

Funding the Capital Reserve

- The Township maintains a list of all fixed assets (trucks, roofs, computers, park equipment, etc.)
- Every year, each asset “depreciates” slightly.
- E.g. a truck with a useful life of 10 years was purchased in 2010 for \$30,000. Using the straight-line method, each year it depreciates \$3,000.
- So, \$3,000 (plus an adjustment for inflation) is transferred from the general fund to the sinking fund (capital reserve) to eventually replace that truck in 2020.
- In addition, when new assets (i.e. assets that are not replacing existing assets) are purchased, the full cost of the asset is transferred from the general fund to the sinking fund in the year of purchase.
- This ensures that the capital reserve fund always has a sufficient balance to replace old assets at the end of their useful lives.

