

**THE CORPORATION OF THE  
TOWNSHIP OF MCGARRY  
BY-LAW NO. 2010-11**

**BEING A BY-LAW TO ADOPT AN ACCOUNTING POLICY FOR  
AND REPORTING TANGIBLE CAPITAL ASSETS (TCA)**

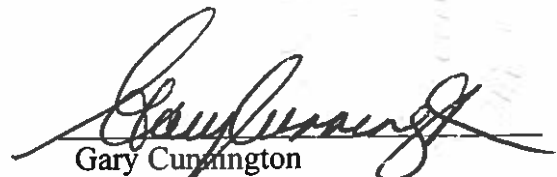
**WHEREAS** Council is required to establish principals in order to comply with Section 3150 of the PSAB Handbook and the Municipal Act, with respect to accounting for tangible capital assets.

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

1. THAT Schedule "A" attached to and forming part of this By-Law be adopted as the Township of McGarry Policy for Accounting for and reporting Tangible Capital Assets.

READ a first and second and third time this 13<sup>th</sup> day of April, 2010.

  
Clermont Lapointe  
Reeve

  
Gary Cunningham  
Clerk-Treasurer

Supplement 'A' To By-Law 2010-11  
Township of McGarry

## Accounting For and Reporting Tangible Capital Assets (TCA)

### PURPOSE:

The objective of this policy is to prescribe the accounting treatment for tangible capital assets so that users of the Township's financial statements can discern information about the investment in property and equipment and the changes in such investments.

The principal issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts and the amortization charges and the recognition of any related impairment losses (Section 3150 of the PSAB Handbook and the Municipal Act).

In addition the policy includes measures and 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.

### 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) Land Improvements exceeding \$2,500
- c) Building with a cost of \$5,000 or greater
- d) Building improvements exceeding \$2,500
- e) Leasehold improvements exceeding \$2,500
- f) Vehicles and equipment with a unit cost of \$2,500 or greater
- g) Infrastructure expenditures with cost of \$10,000 or greater
- h) Pooled Assets with an aggregate cost of \$10,000 or greater
- i) All other assets with a unit cost of \$2,500 or greater
- j) Municipal Drains where a portion of the drain provides drainage to land owned by the municipality and that portion has a value \$25,000 or greater.

Capital betterments to existing assets when the unit costs exceed the threshold.

**Departments:**

All assets will be assigned to departments within the Township of McGarry. The following is a list of the departments that shall be used:

- Administration
- Fire
- Building
- Public Works
- Recreation

**Valuation**

1. Tangible capital assets will be recorded at historical cost when records are available.
2. If no historical cost is available than the deflated replacement cost will be utilized.
3. If no historical cost or replacement cost is available then the deflated appraisal value may be used.

Note- Where available and when required, industry or asset class specific indices will be utilized to discount current asset values to the year of original purchase or construction. In all other instances the Consumer Price Index (CPI) will be employed for discounting.

**1) Purchased assets**

Cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties and delivery charges, installation and site preparation costs, etc. It is the net of any trade discounts or rebates.

Cost of land includes the 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 the acquisition or some other reasonable basis if fair value is not readily determinable.

**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 overhead 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.

**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 the asset.

Capitalization of interest costs should commence when the 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 donation 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.

### **Component Approach**

Tangible capital assets may be accounted for using either the single 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.

Infrastructure assets and Building assets should be recorded using the component approach if data is readily available. 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. The Township of McGarry uses a straight-line method for calculating the annual amortization. The estimated life of each Tangible Capital Asset is presented in Section 22.11- Estimated Useful Life Chart.

### **Disposal**

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

**Residual Value**

Anticipated residual values (estimates) will be incorporated into the amortization calculations whenever possible.

**DEFINITIONS:****Tangible Capital Asset:**

The definition of a Tangible Capital Assets as set out by PSAB is an item(s) having physical substance that:

- a) is held for use in the production or supply of goods and services, for rental to others, for administrative purposes or the development, construction, maintenance or repair of other tangible capital assets;
- b) have useful economic lives extending beyond an accounting period of one year;
- c) are to be used on a continual basis; and
- d) are not for sale in the ordinary course of operations.

**Betterments:**

Subsequent expenditures on tangible capital assets that:

- Increase previously assessed physical output or service capacity;
- Lower associated operating cost;
- Extend the useful life of the asset; or
- Improve the quality of the output.

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

**Pooled (Grouped) Assets:**

Assets that have a unit value below the capitalization threshold but have a material value as a group. Such assets are normally recorded as 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, streetlights, traffic lights, small moveable equipment, etc. Pooled assets will be accounted for utilizing FIFO (first-in, first-out) method of inventory.

