THE CORPORATION OF THE TOWNSHIP OF BONFIELD

BY-LAW NO. – 2008-20

Being a by-law to establish Corporate Policies and
Procedures for Tangible Capital Assets

WHEREAS the Council of the Township of Bonfield deems it necessary to establish various policies for Tangible Capital Assets;

NOW THEREFORE the Council of the Corporation of the Township of Bonfield hereby enacts as follows:

1. THAT the following Policies attached to and made part of this By-Law shall form the basis of the Tangible Capital Assets Policies and Procedures for all departments:
   1.1 Schedule “A” – General Definitions;
   1.2 Schedule “B” – Asset Categories;
   1.3 Schedule “C” – Thresholds;
   1.4 Schedule “D” – Asset Valuation;
   1.5 Schedule “E” – Valuation Techniques;
   1.6 Schedule “F” – Asset Amortization;

2. THAT this by-law shall come into force and take effect upon the passing thereof.

READ A FIRST AND SECOND TIME THIS 8th DAY OF JULY, 2008.

READ A THIRD TIME AND FINALLY PASSED THIS 22nd DAY OF JULY, 2008.

Original Signatures on file at Municipal Office

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MAYOR

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CLERK

**SCHEDULE "A"**

**GENERAL DEFINITIONS**

## PURPOSE:

The objective of this policy is to provide definitions to some of the terminology within and surrounding tangible capital asset accounting.

## GENERAL DEFINITIONS:

### Tangible Capital Assets

Assets, which have physical substances 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

Software is considered to be a tangible capital asset for purposes of this definition.

Please consult the policy on thresholds for further direction regarding the capitalization of assets.

### Betterments:

Subsequent expenditures on tangible capital assets that fulfill one or more of the following requirements:

a. Significantly *Increase* previously assessed physical output or service capacity;
b. Significantly *Lower* associated operating costs;
c. Significantly *Exend the useful life* of the asset; or
d. Significantly *Improve the quality* of the output.

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

For purposes of this definition, "Significantly" is deemed to be an increase of 15% or more to the original *output, cost, useful like, or quality*.

### Group/Pooled Assets:

Similar assets that have a unit value below the capitalization threshold (on their own) but have a material value as a group. Such assets shall be 'pooled' as a single asset with one combined value. Although recorded in the asset module as a single asset, each unit of the pool may be recorded in an asset sub-ledger for monitoring and control of their use and maintenance. Examples could include the following:

- Desktop/laptop computers
- Street lights
- Furniture and fixtures
- Communication equipment

As similar items are purchased, they will be added to the pool. An inventory will be taken at regular intervals. If necessary (if the actual count is less than the system tally), an entry will be recorded to adjust the pool balance to the actual inventory count (this will account for pooled units disposed of during the year).

**Fair Value:**

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 in a biased manner. Fair value would be used to assign an amount to a donated asset received by the Township of Bonfield.

**'In Service' Date:**

Realized as the date at which an asset begins to be utilized by the Township. The calculation and recording of amortization will not begin until the 'in service' date has been reached.

**Capital Lease:**

Lease with contractual terms that transfer substantially all of 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. Reasonable assurance that the Township will obtain ownership of the leased property by the end of the lease term.
b. Lease term is of such a duration that the Township will receive substantially all of the economic benefits 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.

**Leasehold Improvements:**

Improvements and/or betterments to leased assets, which do not qualify under the definition of a capital lease. These improvements will be capitalized and amortized based on the criteria contained in the <u>Valuation and Amortization</u> policy.

**Whole Asset / Component Approach:**

When recording relatively large assets such as a building or a road network, a decision must be made regarding the level of detail desired for that particular asset. Two principle options are available – the whole asset approach and the component approach.

The whole asset approach is the process of combining what could be considered to be several assets, into one single capital asset. The underlying concept behind this determination is whether or not it would be cost beneficial to segregate the asset in question. Where it would be relatively difficult to track the individual components of a particular asset, and there are no clear benefits to doing so, the whole asset approach would be the method of choice.

The component approach is the process of subdividing an asset into individual segments or 'components'. Similar to the above, the qualifying question is "Would it be cost beneficial to divide this asset into components?" Where the cost required to track the individual components is relatively insignificant, and the benefits obtained through more accurate reporting are considered significant, then the component approach would be the method of choice.

The Township of Bonfield will utilize a modified component approach, electing to record individual asset components where clearly beneficial, and to record the 'whole asset' when the benefit is not evident.

## SCHEDULE "B"

## ASSET CATEGORIES

**PURPOSE:**

The objective of this policy is to list the major asset categories that will be used for financial statement presentation at the Township of Bonfield.

**OVERVIEW:**

For financial statement purposes, tangible capital assets shall be classified using two distinct categories. The first is a "primary" category, which describes what an asset objectively is. The second category is the "functional" service area in which the asset is used. These categories will be presented separately in the notes to the financial statements.

