

CORPORATION OF THE TOWN OF GANANOQUE

BY-LAW NO. 2012-044

BEING A BY-LAW TO AUTHORIZE THE TOWN OF GANANOQUE TO
ESTABLISH A TANGIBLE CAPITAL ASSET POLICY.

WHEREAS by Section 5 of the Municipal Act, 2001, S.O. 2001, c. 25, the powers of a municipal corporation are to be exercised by its Council;

AND WHEREAS the Municipal Act, 2001, S.O. 2001, c. 25, provides that the powers of every Council are to be exercised by Bylaw;

AND WHEREAS the Public Sector Accounting Board (PSAB) 3150 requires that municipalities have a Tangible Capital Asset Policy.

NOW THEREFORE be it resolved that the Council of the Corporation of the Town of Gananoque enacts as follows;

1. That the Council hereby adopt the attached Tangible Capital Asset Policy as set out in Schedule 'A' attached hereto and forming part of this by-law.
2. That any by-law or motion inconsistent with this by-law is hereby repealed.
3. That this bylaw shall come into force and effect on the date of passing.

READ A FIRST, SECOND, and THIRD TIME, passed, signed, and sealed with the corporate seal this 03rd day of April, 2012.



Mayor, Erika Demchuk



Clerk, Bonnie Dingwall

Schedule 'A' – By-law 2012-044

Accounting for Tangible Capital Assets Policy

PURPOSE:

The purpose 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 principle issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts and amortization of charges and the recognitions of any related impairment losses.

In addition the policy covers and is intended to coordinate any policies and procedures designed:

- (a) To protect and control the use of all tangible capital assets
- (b) To provide internal controls and accountability over tangible capital assets.
- (c) To gather and maintain information needed to prepare financial statements
- (d) To prescribe procurement and leasing activities
- (e) To the design and development of the municipalities organizational structure, job duties and processes for achieving the above goals and objectives.

SCOPE:

This policy is administered under the authority of The Director of Financial Services/Treasurer and/or delegate and applies to all of the Town's departments, boards and commissions, agencies and other organizations falling within the reporting entity for the Town.

DEFINITIONS:

1. Tangible Capital Assets

Tangible Capital Assets are all of the Corporation's assets having physical substance that;

- (a) Are used on a continuing basis in the Town's operations.
- (b) Have useful lives extending beyond one year.
- (c) Are not held for re-sale in the ordinary course of operations.
- (d) Is not a work of art or historical treasure.

2. Betterments

Betterments are 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 asset; or
- Improve the quality of the output.

Schedule 'A' – By-law 2012-044

Accounting for Tangible Capital Assets Policy

Any other expense would be considered a repair or maintenance cost and be expensed as an operating cost item in the current budget/accounting period.

3. Capitalization Threshold

The capitalization threshold defines the minimum dollar level that the Town will use to determine which expenditures will be capitalized as assets and systematically amortized over future years. It defines also which expenditures will not be capitalized and instead treated as the current year operational expenses.

The threshold therefore has a significant impact on the size of the TCA inventory and the complexity of managing subsequent acquisitions and disposals.

4. Group Assets (Pooled Assets)

These are assets that individually have a value that is below the Capitalization Threshold but have a material value when grouped with other similar assets. Once grouped or pooled they are normally recorded and reported as a single combined value.

The pooled assets for such categories as computers, communication equipment, software, office equipment and furniture, tools and small moveable equipment are considered immaterial overall. Pooled assets will not be included in the Town's tangible capital assets. They will be expensed in the year in which they occur. Any individual item exceeding the threshold will be recorded as an asset in the appropriate category. An exception to this rule is the library collection purchased each year by the Library Board. Their policy is to pool these purchases for the year. We consolidate their financial statements with the Town's financial statements and we do not adjust out their tangible capital assets for their library of books and materials.

5. Fair Market Value

The Fair Market Value of an asset is its amount of consideration to be paid to acquire or construct it. It is the amount agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act.

