

**THE CORPORATION OF THE TOWNSHIP OF STRONG
BY – LAW 2008 – 1582**

**BEING a By-law to approve a Policy to Prescribe the
Accounting Treatment for Tangible Capital Assets**

WHEREAS the Public Sector Accounting Board (PSAB) has approved the reporting of all tangible capital assets for municipalities, beginning January 1st 2009;

AND WHEREAS Councils are required to pass a policy to deal with the treatment for tangible capital assets;

AND WHEREAS the Canadian Institute of Chartered Accountants, (CICA) has developed guidelines to assist municipalities in the creation of a policy.

NOW THEREFORE the Council of the Corporation of the Township of Strong enacts as follows:

1. **That** Schedule “A” attached hereto shall be approved as the policy prescribed for the accounting treatment for tangible capital assets of the Township of Strong
2. **That** this by-law shall come into force and take effect immediately following third reading.

READ A FIRST AND SECOND TIME THIS 9TH DAY OF DECEMBER 2008.

READ A THIRD TIME AND FINALLY ENACTED IN OPEN COUNCIL THIS 9TH DAY OF

DECEMBER 2008 ON A MOTION BY

AND SECONDED BY

Diana Georgie, Clerk

Stephen R. Rawn, Mayor

**THE CORPORATION OF THE TOWNSHIP OF STRONG
SCHEDULE ‘A’ TO BY-LAW 2008 – 1582**

**POLICY TO PRESCRIBE THE ACCOUNTING TREATMENT FOR
TANGIBLE CAPITAL ASSETS**

1. PURPOSE OF POLICY

The objective of this policy is to prescribe the accounting treatment for tangible capital assets so that users of the financial report can discern information about the investment in property, building and equipment and the changes in such investment. The principal issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts and amortization charges and the recognition of any related impairment losses.

2. SCOPE

This policy applies to all Township departments, boards and commissions, agencies and other organizations falling within the reporting entity of the Township of Strong

3. DEFINITIONS

Tangible Capital Assets

Non-financial Assets having physical substance that:

- a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- b) have useful economic lives extending beyond an accounting period;
- c) are to be used on a continuing basis; and
- d) are not for sale in the ordinary course of operations

Betterments

Subsequent expenditures on tangible capital assets that:

- a) increase previously assessed physical output or service capacity;
- b) lower associated operating costs;
- c) extend the useful life of an asset; or
- d) improve the quality of the output

Any other expenditure would be considered a repair or maintenance and expensed in the period.

Cost

Cost is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset. The cost of a leased tangible asset is determined in accordance with PUBLIC SECTOR GUIDELINE PSG-2 Leased Tangible Capital Assets.

Pooled Assets

Pooled Assets are assets that have a unit value below the capitalization threshold but have a material value as a group. Normally recorded in a single asset with on combined value. Although recorded in the financial system as a single asset, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance. Examples could include personal computers, furniture and fixtures, small moveable equipment, etc.

The Township will not pool any assets.

Fair Value

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Capital Lease

A Capital Lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the Township. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met:

- a) There is reasonable assurance that the Township will obtain ownership of the leased property by the end of the lease term
- b) The lease term is of such a duration that the Township will received substantially all of the economic benefits expected to be derived from the use of the leased property over its life span
- c) The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.

4. POLICY STATEMENTS

Capitalization

Tangible Capital Assets shall be capitalized (recorded in the Fixed Assets Sub ledger) according to the following thresholds:

- a) all Land;
- b) all others with unit cost of Three Thousand Dollars (\$3000) or greater

Capitalize betterments to existing assets when units costs exceed the threshold.

Primary Categories

A category of assets as a grouping of assets of a similar nature in the Township's operations. The following list of primary categories shall be used:

- a) Construction in progress
- b) Land
- c) Land Improvements
- d) Buildings
- e) Machinery & Equipment & Furniture
- f) Computer Systems
- g) Vehicles
- h) Roads
- i) Bridges

Functional Categories

A category of assets as a grouping of assets of a similar function in the Township's Operations. The Following is a List of Functional Categories that shall be used:

- a) General Government

- b) Protective Inspection & Control (JBC)
- c) Roads – Paved
- d) Roads – Unpaved
- e) Roads – Structures – Bridges
- f) Roads – Winter Control
- g) Roads General (incl. buildings)
- h) Waste Disposal (LF #1 & LF #2)
- i) Waste Diversion (Recycling)
- j) Cemeteries
- k) Parks
- l) Recreation Facilities (Arena)

Valuation

Tangible Capital Assets shall be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use.

Purchased Assets

Cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc. It is net of any trade discounts or rebates.

Cost of land includes purchase price plus legal fees, land registration fees, transfer taxes, etc. Costs would include any costs to make the land suitable for intended use, such as pollution mitigation, demolition and site improvements that become part of the land.

When two or more assets are acquired for a single purchase price, it is necessary to allocate the purchase price to the various assets acquired. Allocation shall be based on the fair value of each asset at the time of acquisition or some other reasonable basis of fair value is not readily determinable.

Acquired, Constructed or Developed Assets

Cost includes all costs directly attributable (eg construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized. Capitalization of general administrative overheads is not allowed.

Capitalization of carrying costs ceases when no construction or development is taking place or when the tangible capital asset is ready for use.

Capitalization of Interest Costs

Borrowing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use will not be capitalized as part of the cost of that asset.