**PRIMARY CATEGORY:**

The primary asset category will be shown in the notes to the financial statements as "*Segmented by Asset Class*". The list of primary asset categories to be utilized is as follows:

- Land
- Land improvements
- Leasehold improvements
- Buildings
- Machinery & Equipment
- Vehicles
- Linear Assets
- Capital Work in Progress

**FUNCTIONAL CATEGORY:**

The functional asset category will be shown in the notes to the financial statements, as "Segmented by Division". The list of functional asset categories follows the Ministry of Municipal Affairs and Housing Financial Information Return including, but not limited to:

- General Government (Admin)
- Protection Services (Fire, Emergency measures, Building)
- Transportation Services (Roads, Bridges, Culverts)
- Environmental Services (Landfill, Recycling)
- Health Services (Medical Centre, Cemetery)
- Recreation and Cultural Services (Parks, Library)
- Planning & Development (Planning, Zoning, Economic Dev)

# SCHEDULE "C"

# THRESHOLDS

**PURPOSE:**

The objective of this policy is to prescribe the financial criteria necessary to capitalize tangible assets on the financial statements of the Township of Bonfield.

**THRESHOLDS:**

Tangible assets shall be capitalized and recorded in the capital asset module according to the following thresholds:

a. All *land*

b. *Land improvements* (parking lots, retaining walls, sidewalks, sprinkler systems, fencing, lighting, etc) with a unit cost of $10,000 or greater;

c. *Buildings* with a unit cost of $25,000 or greater;

d. *Leasehold improvements* with a cost of $25,000 or greater;

e. *Linear assets* (built assets such as roads, bridges, communication networks, etc) with a unit cost of $25,000 or greater;

f. *Pooled assets* with a combined total of $50,000 or greater;

g. *Machinery/Equipment/Furniture* with a unit cost of $5,000 or greater;

h. *Vehicles* with a unit cost of $5,000 or greater;

i. *Road allowances* shall be capitalized at a nominal value of $1.00 per block or segment;

j. Any other asset that is deemed necessary to capitalize by the Treasurer of the Township of Bonfield.

Studies and other initiatives that relate *directly* to the acquisition of a tangible capital asset shall be capitalized. If the study/initiative does not relate *directly* to the acquisition of a tangible capital asset, then the expense shall be recorded in the year(s) in which they occur.

Tangible capital assets that are to be developed or constructed shall be recorded as "Capital Works in Progress". Amortization shall begin on the earlier of the day that the asset goes into service or that ownership / responsibility / control is transferred to the Township. Subsequently, the asset will be transferred from "Capital Work in Progress" to the applicable asset category. Any interest (paid or accrued) that is directly attributable to the construction/development project shall be capitalized up to the "in service date".

Expenditures that qualify as betterments to existing assets, should be capitalized when unit costs exceed the threshold. Consult the <u>General Definitions</u> policy to determine what will qualify as a betterment.

In the event of disagreement on the interpretation or implementation of these policies and procedures, the Treasurer shall make the final decision, guided by the Municipal Act, Public Sector Accounting Handbook Section 3150, the Ontario Municipal Benchmarking Initiative's "Municipal Guide for Accounting for Tangible Capital Assets", and the Municipally Appointed Auditors.

# SCHEDULE "D"

# ASSET VALUATION

## PURPOSE:

The objective of this policy is to disclose the criteria involved in assigning a value to newly purchased or construction assets of the Township of Bonfield.

## ASSET VALUATION:

### 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.

### Acquired, Construction or Developed Assets

Cost includes all amounts 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 (such as the salary of a director), which are not directly attributable, is not permitted.

### 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.

### 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 costs. Costs that are directly attributable to the asset acquisition should be capitalized.

# SCHEDULE “E”

# VALUATION TECHNIQUES

## PURPOSE:

The objective of this policy is to describe the valuation techniques that are to be used to record the historical (pre January 1, 2008) tangible capital asset inventory of the Township of Bonfield.

## ASSIGNING ASSET VALUES:

### Historical Cost

This should be the goal for all assets acquired within the terms specified in the records retention by-law (for accounts payable – it is seven years). For items purchased/constructed within this period, there should be an electronic or paper version of the invoice and/or job cost report. Any applicable overhead costs that were directly attributed to this acquisition, would also be added to the invoice/job cost amount to arrive at the true historical cost of the asset.

This method should only be used when the source invoice and/or job costing is readily obtainable. In cases where the cost/effort of obtaining the necessary documents would outweigh the benefits of doing so, an alternative method should be considered.

### Deflated Reproduction Cost

This technique is the second method of choice for valuation. It is to be used when the asset in question can be purchased (e.g. backhoe) or reproduced (e.g. road) today in the same physical form. Today’s price or cost is then deflated (discounted) back to the year of the asset’s acquisition to generate an estimate of the historical cost. The deflation calculation will be performed using the Consumer Price Index or other indices specific to the asset.

In some cases, it may be possible to reproduce an asset in the same physical form, but recent technological advances have made the asset (in its current physical form) obsolete. In this case, the deflated replacement cost should be considered.

### Deflated Replacement Cost

This technique is the third method of choice for valuation. It is to be used when the asset in question is no longer available for purchase or reproduction in the same physical form. In this case, the cost of replacing or reproducing the asset in a different physical form (to perform the same task) today is used as the cost base for which to deflate back to the date of acquisition.