6. 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 Town. For substantially all of the benefits and risks of ownership to be transferred to the lessee, (Town), one or more of the following conditions must be met:

- (a) There is reasonable assurance that the Town will obtain ownership of the leased property by the end of the leased term.
- (b) The lease term is of such duration that the Town will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.

Schedule 'A' – By-law 2012-044

Accounting for Tangible Capital Assets Policy

- (c) The lessor (Supplier/Lender), would be assured of recovering the investment in the leased property and of earning a return on investment, as a result of the lease agreement.

ACCOUNTING POLICIES AND PROCEDURES WITH RESPECT TO TANGIBLE CAPITAL ASSETS

1. Effective January 1, 2009 all tangible capital assets shall be budgeted, financed and reported as such on the books of the Corporation. The 2009 financial statements will restate 2008 figures for tangible capital assets for comparison purposes only.
2. A tangible capital asset is as defined in PSAB, having a minimum value of \$5000.00 including non-recoverable taxes and directly attributable acquisition expenses. Effective January 1, 2011 this threshold will increase to \$10,000.00 and the accounting change will be treated prospectively.
3. Categories for Classification of Assets:

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

Transportation Network

- Roads
- Sidewalks
- Street Lights

Structures – Bridges

Sewer Network

- Storm manholes
- Storm sewer lines
- Waste water manholes
- Waste water sewer lines

Water Network – Water Lines

Facility

- Land
- Buildings
- Other Structures

Fleet

- Equipment and Machinery
- Vehicles

See Appendix 1 for further detail for sub classes.

Schedule 'A' – By-law 2012-044

Accounting for Tangible Capital Assets Policy

4. Pooled Assets

Pooled assets will not be included in the Town's tangible capital assets. They will be expensed in the year in which they occur. Any individual item exceeding the threshold will be recorded in the appropriate category.

5. Intangibles, Studies, Research and Investigations

The cost of intangible assets, studies and other initiatives that do not relate directly to the acquisition of a tangible capital asset shall not be capitalized but expensed in the year(s) in which they occur.

6. Capitalization and Capitalization Threshold

The threshold is the value whereby amounts above the value are capitalized and amortized systematically and amounts below are treated as current year operating expenses.

The following thresholds shall be used for the Town of Gananoque.

<u>Category</u>	<u>Threshold</u>	<u>Threshold Effective January 1, 2011</u>
Land	Capitalize all	Capitalize all
Buildings	Capitalize all	Capitalize all
New Vehicles and Equipment	\$5,000	\$10,000
Betterments to existing Land	\$5,000	\$10,000
Betterments to existing Buildings	\$5,000	\$10,000
Betterments to Vehicles and Equipment	\$5,000	\$10,000
Capital leases (present value of future payments)	\$5,000	\$10,000
Betterments to Roads, Bridges	\$50,000	\$50,000
Betterments to Water and Sewer Lines	\$50,000	\$50,000
All other assets	\$5,000	\$10,000

See Appendix 1 for further details on thresholds of sub classes.

7. Valuation of Assets

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

Schedule 'A' – By-law 2012-044

Accounting for Tangible Capital Assets Policy

7.1 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 chargers, installation and set up charges, 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. Cost would include any cost 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.

7.2 Acquired, Constructed or Developed Assets

Cost includes all expenditures directly attributable (i.e., construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, project administrative and other similar costs will be capitalized. Cost will not include capitalization of general administrative overheads. Capitalization of carrying costs ceases when the tangible capital asset is ready for use.

7.3 Capitalization of Interest Costs

Temporary 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 cease when all of the activities necessary to prepare the asset for its intended use are substantially complete.

7.4 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 contribution. Fair value will be determined using market value or appraised value. In the absence of either of those replacement cost will be used.

