

THE CORPORATION OF THE TOWNSHIP OF SOUTH STORMONT

BY-LAW No. 2017-056

BEING a by-law to adopt a Tangible Capital Asset Policy for the Township of South Stormont.

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WHEREAS the *Municipal Act, 2001*, c. 25 s. 5 (1) provides that the powers of a municipal corporation are to be exercised by its council;

AND WHEREAS the *Municipal Act, 2001*, c. 25 s. 5 (3) provides that the powers of every council are to be exercised by by-law;

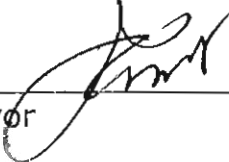
AND WHEREAS Council, on October 10, 2012, passed By-law No. 2012-076, being a by-law to adopt a Tangible Capital Asset Policy, establishing guidelines for the accounting and recording of tangible capital assets;

AND WHEREAS Council of the Township of South Stormont deems it advisable to adopt a revised and current Tangible Capital Asset Policy as a basis for decision making relating to the thresholds for capital assets in the Township.


NOW THEREFORE Council of the Corporation of the Township of South Stormont enacts as follows:

1. That the Tangible Capital Asset Policy, attached hereto as Schedule "A", be adopted effective June 14, 2017.
2. Any other by-laws inconsistent with this by-law are hereby repealed.

READ AND PASSED in open Council, signed and sealed this 14<sup>th</sup> day of June, 2017.

  
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Mayor

  
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Clerk

	<b>TOWNSHIP OF SOUTH STORMONT</b>	<b>Schedule "A"</b> <b>By-law No. 2017-056</b>
	<b>Section : Finance</b>	
	<b>Subject: Tangible Capital Assets Policy</b>	Date of Origin: October 10, 2012 Effective Date: June 14, 2017

## **1.0 PURPOSE**

- 1.1 This document provides policies and guidelines for the accounting and recording of tangible capital assets. Where a conflict occurs between this document and the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Board (PSAB) Handbook, the CICA PSAB Handbook is to be followed.

## **2.0 SCOPE:**

- 2.1 This policy applies to all Township Departments and other organizations that fall or may fall within the reporting entity of the Township of South Stormont (the Township). Tangible capital asset reporting is required for the annual audited financial statements commencing January 1, 2009 including the restatement of the 2008 comparative figures.
- 2.2 Despite this policy, each Department continues to be responsible for the proper use, care and maintenance of their tangible capital assets. Although not required for capitalization accounting, a Department Head may choose to maintain an inventory of non-capital assets for control, security, and replacement planning purposes.
- 2.3 Solely accounting for tangible capital assets based on historical costs and amortization will not provide for future replacement of assets. Asset management practices aimed at providing for the future cost of replacing capital assets may require alternative financing considerations.

## **3.0 Definitions**

- 3.1 Tangible Capital Assets are non-financial assets that have physical substance that:
- are held for use in the production of supply of goods and services;
  - have useful economic lives that extend beyond one year;
  - are used on a continuing basis; and
  - are not for sale in the ordinary course of operations.

For clarification, the following are some items not considered as tangible capital assets:

- intangible assets;
- official plans;
- by-laws;
- copy writes; and
- natural resources.

3.2 Cost is the gross amount of consideration given to acquire, construct, develop or better a tangible capital asset. Capital grants are not to be netted against the cost of any tangible capital asset. Actual costs should be made up of all costs that are directly related to bringing an asset into service including preparation, development, and acquisition. Capital costs are net of any discounts or rebates and include but are not limited to:

- amounts paid to third parties including contractors, suppliers and vendors;
- transportation/freight charges;
- transportation insurance costs, customs and duty charges;
- handling and storage charges;
- direct design/production charges;
- direct engineering, architectural or other outside services for design, plans, specifications and surveys;
- acquisition and preparation costs;
- fixed equipment and related installation costs;
- direct costs of inspections, of construction contracts and work;
- legal and recording fees;
- damage claims;
- appraisal and advertising costs; and
- site preparation costs.