As an example, this method would be used to value a piece of machinery that is technologically obsolete (and is no longer available for purchase) but is still functioning well for the Township of Bonfield. To assign a *historical* cost, the *current* cost for a new piece of machinery that performs the same task (with the new technology) would be used as the cost base for which to deflate back to the year of purchase and subsequently amortize.

The deflation calculation will be performed using the Consumer Price Index or other indices specific to the asset.

**Appraisal**

This technique is the fourth method of choice for valuation. It uses a professional assessment of what it would cost to replace the asset today. Today's price or value is deflated back to the year of the asset's acquisition to produce the approximate historical cost.

The deflation calculation will be performed using the Consumer Price Index or other indices specific to the asset.

This method is most useful for land and buildings.

## ASSET COMPONENTS

For assets that have been or should be recognized individually, a reasonable split can be allocated to each component of the asset. In the example of a road construction project, a percentage must be allocated to the surface portion (asphalt/gravel, etc) and a percentage must be allocated to the roadbed portion (all subsurface components). It is important that this allocation be used consistently for all similar road projects, unless there is evidence to prove that the split should be calculated differently in isolated cases.

## SCHEDULE "F"

## ASSET AMORTIZATION

### PURPOSE:

The objective of this policy is to give guidance to selecting the appropriate method of amortization to be used, as well as the criteria used to determine the useful life of tangible capital assets.

### AMORTIZATION:

1. All tangible capital assets shall be amortized on a straight-line basis (based on original life), except in conditions where it would be deemed more appropriate to use a different method. The Treasurer shall approve any alternative methods considered.

2. Amortization will be calculated and posted to appropriate departments twice annually. The amortization postings will occur on January 1st and December 31st of each year. The amortization for all assets acquired within the year will be calculated on December 31st only.

3. Land and land components of tangible capital assets (e.g. land on which a building is situated) shall be recorded at cost and not amortized.

4. Tangible capital assets shall be deemed to have no residual value for purposes of calculating amortization except in situations where the residual value is determined to be significant relevant to the asset in question.

5. Annual amortization expense shall be estimated and included in the annual budget of each respective operating unit. The actual amortization expense shall be charged against the operating unit.

6. Where applicable (see "Whole Asset / Component Approach" in General Definitions), capital assets may be segmented to identify the appropriate components of the system or network. With the components recorded as individual units, it will be possible to capitalize the new component and dispose of the old component, thus continually updating the capital cost. If the asset were not segmented, the appropriate accounting treatment of a partial replacement would be to expense in the year incurred (as it ultimately would not qualify as a betterment).

7. Estimates of useful like (for purposes of the amortization calculation) will be determined by the Township of Bonfield based on reasonable assumptions. The following common asset categories will be assigned useful lives as follows:

| Land Improvements | Estimated Useful Life (years) |
|---|---|
| Fencing | 20 |
| Irrigation | 25 |
| Outdoor Lighting | 20 |
| Parking Lot/Sidewalk | 25 |
| Septic System | 25 |
| | |
| Building | |
| Commercial | 50 |
| Wood Frame | 60 |
| Flat Roof | 25 |
| Shingle Roof | 20 |
| Metal Roof | 40 |
| | |
| Leasehold Improvement | Current + Subsequent Lease Term |

| Machinery & Equipment | Estimated Useful Life (years) |
|---|---|
| Attachment (plow, spreader, etc) | 10 |
| Communication System | 10 |
| Computer Hardware | 5 |
| Generator | 20 |
| Small Equipment | 10 |
| Computer Software | 5 |
| | |
| Vehicles | |
| Backhoe/Loader | 10 |
| Grader | 15 |
| Heavy Duty Trucks | 10 |
| Light Duty Trucks | 5 |
| Loader | 15 |
| Medium Duty Trucks | 7 |
| Tractor | 15 |
| Trailer / Float | 10 |
| | |
| Linear Asset | |
| Asphalt Surface | 15 |
| Double Surface | 10 |
| Bridge – Concrete | 50 |
| Bridge – Wood | 20 |
| Culvert – Concrete | 50 |
| Culvert – Metal | 20 |
| Culvert – Plastic | 50 |
| Street Lights | 25 |
| Road Substructure | 45 |

Land has an infinite life and thus, is not included in the above listing. Capital work in progress is not amortized, and thus is also not included in the above listing.

The Township will consider various other sources when making useful like estimates, including, but not limited to:

- Manufacturer estimates
- Previous experience
- Ontario Municipal Benchmarking Initiative documentation

8. The useful life estimate for leasehold assets will be restricted by the terms of the lease agreement. The useful life will be the lesser of the actual estimate, and the sum of the number of years remaining in the current and ensuing lease terms.

9. For all other categories of assets not shown, or in the event of disagreement on the interpretation or implementation of these policies and procedures, the Treasurer shall make the final decision, guided by the Municipal Act, Public Sector Accounting Handbook Section 3150, the Ontario Municipal Benchmarking Initiative's "Municipal Guide for Accounting for Tangible Capital Assets", and the Municipally Appointed Auditors.