

Township of Matachewan

Tangible Capital Asset Policy

Date approved: April 21, 2008 By-Law #2008-15

PURPOSE:

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, plant 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.

In addition this policy outlines procedures to:

- a) Protect and control the use of all tangible capital assets.
- b) Provide accountability over tangible capital assets.
- c) Gather and maintain information needed to prepare financial statements.

SCOPE:

This policy applies to all Municipal Departments, boards and commissions, agencies and other organizations falling within the reporting entity of the Township.

DEFINITIONS:

Amortization:

Amortization is the accounting process of allocating the cost less the residual value of a tangible capital asset to operation periods as an expense over its useful life in a rational and systematic manner appropriate to its nature and use.

Betterments:

Subsequent expenditures on tangible capital assets that:

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

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

Capitalization threshold:

Capitalization threshold (recognition threshold) is the value above which assets are capitalized and reported in the financial statements

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 receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.
- c) The lesser 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.

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.

Group Assets:

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

Residual:

Residual value is the estimated net realizable value of a tangible capital asset at the end of its useful life to a local government,

Tangible Capital Assets:

Assets having physical substance that:

- a) Are used on a continuing basis in the Township's operations.
- b) Have useful lives extending beyond one year.
- c) Are not held for re-sale in the ordinary course of operations.

Useful life:

Useful life is the estimate of either the period over which a local government expects to use a tangible capital assets, or the number of production or similar units that it can obtain from the tangible capital asset. The life of a tangible capital asset may extend beyond its useful life. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life.

POLICY STATEMENTS:

Capitalization

Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:

- a) all land;
- b) all buildings;
- c) civil infrastructure systems (built assets such as roads, bridges, sewers, water, transit, parks, etc.) with unit cost of \$10,000 or greater;
- d) all others with unit cost of \$2,500 or greater.

Different threshold may be used for group assets. Capitalize betterments to existing assets when unit costs exceed the threshold.

Categories

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

- land;
- buildings;
- equipment;
- roads;
- water;
- sewer;
- bridges & culverts;
- communication networks;
- motor vehicles;
- furniture and fixtures;
- computer systems (hardware and software)

Valuation

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the assets in its intended location and condition for use.

1.1 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 should be based on the fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determined.

1.2 Acquired, Constructed or Developed assets

Cost includes all costs directly attributed (e.g., 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 uses.

1.3 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 should be capitalized as part of the cost of that asset.

Capitalization of interest costs should commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization should be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

1.4 Donated or Contributed Assets

The cost of donated or contributed assets that meet the criteria of 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 should 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 capital asset.

Civil infrastructure systems should use the component approach. Major components should be grouped when the assets have similar characteristics and estimated useful lives

or consumption rates.

Amortization

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

Useful life is normally the shortest of the asset's physical, technological, commercial or legal life.

Generally, the Township uses a straight-line method for calculating the annual amortization. A comprehensive list of estimated useful lives of assets and amortization rates is attached. Township departments, boards, commissions, agencies and other organizations are responsible for establishing and utilizing an appropriate amortization methodology and rate for assets acquired. Township departments, boards, commissions, agencies and other organizations are responsible for establishing and utilizing an appropriate estimated useful life for assets acquired.

Disposal

Disposal of tangible capital assets that are moveable personal property is the responsibility of the CAO-Clerk-Treasurer unless delegated to operating departments head. Department heads should notify the CAO-Clerk-Treasurer when assets become surplus to operations.

Disposal of real property will be the responsibility of the CAO-Clerk-Treasurer.

When other constructed tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the department head or designate must notify the CAO-Clerk-Treasurer of the asset description and effective date. The CAO-Clerk-Treasurer is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

Capital Leases

Account for a capital lease as acquiring a capital asset and incurring a liability. Account for a lease as an operating lease when the net present value of the future minimum lease payments or fair value, which ever is less, is less than \$10,000.

THE CORPORATION OF THE TOWNSHIP OF MATACHEWAN

BY-LAW NO. 2008-15

BEING A BY-LAW TO ADOPT AN ASSET MANAGEMENT POLICY

WHEREAS IN ACCORDANCE WITH Section 130 of the Municipal Act, S.O. 2001, Chapter 25, as amended, council may pass such by-laws of the municipality in matters not specifically provided for by the Act as may be deemed expedient and not contrary to law;

AND WHEREAS the Council of the Corporation of the Township of Matachewan deems is expedient to adopt an Asset Management Policy for the Township of Matachewan;

NOW THEREFORE, the Council of the Corporation of the Township of Matachewan enacts as follows:

1. That council adopts an Asset Management Policy for the Township of Matachewan identified as Schedule "A", hereto attached and forming part of this by-law.

1. That this By-law shall come into force and take effect on the date of its final passing.

READ A FIRST AND SECOND TIME this 21st day of April, 2008.

READ A THIRD TIME AND FINALLY PASSED this 21st day of April, 2008.

Reeve

CAO-Clerk-Treasurer