

**MUNICIPAL CORPORATION OF THE TOWNSHIP OF RYERSON**

**BY-LAW # 4- 11**

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 1<sup>st</sup>, 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 Ryerson enacts as follows:

**THAT** the following shall be approved as the policy prescribed for the accounting treatment of tangible capital assets of the Township of Ryerson.

**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, plant and equipment and the changes to such investment. The principal issues in accounting for tangible capital assets as the recognition of the assets, the determination of their carrying amounts and amortization charges and the recognition of any related impairment losses.

**SCOPE:**

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

**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 the 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:**

From 2010 onwards this will be determined on an individual basis.

**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 of Ryerson. 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 of Ryerson 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 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.

**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 individual or pooled assets or others with a unit cost of \$ 3,000.00 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 of Ryerson's operations. The following provides definitions for the primary classes of capital assets that will be used by the municipality, 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 a uncompleted process of acquisition by the municipality, 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 of any salvage), assumption of liens or mortgages, and any additional land improvements that have an indefinite life.

### Land Improvements

Land improvements consists 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 should be separately capitalized and their value amortized over the useful life of the improvement.

Examples include but are not limited to: landfill 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 structure that provide shelter from the elements which function independent of an asset network (i.e. independent of a water/sewer network). Includes capital and betterments to capital buildings that are owned by the municipality.

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, wastewater treatment control buildings, water supply buildings, buildings in work yards.

### Furniture and Equipment

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. It may be installed within a building, but is generally capable of being moved and reinstalled at a different location (i.e., 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 at the discretion of the Treasurer.

### **Functional Categories:**

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

- ▶ Government
- ▶ Protection Services
  - ▶ Fire
- ▶ Construction in Progress
- ▶ Transportation Services
  - ▶ Roads - Paved
  - ▶ Roads - Unpaved
  - ▶ Roads - Bridges & Large Culverts
  - ▶ Roads - General
- ▶ Environmental Services

- ▶ Landfill
- ▶ Recycling
- ▶ Health Services
  - ▶ Cemeteries
- ▶ Recreation and Cultural Services
  - ▶ Parks
  - ▶ Recreation Facilities
  - ▶ Libraries

**Valuation:**

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset 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 determinable.

1.2 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.

1.3 Capitalization of Interest Costs

Borrowing costs will not be capitalized.

1.4 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 should be capitalized.

**Componentization:**

Tangible capital assets may be accounted for using either the single asset or component approach.

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.
- Municipal road systems should use the component approach. Major components should be grouped when the assets have similar characteristics. Roads will be split into the following components:
- ▶ land
  - ▶ sub-base
  - ▶ surface

### **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 rate and estimated 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.

The municipality will use the straight-line method for 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 asset additions and disposals will be considered to have occurred on July 1. Consequently, ½ year amortization will be recorded in the year of acquisition and disposal;
- c) amortization will be calculated annually, for the period January - December.

Estimated useful lives and the implied amortization rates to be employed by the municipality are outlined in the attached, Schedule A.

The municipality 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 net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value.

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

A write-down should not be reversed.

Any write downs will be considered to occur on July 1<sup>st</sup>.

### **Disposal:**

The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should 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 Treasurer, as per the disposal policy. Department heads shall notify the Treasurer when assets become surplus to their needs, so that the asset can be assessed by the Treasurer for the method of disposal.

Disposal of real property shall be the responsibility of the Treasurer or designate.

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 Treasurer of the asset description and effective date. The Treasurer will adjust the registers and accounting records recording a loss/gain on disposal.

Read a first, second and third time, signed and the seal of the Corporation affixed thereto and finally passed in open Council this 4<sup>th</sup> day of January, 2011.

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REEVE

Original By-law signed by Glenn Miller

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CLERK

Original By-law signed by Judy Kosowan

## SCHEDULE A

### Summary of Tangible Capital Assets

Primary Category	Useful Life/Amortization
land	
	permanent
land improvements	
buildings	40 years
equipment & furniture	
- short life	10 years
- long life	20 years
roads	
- asphalt HL4	20 years
- hardtop surface treatment	8 years
- loosetop surface	10 years
- sub-base	75 years
bridges & large culverts	60 years
vehicles, including trailers	
- light duty	8 years
- heavy duty	15 years
	computer software/hardware