**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.

## **PROCEDURES:**

- Effective January 1, 2009, all tangible capital assets shall be budgeted, financed and reported as such on the books of the Township of McGarry.
- A tangible capital asset is defined in PS3150, having a minimum value of (Please refer to Threshold Values on Page 1), including non-refundable taxes and directly attributable acquisition expense.
- All assets with an individual total value of less than (Please refer to Threshold Values on Page 1) shall be expensed in the year of acquisition and charged against Operating Budget of the Department acquiring the asset.
- Notwithstanding the above, the following classes of assets shall be pooled and the pooled deemed to be itself a tangible capital asset:
  - Computers and peripherals
  - Furniture and Fixtures
  - Streetlights
- 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. Example: development of an Official Plan or of water conservation measures.
- Tangible capital assets shall be amortized on a straight-line basis.
- Land and land components of tangible capital assets shall be recorded at cost and not amortized.
- Tangible capital assets with an estimated residual value of less than 10% of the cost will be deemed as zero as the impact would not be material. Any eventual recovery would be recorded as a "gain on disposal".
- Tangible capital assets that are to be developed or constructed shall be capitalized on the earlier of the day that the asset goes into service or that ownership/responsibility/control is transferred over to the Township of McGarry.
- The Department Head of each operating department that has a tangible asset inventory shall confirm the year-end asset inventory is complete and accurate to the best of his/her knowledge.
- In the event of disagreement in the interpretation or implementation of these policies and procedures, the Township Treasurer shall make the final decision, guided by the Municipal Act, PSAB3150, and the OMBI *Municipal Guide for Accounting for Tangible Capital Assets*

**ESTIMATED USEFUL LIFE CHART**

<b>Category</b>	<b>Sub Category</b>	<b>Component</b>	<b>Estimate Useful Life **</b>
<b>Land</b>	<b>Not Applicable</b>	<b>Not Applicable</b>	<b>N/A</b>
<b>Municipal Drains</b>			<b>50</b>
<b>Buildings</b>		<b>Note: Building components will be treated as betterments to the building structure and these betterments will be capitalized upon completion. A review of the remaining years of estimated useful life of the building structure will be reviewed/updated at that time</b>	
	<b>Structure</b>		<b>50</b>
	<b>Exterior</b>	<b>Roofing, Windows, Doors, Siding, Etc.</b>	<b>25</b>
	<b>Interior</b>	<b>Flooring, Permanent Furnishings, Etc.</b>	<b>25</b>
	<b>Mechanical</b>	<b>HVAC</b>	<b>25</b>
	<b>Site Elements</b>	<b>Playground Equipment, Fencing, Sheds, Etc.</b>	<b>25</b>
<b>Infrastructure</b>	<b>Bridge</b>	<b>Structure</b>	<b>50</b>
		<b>Deck Surface</b>	<b>20</b>
	<b>Culverts</b>		<b>50</b>
	<b>Asphalt/Concrete Road/HCB (High Class Bituminous)***</b>	<b>Surface</b>	<b>20</b>
		<b>Base *</b>	<b>50</b>
	<b>Gravel Road***</b>	<b>Surface</b>	<b>10</b>
		<b>Base *</b>	<b>50</b>
	<b>Surface Treated Road/LCB Low Class Bituminous)***</b>	<b>Surface</b>	<b>15</b>
		<b>Base *</b>	<b>50</b>
	<b>Water</b>	<b>Water Mains, Meters</b>	<b>80</b>
		<b>Pump Station-Building, Wells, Standpipe</b>	<b>50</b>
		<b>Pump Station-Mechanical/Electrical</b>	<b>25</b>
	<b>Wastewater</b>	<b>Force Mains, Sewer Mains</b>	<b>80</b>
		<b>Pump Station-Building, Lagoons</b>	<b>50</b>
		<b>Pump Station-Mechanical/Electrical</b>	<b>25</b>
	<b>Storm Water</b>	<b>Storm Sewers, Ponds</b>	<b>80</b>
	<b>Traffic Signals/Street Signs</b>		<b>20</b>
	<b>Streetlights</b>		<b>20</b>

<b>Vehicles &amp; Machinery</b>	<b>Licensed Vehicles-light duty</b>	<b>Pickups, Vehicles &lt; 1 Tonne, Trailers</b>	7
	<b>Licensed Vehicles-heavy duty</b>	<b>Fire Vehicles (pumpers, tankers, rescue), Dump trucks, Vehicles &gt; 1 Tonne</b>	20
	<b>Unlicensed Vehicles-light duty</b>	<b>Mowers, Tractors</b>	7
	<b>Unlicensed Vehicles-heavy duty</b>	<b>Graders, Backhoes, Loaders, Ice Resurfacers</b>	20
<b>Furniture &amp; Fixtures</b>	<b>Office Furniture</b>		15
	<b>Shelving Storage Fixtures</b>		15
<b>Technology /Communications</b>	<b>Hardware</b>		5
	<b>Software</b>		5
	<b>Radio Equipment</b>		5

\* **Note:** It is assumed that Land under all Township of McGarry roads be included as part of the "Base" component of the road.

\*\* **Note:** Estimated useful life years will be annually reviewed and updated if necessary. Changes (if any) would be foot noted in the Financial Statements during the year the change is made.

\*\*\* **Note:** Where sufficient data is not available to distinguish between the surface and base of a road, a combined asset of surface and base will be used and the estimated useful life will default to the surface figure.