Donated or Contributed Assets

The cost of donated or contributed assets that meet the criteria for recognition is equal to the fair value at the date of construction or contribution. Fair value may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost. Ancillary costs shall be capitalized.

Componentization

Tangible Capital Assets may be accounted for using either the single asset or component approach. Whether the component approach is to be used will be determined by the usefulness of the information versus the cost of collecting and maintaining information at the component level.

Factors to consider when determining whether to use a component approach include:

- a) major components have significantly different useful lives and consumption patterns than the related tangible capital asset
- b) value of components in relation to the related tangible capital asset

Roads shall use the component approach. Roadways will be divided by section and separated between the road base and the road surface.

Amortization

The cost, less any residual value, of a tangible capital asset with a limited life shall be amortized over its useful life in a rational and systematic manner appropriate to its nature and use. The amortization rate and estimated useful life of the remaining unamortized portion shall be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

The Township will use the straight – line method of calculating amortization for all assets with the exception of landfill –related assets as noted below. The following specific principles will be employed when applying the straight-line method:

- a) residual value is assumed to be zero in all cases
- b) all assets additions and disposals will be considered to have occurred on July 1st. Consequently, half year amortization will be recorded in the year of acquisition and disposal;
- c) amortization will be calculated annually, for the period January to December

Estimated useful lives and the implied amortization rates to be employed by the Township are outlined in the attached, Annex B

The Township will amortize land, land improvements, and estimated future closure and post-closure costs for active landfill sites on the basis of the depletion of site capacity.

Write-downs

When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its new book value, the cost of the tangible capital asset shall be reduced to reflect the decline in the asset's value.

The net write-down of tangible capital assets shall be accounted for as expenses in the statement of operations.

Any write-down will be considered to have occurred on July 1st.

A write-down shall not be reversed.

Disposal

The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset shall be accounted for as a revenue or expense in the statement of operations.

Disposal of tangible capital assets that are moveable personal property is the responsibility of the Clerk. Department heads shall notify the Clerk when assets become surplus to their needs, so that the asset can be assessed by the Clerk for the method of disposal. The Clerk shall notify the Deputy – Treasurer so that the asset register can be adjusted.

When other constructed tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the Department Head must notify the Clerk of the asset description and effective date. The Clerk will notify the deputy treasurer who is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

ANNEX 'A' TO BY-LAW 2008 – 1582

DEFINITIONS FOR PRIMARY CLASSES

The Following provides definitions for the primary classes of tangible capital assets that will be used by the Township, as well as examples of how specific assets will be classified.

Construction in progress

The Cost of tangible capital assets under construction, constructed or in an uncompleted process of acquisition by the Township, and that are not yet in service.

Land

Real property in the form of a plot, lot or area includes all expenditures made to acquire land and ready it for use where the improvements are considered permanent in nature and includes purchase price, closing costs, grading, filling, draining and clearing, removal of old buildings (net any salvage) assumption of liens or mortgages, and any additional land improvements that **have an indefinite life.**

Land Improvements

Land Improvements consist of betterments, site preparation and site improvements
(other than

buildings) that ready land for its intended use, **which generally decay or break down over time.** Land improvements that are removable and can degrade or deplete over the course of time through use or due to the elements shall be separately capitalized and their value amortized over the useful life of the improvement. Examples include but are not limited to: Land fill site development, construction of driveways, parking lots, retaining walls, bike paths in parks, drop – off locations, sidewalks, fencing, patios, water fountains, outdoor swimming pools, ball diamonds, soccer fields, irrigation systems, tennis courts and the like.

Buildings:

All structures that provide shelter from the elements which function independent of an asset network. Includes capital and betterments to capital buildings that are owned by the Township.

Examples include but are not limited to: sport and recreation facilities, office buildings, fire stations, pavilions, change rooms, park washroom and concession buildings, band shells, waste depots, recycling facilities, buildings in work yards.

Machinery & Equipment & furniture

An apparatus, tool device, implement or instrument that likely uses energy (for example: human, electrical, hydraulic fuel, or thermal) to facilitate a process, function or completion of a task, as well as furniture and fixtures. This includes unlicensed equipment such as grader, loader and backhoe. It may be installed within a building, but is generally capable of being moved and reinstalled at a different location (ie, it is not permanently affixed to or integrated into the building or structure in which it resides).

Computer systems

All computer-related hardware and software, including printers

Vehicles

A means of transportation, usually having wheels, for transporting persons or things or designed to be towed behind such apparatus. Includes automobiles, trucks, trailers, boats etc.

Roads

This category includes roads as well as related things such as storm drainage, collection systems and street lights.

Bridges

This category could include Bridges and large culverts (3.0m span) at the discretion of the Deputy Treasurer

ANNEX 'B' TO BY-LAW 2008 1582

ESTIMATED USEFUL LIFE AND AMORTIZATION

Construction in Progress

Not until put into use

Land

Infinite

Land Improvements	20 years
Buildings	50 years
Machinery, Equipment & Furniture	
Short-lived	10 years
Long-lived	20 years
Computer Systems	5 years
Vehicles	
Heavy Duty	12 years
Light duty	8 years
Roads	
Sub Base	60 years
Surface-loosetop	10 years
Surface – tar & chip	5 years
Surface – Pavement	20 years
Bridges	60 years