3.3 Deflated Cost is a technique used to calculate the value of an asset using current replacement costs deflated/discounted back to the asset's year of acquisition to generate an estimate of its historical cost. Where the historical cost was not known, the Township used deflated costs for capital assets existing as of December 31, 2007. Land, equipment and vehicle costs have been based on StatsCan Consumer Price Index Deflator Table and all other assets have been based on StatsCan Non-Residential Building Construction Price Index Deflator Table. Actual asset acquisition costs will be used in future years.

3.4 Constructed or Developed Assets would normally include direct construction or development costs (such as materials and labour) and overhead costs directly attributed to the construction and development activity. Direct Township in-house labour and equipment will be included in the cost of the applicable capital asset, as well as the current equipment hourly rate.

- 3.5 Betterment is a capital improvement to an asset that either increases the asset's service capacity, efficiency, or extends the asset's useful life. Maintenance and repair expenditure are costs that are incurred to keep an asset at its expected operating condition and are not capitalized. The following general criteria indicate a betterment:
- the estimated useful life is increased by 25 %;
  - capacity is increased by 5 %; or
  - efficiency is increased by 10 %.
- 3.6 Capital Leases are considered tangible capital assets if they meet the definition of a tangible capital asset and at least one of the following points:
- substantially all of the benefits and risks incident to ownership of the leased asset are, in substance, transferred to the Township;
  - there is reasonable assurance that the Township will obtain ownership of the leased asset by the end of the lease term;
  - during the term of the lease, the Township will receive substantially all of the economic benefits expected to be derived from the use of the leased asset over its life span;
  - the Township is responsible for the performance, availability, and / or maintenance of the leased item; or
  - the Township is responsible for other potential risks of asset ownership including obsolescence, environmental liability and uninsured damage or condemnation of the leased asset.
- 3.7 Fair Market Value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties.
- 3.8 Pooled Assets are a homogenous group of assets having a similar expected useful life, and value. The value of an individual asset is below the capitalization threshold but upon acquiring several of these assets in a single purchase or when these costs are aggregated, the pooled asset makes up a significant group that exceeds the threshold.
- 3.9 Whole Asset and Asset Component The whole asset approach accounts for an asset with multiple parts as if it is one asset. The asset component approach breaks one asset down into multiple components so that they can be capitalized separately. Assets that were historically capitalized as a whole asset may be recorded with a component asset approach on a go-forward basis. Using the component approach will be determined by usefulness of the information versus the costs of collecting and maintaining information in the more detailed component level.

## 4.0 Policy Principles

### 4.1 Asset Class

All tangible capital assets will be identified within one of the following asset classes:

#### Asset Classes

##### General Capital

- Land
- Land Improvements
- Buildings
- Leasehold Improvements
- Vehicles
- Communications

##### Infrastructure

- Equipment
- Land
- Equipment
- Linear Assets

### 4.2 Capitalization Threshold

Capitalization thresholds are used to determine which assets will be capitalized; assets that do not meet the appropriate threshold will not be accounted for as tangible capital assets but expensed in the period. Threshold amounts are to be used as a guide in addition to professional judgement. The following threshold establishes the dollar amount that an asset, group of assets, or betterment should meet or exceed in order to be recorded as a tangible capital asset:

#### Capitalization Thresholds

Land – all

Land Improvements - \$ 10,000

Buildings - all

Vehicles - \$ 15,000

Communications - all

Equipment - \$ 10,000

Linear Assets – all

Pooled Assets - \$ 25,000

**Land** normally has an indefinite useful life that exceeds the useful life of the buildings, roads, or structures situated on the land. The cost of the acquired land is separated from the other costs and maintained in asset components. In accordance with Generally Accepted Accounting Principles, the cost of land is not amortized. Due to the age of the land within the road right-of-way, land under Township roads as at December 31, 2007 is considered to have a nominal value of \$1.00 per road section. All other land existing as at December 31, 2007 was valued at its actual historical costs and if the actual costs were unknown, based on its 2007 property assessment values (2005 valuation dates), deflated to the date of acquisition. Actual land acquisition costs will be used in future years.

