

THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32

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 MUNICIPALITY OF POWASSAN ENACTS AS FOLLOWS:

THAT the following shall be approved as the policy prescribed for the accounting treatment for tangible capital assets of the Municipality of Powassan.

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 & equipment and the changes in 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.

In addition the policy covers policy & 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 Municipality.

**THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32**

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.

Group Assets:

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 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 could include personal computers, furniture and fixtures, small moveable equipment, etc.

**THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32**

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 Municipality. 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 municipality will obtain ownership of the leased property by the end of the lease term.
- b) The lease term is of such duration that the Municipality 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 buildings greater than \$5,000.00;
- c) civil infrastructure systems (built assets such as roads, bridges, sewers, water, parks, etc.) with unit cost of \$5,000 or greater;
- d) all leasehold improvements greater than \$5,000.00
- e) all others with unit cost of \$5,000 or greater.

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

**THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32**

Categories

A category of assets as a grouping of assets of a similar nature or function in the Municipality of Powassan. The following list of categories shall be used:

- \$ land;
- \$ buildings;
- \$ equipment;
- \$ roads;
- \$ water;
- \$ sewer;
- \$ bridges;
- \$ motor vehicles;
- \$ furniture and fixtures;
- \$ IT-computer systems (hardware and software), communications systems.

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 (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 use.

**THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32**

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 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. 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.

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.

**THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32**

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.

In the year of purchase or disposal the Asset Amortization shall be prorated by month.

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

Generally the Municipality uses a straight-line method for calculating the annual amortization. A comprehensive list of estimated useful lives of assets and amortization rates is attached, as **SCHEDULE A.**

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.

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 CAO/CLERK, as per the Disposal Policy. Department heads shall notify the CAO/CLERK when assets become surplus to their needs, so that the asset can be assessed by the CAO/CLERK for the method of disposal. The CAO/CLERK shall notify the TREASURER & Administration so that the asset register can be adjusted.

Disposal of real property will be the responsibility of the CAO/CLERK or his designate.

When other constructed tangible capital assets are taken out of service, destroyed or

**THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32**

replaced due to obsolescence, scrapping or dismantling, the department head or designate must notify the CAO/CLERK of the asst description and effective date. The CAO/CLERK will notify the TREASURER and Administration, who 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 on 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.

READ a FIRST time, this _____ day of _____, 2009

MAYOR

CAO/CLERK

READ a SECOND and THIRD time, **PASSED, SIGNED and SEALED**

this _____ day of _____, 2009

MAYOR

CAO/CLERK

**THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32**

SCHEDULE "A"

Summary of Tangible Capital Assets - Estimated Useful Life

		<u>Useful Life (Yrs.)</u>
<u>Sewer</u>		
Land		Permanent
Structures	Lagoons	100
	Outfall	50
Infrastructure	Sewer Mains	50
	Pump Station	30
	Pumping Equipment	15
	Sewer Lateral	50
	Manholes	50
<u>Landfill</u>		
Land		Permanent
Land Capacity		Actual
Structures	Sheds	50
<u>Water</u>		
Land		Permanent
Structure	Pumphouse	50
	Wells	30
	Reservoir	30
	Buildings	40
Equipment	Electrical	20
	Mechanical	20
	Instrumentation	15
Infrastructure	Fire Hydrants	50
	Valves	50
	Meters	20
	Water Service	50
	Watermains	50

**THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32**

<u>Roads</u>		<u>Useful Life (Yrs.)</u>
Land		Permanent
Paved Surface		25
Double Prime & Surfaced		15
Gravel Roads		20
Bridges	Structure	50
	Deck	20
Culverts	Major	20, 40
	Minor	10, 20, 30
Signage		10
Guide Rails, Posts		10
Garages/Buildings		50
<u>Fleet</u>		
Landfill	Heavy Equipment	15
Public Works	Licensed Light	10
	Licensed Medium	10
	Trailers	15
	Heavy Equipment	15
	Light Equipment	5
<u>IT</u>		
Computers		3
Servers		5
Printers		5
Specialty Software		10
Equipment		5
Phones/Communication		5
<u>Admin</u>		
Land		Permanent
Site Improvements		10
Building		50
Equipment	Mechanical	20
	Electrical	20
	Furniture	10
	Elevator	20
	Generator	20

**THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32**

		<u>Useful Life (Yrs.)</u>
<u>Fire</u>		
Land		Permanent
Building		50
Vehicles	Pumpers/Tankers	20
	Light trucks	10
	Rescue Vans	20
	Trailer	10
Equipment	Generators	10
	Portable Pumps	10
	Bunker Gear	10
	Cascade System	10
	SCBA's	15
	Extracation	15
	Hoses/nozzles	15
	Defibulators/Medical	10
 <u>Recreation</u>		
Beach	Land	Permanent
	Beach Buildings	25
	Boatlaunch	20
Sportsplex	Land	Permanent
	Building	50
	Ice Plant	25
	Zamboni	20
	Equipment	15
	Hall	50
Trout Creek Community Centre	Land	Permanent
	Building	50
	Ice Plant	25
	Olympia	20
	Equipment	15
	Hall	50
Ball Fields	Land	Permanent
	Equipment/Building	10

**THE CORPORATION OF THE MUNICIPALITY OF POWASSAN
BY-LAW NO: 2009-32**

		<u>Useful Life (Yrs.)</u>
Pool	Land	Permanent
	Pool	25
	Pumps	15
	Heater	15
	Equipment	10
	Buildings	50
South Himsworth Recreation Hall	Land	permanent
	Building	50
	Equipment	15
Trout Creek Senior Friendship Hall	Land	permanent
	Building	50
	Equipment	15
Golden Sunshine Hall	Land	permanent
	Building-Hall	50
	PW Garage	50
	Equipment	15
Clark House Museum	Land	permanent
	Building	50
	Equipment	10
Curling Club	Building	50
	Ice Plant	25
	Equipment	15
Recreation Programs Equipment		5
Playground Equipment		15