

Town of Stratford - Council Policy		Tab _____
Name:	Tangible Capital Asset Policy	Policy Number: 2009-FA-02
Committee:	Finance and Administration	Approval Date: October 14, 2009

1 Purpose

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 in such investment. The principal issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts and amortization charges and the recognition of any related impairment losses. This policy will also enable and encourage better maintenance and replacement planning of our tangible capital assets.

In addition the policy covers procedures to:

- Protect and control the use of all tangible capital assets.
- Provide accountability over tangible capital assets.
- Gather and maintain information needed to prepare financial statements.

2 Scope

This policy applies to all departments within the Town of Stratford, Stratford Business Park and the Stratford Utility Corporation.

3 Definitions

3.1 Tangible Capital Assets:

Assets having physical substance that;

- Are used on a continuing basis in the Town’s operations.
- Have useful lives extending beyond one year.
- Are not held for re-sale in the ordinary course of operations.

3.2 Betterments:

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.

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

3.3 Group Assets:

Assets that have a unit value below the capitalization threshold but have a material value as a group. 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, small moveable equipment, etc.

3.4 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.

3.5 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, one or more of the following conditions must be met;

- There is reasonable assurance that the Town will obtain ownership of the leased property by the end of the lease term.
- The lease term is of such a 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.

- 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.

4 Policy Statements

4.1 Capitalization

Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:

- all land;
- all buildings;
- all civil infrastructure systems (built assets such as streets, sidewalks, bike paths, water and sewer lines, storm sewers, treatment plant, transit, etc) with a unit cost of \$25,000 or greater
- all others with a cost of \$2,500 or greater.
- All betterments to civil infrastructure and other assets with a cost of \$2,500 or greater.

4.2 Categories

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 shall be used:

- Land;
- Land Improvements
- Buildings;
- Small Equipment/Furniture and Fixtures;
- Machinery and Equipment;
- Streets, Sidewalks and Bike Paths;
- Water and Sewer Lines;
- Motor Vehicles;
- Computer Systems;
- Storm Sewers;
- Treatment Plant;
- Trails

A detailed description of Each Asset Type is included as Schedule "B".

4.3 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.

4.3.1 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.

4.3.2 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.

4.3.3 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.

4.3.4 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.

4.4 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:

- Major components have significantly different useful lives and consumption patterns than the related tangible capital asset.
- 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.

4.5 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.

Generally, the Town of Stratford, and the Stratford Business Park use a straight-line method for calculating the annual amortization and the Stratford Utility Corporation is using a declining balance annual amortization. The list of estimated useful lives of assets and amortization rates refer is attached as Schedule "A".

4.6 Disposal

Disposal of assets shall be carried out in accordance with the 'Redistribution and Disposal of Assets' Policy.

4.7 Capital Leases

Account for a capital lease as acquiring a capital asset and incurring a liability. Account for a lease as an 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.

5 Repeal of Earlier Policy

Policy 2004-FA-01, Fixed Asset Capitalization and Depreciation Policy is hereby repealed.

6 Effective Date

The effective date of this policy is January 1, 2009.

Schedule A - Estimated Useful Life of Assets and Amortization Rates

Asset:	Useful Life (Yrs): Straight Line
Land	Indefinite
Land Improvements	25
Buildings	40
Small Equipment/Furniture and Fixtures	5
Machinery and Equipment	10
Streets and Sidewalks	25
Water and Sewer lines	50
Motor Vehicles	7
Computer Systems	4
Storm Sewers	50
Treatment Plant	50
Trails	50

Schedule B - Asset Type Descriptions

Asset Type	Description
Land	<p>Real Property in the form of a plot, lot or area</p> <ul style="list-style-type: none"> • Includes all expenditures made to acquire land and to ready it for use where the improvements are considered permanent in nature and includes purchase price, closing costs, grading, filling, draining, clearing, removal of old buildings (net of salvage), assumption of liens or mortgages, and any additional land improvements that have an indefinite life. • Excludes forests, water and other mineral resources and land held for resale (a separate non-financial asset).
Land Improvements	<p>Land Improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use, and which generally decay or break down over time.</p> <p>Land Improvements include but are not limited to:</p> <ul style="list-style-type: none"> • Construction of driveways, parking lots, retaining walls, bike paths in parks, drop off locations, sidewalks in parks, fencing, patios, water fountains, outdoor swimming or wading pools, ball diamonds, soccer fields, tennis courts, etc.
Buildings	<p>Buildings include all structures that provide shelter from the elements. It includes betterments to buildings that are owned by the municipality.</p> <p>Buildings include but are not limited to:</p> <ul style="list-style-type: none"> • Sport and recreation facilities, office buildings, fire stations, libraries, pavillons, change rooms, park washrooms, concession buildings, building in work yards, etc.
Small Equipment/ Furniture and Fixtures	<p>Major office Equipment items such as photocopiers, desks, furniture</p>

Asset Type	Description
Machinery and Equipment	<p>An apparatus, tool, device, implement or instrument that likely uses energy to facilitate a process, function or completion of a task. It may be installed within a building, but is generally capable of being moved and reinstalled at a different location.</p> <p>Machinery & Equipment includes but is not limited to:</p> <ul style="list-style-type: none"> • HVAC, push and ride on mowers, tractors, telephone switches/networks, etc.
Streets, Sidewalks and Bike Paths	<p>Cost of materials and labour used to construct streets, curbs, sidewalks, bike paths and appurtenances thereto.</p>
Water and Sewer Lines	<p>Cost of materials and labour used to construct water and sewer lines and appurtenances thereto.</p>
Motor Vehicles	<p>A means of licensed transportation, usually having wheels, for transporting persons or things or designed to be towed behind such an apparatus.</p> <p>Vehicles include but are not limited to:</p> <ul style="list-style-type: none"> • Automobiles, trucks, trailers, etc.
Computer Systems	<p>Computer Equipment and hardware and software programs.</p>
Treatment Plant	<p>Cost of materials and labour to construct treatment plant and lagoons.</p>
Trails	<p>Cost of materials and labour to construct trails and appurtenances thereto.</p>