**Land Improvement** includes upgrades to properties (play structures, fencing, landscaping), signage (hamlet, park and subdivision) gravel and asphalt parking lots. All land improvements as at December 31, 2007 were valued based on the estimated replacement cost deflated to the year of acquisition/in-service. The estimated useful life was valued from 5 to 40 years, based on the Department Head's professional judgement. Gravel parking lots existing as at December 31, 2007 were valued at \$ 10.35 / m<sup>2</sup> deflated to the year of acquisition with a useful life of 25 years. Asphalt parking lots existing as at December 31, 2007 were valued at \$ 21.85 / m<sup>2</sup> deflated to the year of acquisition with a useful life of 25 years. Actual costs will be used in future years.

**Buildings** include various office buildings, firehalls, garages, equipment depots, libraries, recreational facilities, storage facilities, water and waste water facilities, etc. All buildings existing as at December 31, 2007 were valued based on insurance valuations dated December 22, 2004 deflated to the year of acquisition. The useful life for permanent buildings will be 40 years while portable or temporary buildings will be determined on a case by case basis. Actual costs will be used in future years.

**Leasehold Improvements** are improvements to a leased asset that increase the value of the asset and will be amortized. All improvements to leases were valued based on actual costs, if available, or the estimated replacement cost deflated to the year of acquisition / in-service. The estimated useful life was the lesser of the remaining period of the lease (including options to renew) or the actual estimated useful life. Actual costs will be used in future years.

**Vehicles** include all self-propelled licensed vehicles, such as fire trucks, waste collection vehicles, small and large trucks. Vehicles were valued at the actual costs, if available, or the estimated replacement cost deflated to the year of acquisition / in-service. The estimated useful life varied from 6 to 24 years, based on the Department Head's professional judgement. Actual costs will be used in future years.

**Communications** include all radio equipment required for various departments including fire, and public works. The equipment was valued at actual cost, if available, or the estimated replacement cost deflated to the year of acquisition / in-service. The estimated useful life is 10 years. Actual costs will be used in future years.

**Equipment** includes office furniture and fixtures, computers, IT accessories, software, equipment for fire stations, water and waste water processing equipment, trailers, self-propelled machinery, plows, etc. Items of significant quantities are pooled assets. The estimated useful life varied from 5 to 30 years based on the Department Head's professional judgment. Actual costs will be used in future years.

**Linear Assets** are infrastructure assets generally constructed or arranged in a continuous and connected network including the road base, road surface, guiderails, bridges/large culverts, illumination, storm drain systems, sidewalks, water and sanitary sewer linear, fire hydrants, water meters, water valves, maintenance accesses. Bridges/large culverts existing as at December 31, 2007 were valued based on their reproduction cost as supplied by engineer and all other linear assets existing as at December 31, 2007 were valued based on replacement costs deflated to the year of acquisition. These replacement costs are detailed on the attached Township Valuation Figures schedule and actual costs will be used in future years.

**Contributed or Donated Assets** should be valued at actual cost and if unknown, fair market value at the donated date should be used. If determining the fair market value is not feasible, the asset should be recorded at the nominal amount of \$1.00.

**Heritage Assets** are works of art and historical treasures considered irreplaceable and preserved for future generations. Heritage assets will not be valued as tangible capital assets but will be disclosed in the notes to the financial statements.

**Work in Progress** refers to capital acquisitions or construction projects that are not yet completed / in-service and costs are incurred over multiple accounting periods. Capital assets that are deemed to be a work in progress must be recorded on the financial statements as such. All costs associated with a work in progress asset are to be capitalized but not amortized. When complete and in-service, the value will be reported as a tangible capital asset within the appropriate asset class and amortization expense will commence. If a work in progress project is terminated, the total cost is written-off in the year that the project is terminated unless there is an alternate use for the asset.