8. Componentization

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

Schedule 'A' – By-law 2012-044

Accounting for Tangible Capital Assets Policy

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

- Major components have significantly different useful lives and consumption patterns than the related tangible capital asset.
- The value of the components in relation to the whole tangible capital asset.
- Beyond opening values as at January 1, 2009, civil infrastructure systems will use the component approach. Major components will be grouped when the assets have similar characteristics and estimated useful lives.

9. Amortization

9.1 The cost of a tangible capital asset with a limited life will be amortized over its useful life in a rational and systematic manner appropriate to its nature and use. Useful life is defined as the lesser of the asset's physical, technological, or legal life. The maximum useful life of any tangible capital asset (excluding land) shall be deemed to be sixty years.

9.2 The Town will use a straight line method for calculating the annual amortization.

9.3 Tangible capital assets shall be deemed to have no residual value for the purpose of calculating amortization. Any eventual recovery on sale or disposal will be recorded as a "gain on sale of asset".

9.4 The Public Works Department and Finance Department are together responsible for establishing and utilizing the appropriate estimated useful life for assets.

9.5 Budgeting for Amortization Expenses.

The annual amortization expense shall be estimated in accordance with the procedures contained within this policy and shall be included in the budgets of each respective operating unit.

The annual amortization expense, as a minimum, shall be funded by transfer to a reserve or reserve fund for the replacement or betterment of the tangible capital assets of the operating unit.

10. Financial Planning

It is recognized that amortization based on historical cost will usually be insufficient to finance replacement or betterment of tangible capital assets, and that additional financing will likely be required for maintaining and sustaining the municipality's tangible capital assets. Accordingly the Director of Financial Services/Treasurer and/or designate, in conjunction with the Director of Public

Schedule 'A' – By-law 2012-044

Accounting for Tangible Capital Assets Policy

Works shall develop or cause to be developed life cycle costing models to aid in determining the additional amounts required for the eventual replacement.

The Director of Financial Services/Treasurer and/or designate shall develop a plan and appropriate annual budgets for systematic additional contributions that will enable the replacement when required. In the event that additional future debt may be utilized as a means of funding the replacements, the Director of Financial Services/Treasurer shall prepare annual updated forecasts of future required debt and their impacts on future operating budgets. These financial forecasting models shall be presented to Council for their review, acknowledgement and modification as part of the annual budget documents.

11. Managing the Disposal of Assets

In conjunction with the Town's Procurement Policy and other related policies and under the auspices of the Finance Department disposal of tangible capital assets that are moveable personal property is the responsibility the Director of Public Works , unless delegated to operating department heads. Department heads should notify the Finance Department and Director of Public Works when assets become surplus to operations.

Disposal of real property will be the responsibility of the Chief Administrative Officer in conjunction with the Finance Department.

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 Director of Public Works and the Finance Department of the asset description, the date of disposal, and the amount of proceeds, if any. The Director of Public Works and the Finance Department are responsible to reconcile the asset register and the general ledger and the recording of a loss/gain on disposal.

12. Capital Leases

Accounting for capital leases shall be done as acquiring a capital asset and incurring a liability. Capital leases where the present value of future payments is less than \$10,000 will be accounted for as an operating lease. This section does not void the requirements of the Town's lease policy whereby the Director of Finance/Treasurer is required to evaluate and report on all capital leases.

13. Declaration of Completeness

The Director of Financial Services/Treasurer and the Director of Public Works shall sign a declaration that the year-end asset inventory is complete and accurate to the best of their knowledge after making inquiries to all departments, but especially Planning, Tax Administration, and the Clerk.

14. Final Decision and Compliance with Legislation

Schedule 'A' – By-law 2012-044

Accounting for Tangible Capital Assets Policy

In the event of disagreement in the interpretation or implementation of these policies and procedures, the Director of Financial Services/Treasurer shall make the final decision, guided by the Municipal Act, PS3150, and the OMBI Municipal Guide for Accounting for Tangible Capital Assets.