
- Management fees.

Construction

In addition to the purchase cost, the cost of a constructed asset includes:

- Raw materials;
- Direct labour;
- Preliminary surveys;
- Design and professional fees (architect, engineers, etc.);
- Monitoring costs;
- Quality control fees;
- Direct financial fees;
- Management fees.

Donations

In the event of an asset received free of charge, the decision whether or not to capitalize the asset depends on various factors, including the accounting principles specific to this type of asset.

The cost of a donated capital asset includes:

- The fair market value of the asset received at the date of acquisition;
- Other costs inherent to the acquisition.

Leased tangible capital assets

For more details on the costing of this type of asset, refer to *Appendix B*.

3.3 Amortization

The decreasing balance method of amortization is generally used, provided another method is more representative. Amortization shall be charged in the next month in the year the asset is acquired or placed in service. Upon disposal or retirement of the asset, amortization shall be expensed as if the asset had been in use for the full month of disposition.

Upon disposition, loss or abandonment, the cost and accumulated amortization must be written off.

4. Terms of application and responsibilities

The Finance Department is responsible for the application of this policy and shall therefore be kept informed in the following situations:

- Acquisition, modification, exchange, sale, donation of a capital asset;
- Decommissioning (destruction, loss, abandonment) of an asset;
- Obsolescence of a capital asset;
- Property damage to capital assets;
- Receipt of a capital asset free of charge;
- Cost of improvements incurred;
- Review of useful life.

Additions, deletions and amendments to this capitalization policy shall be approved only by resolution of the AOC.

The finance department shall maintain a permanent record of its tangible capital assets that includes the following:

- Category;
- Amortization period and method;
- Date of acquisition or disposition;
- Any information allowing the identification or description and location of the asset;
- Details of acquisition (disposition) costs;

- Amount of capital losses;
- Total cost;
- Amount of monthly/annual and accumulated amortization.

5. Tangible capital assets categories

Tangible capital assets are subdivided, according to their nature, into 7 categories. The capitalization thresholds and amortization periods associated with these categories are presented in *Appendix A*.

Categories recognized by the AOC are as follows:

- Land;
- Land development;
- Buildings and major building improvements;
- Infrastructure;
- Material and equipment;
- Rolling stock;
- Leasehold improvements.

6. Asset management and internal control

Tangible capital assets must be properly recorded in the OAC's accounting records and, as such, the finance department must ensure that the assets are:

- Correctly listed at the time of acquisition;
- Saved and accounted for during the period they are held and used by the AOC;
- Correctly listed at the time of disposition.

7. Effective date and accessibility

This policy is effective April 1, 2020.

A copy of the policy is filed on all OAC public computer directories.

A copy of the policy is also posted on the OAC website.

APPENDIX A

LIST OF TANGIBLE CAPITAL ASSET CLASSES, CAPITALIZATION THRESHOLDS AND AMORTIZATION PERIODS

Category	Description	Capitalization thresholds (\$)	Declining amortization rate
Land			
	Acquisition of land or plots of land, whether vacant or on which a building exists.	Nil	S/O
Land development			
	Amounts incurred for the improvement and servicing of land, including the cost of general development of the land, road work, schoolyard development, parking or other.	10,000	10%
Buildings			
Buildings	Acquisition or construction of new buildings, including additions or extensions, excluding the cost of land.	5,000	4%
Building improvements	Work that increases the service potential, the life span of the building or decreases the cost of energy consumption.	5,000	4%
Infrastructure			
	Water, sewer or storm network, road network, bicycle network and pedestrian network.	10,000	4%

Material and equipment			
Office furniture and equipment	Movable property intended for the use and development of premises and which is not integrated into a building.	2,500	20%
Computer and multimedia equipment	Hardware and equipment necessary for data processing and telecommunications (servers and network infrastructure, projector, television, fax machine, computers and other peripherals, initial software versions, etc.)	2,500	20%
Specialized and other equipment	Any material or equipment acquired with a useful life of more than one year that is equal to or greater than the capitalization threshold for that category.	2,500	20%
Rolling stock			
	Automobiles, buses, light trucks, heavy trucks and related rolling stock (tractors, trailers, ATVs).	5,000	30%
Leasehold improvements			
	Improvements to real property under an operating lease.	5,000	Lease term (maximum 25 years)

APPENDIX B

LEASED TANGIBLE CAPITAL ASSETS

Determination of when virtually all benefits and risks are transferred

The benefits and risks of ownership may be considered to be transferred to the AOC when, on the effective lease date, one of the following conditions is met:

- There is reasonable assurance that the AOC will acquire ownership of the leased property at the end of the lease term. This condition is met when the lease provides that ownership of the leased property will pass to the AOC at the end of the lease term or when the lease contains a bargain purchase option;
- The term of the lease is such that the AOC will enjoy virtually all of the economic benefits expected to be derived from the use of the asset over its life (usually when the lease covers 75% or more of the asset's economic life);
- The lessor is assured, by virtue of the lease, of recovering the capital invested in the leased property and earning a return on that investment. This condition is met if, at the beginning of the lease term, the present value of the minimum lease payments, excluding incidental expenses, is virtually all (usually 90% or more) of the fair value of the leased property at the lease's effective date.

Even if none of the above three conditions are met, other factors must be considered in determining whether the benefits and risks of ownership have been transferred to the AOC. The nature of the leased property, the financing provided by the AOC, the control of the leased property and the risks assumed by the AOC are factors to be considered in this analysis.

Accounting

The leased tangible capital asset and the related liability are recognized at the lease's effective date if the amount of the capital asset meets the capitalization threshold for assets of the same nature that have been acquired or constructed.

The value of the leased tangible capital asset and the lease liability is the present value of the minimum lease payments, excluding incidental expenses.

Leased tangible capital assets are amortized over their estimated useful lives on the same basis as assets of the same nature that were acquired or constructed.

Lease payments are allocated between liability repayment, interest expense and incidental expenses.