## **5.0 Accounting**

5.1 Amortization Method will be straight-line amortization over an asset's useful life and will be calculated on a yearly basis. In the year of acquisition, no amortization will be incurred, leaving a full year of amortization remaining in the final year.

5.2 Useful Life of an asset is an estimate of the number of years that the asset will continue to be in-service. The useful life of an asset is generally the shortest of the asset's physical, technological, commercial, or legal life. Each Township Department Head will use their professional judgement in determining the useful life of their applicable assets.



- 5.3 Acquisition and In-Service Dates The acquisition date is the date that the asset was acquired. The in-service date is the date when the asset became active in the organizations' operations. For Township purposes, the date of acquisition and the in-service date will normally be the same.
- 5.4 Residual Value is the expected value of an asset at the time of disposal or retirement. Township practice is to use assets for the complete duration of their useful life, therefore, the residual value will be \$ 0.00 unless extenuating circumstances dictate otherwise.
- 5.5 Disposal occurs when a tangible capital asset is no longer the property of the Township. When an asset is disposed of, the cost and accumulated amortization are removed from the accounts. The difference between the net proceeds and the carrying amount of the asset is accounted for as a revenue or expense in the statement of operations.
- 5.6 Write-Down is a reduction in an asset's value due to an event that caused a permanent decrease in an asset's capacity, efficiency, and / or useful life. The net write-down of a tangible capital asset will be accounted for as an expense and should not be reversed.

The following general criteria indicate a write-down:

- the estimated useful life is decreased by 25 %
- the capacity is decreased by 5 %
- the efficiency is decreased by 10 %.



## Township Valuation Figures

Asset Type	Valuation	Unit
Road Base: Urban, good base	\$ 15.07	m <sup>2</sup>
Road Base: Urban, poor base	9.49	m <sup>2</sup>
Road Base: Semi-urban, good base	13.92	m <sup>2</sup>
Road Base: Semi-urban, poor base	8.34	m <sup>2</sup>
Road Base: Rural, good base	13.92	m <sup>2</sup>
Road Base: Rural, poor base	8.34	m <sup>2</sup>
Ditch (added to the value of the road base)	11.21	lin. m
Road Surface: Urban, High Cost Bituminous	218.50	m <sup>3</sup>
Road Surface: Urban, Lot Cost Bituminous	4.89	m <sup>2</sup>
Road Surface: Semi-urban, High Cost Bituminous	207.00	m <sup>3</sup>
Road Surface: Semi-urban, Low Cost Bituminous	2.53	m <sup>2</sup>
Road Surface: Rural, High Cost Bituminous	207.00	m <sup>3</sup>
Road Surface: Rural, Low Cost Bituminous	2.53	m <sup>2</sup>
Illumination	710.34	per light per pole
Guide Rail: Cable Rail	46.00	m
Guide Rail: Steel Beam	149.50	m
Guide Rail: End Treatment	4,370.00	per treatment
Sidewalk: Concrete	69.00	m <sup>2</sup>
Sidewalk: Asphalt	60.00	m <sup>2</sup>
Parking Lot: Gravel	10.35	m <sup>2</sup>
Parking Lot: Asphalt	21.85	m <sup>2</sup>
Water Linear: 150 mm or less	128.69	m
Water Linear: 151 to 300 mm	196.76	m
Water Linear: Greater than 300 mm	306.29	m
Fire Hydrant	5,241.85	per hydrant
Water Valve	3,336.70	per valve
Valve Chamber	14,577.23	per chamber
Sanitary Linear: 300 mm or less	301.07	m
Sanitary Linear: 301 to 600 mm	439.71	m
Forcemain Linear: 151 - 300 mm	196.76	m
Maintenance Access	3,450.00	per access
Storm Drain Road Service line m	287.81	per road centre

For further information, contact:

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