



**The Corporation of the City of Stratford
Finance and Labour Relations Sub-committee
Open Session
AGENDA**

Date: Tuesday, January 22, 2019

Time: 3:30 P.M.

Location: Council Chamber, City Hall

Sub-committee Present: Councillor Clifford - Chair Presiding, Councillor Gaffney - Vice Chair, Councillor Beatty, Councillor Bunting, Councillor Ritsma

Staff Present: Michael Humble - Director of Corporate Services, Jodi Akins - Council Clerk Secretary

Pages

1. Call to Order

The Chair to call the meeting to Order.

2. Disclosure of Pecuniary Interest and the General Nature Thereof

The *Municipal Conflict of Interest Act* requires any member of Council declaring a pecuniary interest and the general nature thereof, where the interest of a member of Council has not been disclosed by reason of the member's absence from the meeting, to disclose the interest at the first open meeting attended by the member of Council and otherwise comply with the *Act*.

Name, Item and General Nature of Pecuniary Interest

.....

3. Delegations

None scheduled.

4. Report of the Director of Corporate Services

4.1 Vacancy Rebate Program (FIN19-001)

4 - 7

Motion by _____

Staff Recommendation: THAT the Vacancy Rebate Program be phased out over a two year period commencing January 1, 2019, pending Ministry of Finance approval.

4.2 Capital Amounts Carried Forward to 2019 (FIN19-002)

8 - 13

Motion by _____

Staff Recommendation: THAT the report of the Director of Corporate Services dated January 22, 2019, regarding incomplete capital projects at 2018 year end that need to be carried forward into 2019, be received for information.

4.3 Tangible Capital Asset Policy (FIN19-003)

14 - 38

Motion by _____

Staff Recommendation: THAT the report of the Director of Corporate Services dated 15th January 2019, regarding a tangible capital asset policy be received for information;

AND THAT Council approve the attached draft Tangible Capital Asset policy.

5. Advisory Committee/Outside Board Minutes

There are no Advisory Committee/Outside Board minutes to be provided to Sub-committee at this time.

6. Next Sub-committee Meeting

The next Finance and Labour Relations Sub-committee meeting is February 19, 2019 at 3:30 p.m. in the Council Chamber, City Hall.

7. Adjournment

Meeting Start Time:

Meeting End Time:

Motion by _____

Sub-committee Decision: THAT the Finance and Labour Relations Sub-committee meeting adjourn.



MANAGEMENT REPORT

Date: January 22, 2019
To: Finance & Labour Relations Sub-committee
From: Michael Humble, Director of Corporate Services
Report#: FIN19-001
Attachments: None

Title: Vacancy Rebate Program

Objective: To provide Council with the results of the consultations with the BIA and Chamber of Commerce, public information session and on-line survey regarding the potential impact of the proposed changes to the Vacancy Rebate Program.

[Click here to enter text.](#)

Background: Since 1998, Provincial legislation has required Municipalities to have a mandatory Vacancy Rebate Program for commercial and industrial properties.

Section 364 (1) of the Municipal Act, 2001 specifies that every local municipality shall have a program to provide tax rebates to owners of properties that have a vacant building (or portion thereof) if that property is in any of the commercial or industrial tax classes. Section 364 prescribes a rebate of 35% for eligible industrial class properties and 30% for eligible commercial class properties.

As a result of changes to the Municipal Act under Bill 70, municipalities now have the option, via Council resolution and with approval from the Ministry of Finance, to alter the existing vacant unit tax rebate that is offered to commercial and industrial property owners.

In order to make changes to this Program the process is laid out by the Province.

- A consultation with the business community,
- A resolution of Council confirming the changes desired, and
- Submission to the Ministry of Finance for approval.

A Vacancy Rebate Program update was taken to Council in August 2018. At that time the staff recommendation to phase out the Vacancy Rebate Program over a two year period commencing 2019 was endorsed.

In order to meet the public consultation requirements, staff were to schedule joint in-person meetings with the BIA and Chamber of Commerce, hold open house/public information sessions, provide an on-line or printed survey and post notifications on the City's website and through social media and advertisement in the local newspaper.

Analysis: An industrial or commercial property owner can apply for a rebate once the property has been vacant for 90 days and collect the rebate as long as it remains vacant.

Over the last few years commercial/industrial property owners have been actively managing the assessment on their properties by filing appeals with MPAC and have been able to successfully argue that assuming properties to be 100% occupied all of the time was wrong.

Due to the success of these appeals, MPAC has changed the valuation practice and has considered vacancy allowance, chronic vacancy and/or reduced income due to vacant space when arriving at an assessed value for commercial/industrial properties.

Since MPAC considers these periodic vacancies in property re-assessments reviews, the Vacancy Rebate Program has been rendered redundant and any refunds in addition to that are considered "double dipping" by granting a vacancy adjustment on both the CVA and the property taxes.

Additional information that Council should consider:

- One of the main challenges with administering this program is that it can be difficult for staff to verify the validity or accuracy of vacant unit tax rebate applications. Applications can be made months after the actual vacancy has occurred and staff often need to rely solely on the disclosures of the applicant with little or no verification.
- The Vacancy Rebate Program is administratively labour intensive. With an average of 75 applications per year, staff must complete a review of each submission and supporting documentation. With the elimination of the program, staff time could be redeployed to more value-added functions.
 - This is a business benefit that is largely subsidized by the residential class.
 - Landlords of both single and multi-unit residential properties are not entitled to a rebate when their property is vacant.
 - The program impedes landlords from accepting requests for short term revenue-generating uses.
 - Although very difficult to demonstrate, there is a belief that the program may actually discourage the leasing of some vacant properties.
 - In 2017 the cost to the City was \$108,610 with an additional rebate of Education taxes in the amount of \$61,120.

Staff conducted a review of proposed Vacancy Rebate Program changes in surrounding municipalities and the general consensus seems to be that the existing vacant unit tax rebate program does not serve the same purpose as was perhaps envisioned when originally enacted.

A significant portion of the municipalities contacted are eliminating the vacant unit tax rebate program (either immediately or over a phase-out period ending by 2020).

At the September 25 and 26, 2018 meetings with the BIA and Chamber of Commerce, the Director of Corporate Services spoke to each group regarding the potential changes, gathered their input and answered questions. Open house/public information sessions were held October 16 and 17, 2018.

More than 100 surveys were answered either on-line or by paper copy. The largest number of surveys received were in favour of eliminating the program immediately, followed by keeping the program and establishing more stringent eligibility requirements.

Statistics previously reported for 2016 showed 75 properties received rebates totalling \$322,257.

In 2017, 51 properties received a rebate totalling:

Municipal portion	\$108,610
Education portion	61,120
BIA levy portion	<u>2,533</u>
TOTAL	\$172,263

Of these 51 properties:

- 36 have been vacant more than three consecutive years
- 2 properties received a rebate over \$10,000 (outside BIA)
- 21 properties that received a rebate are in the BIA

Summary from survey:

Eliminate the rebate program immediately	40%
Keep the program as is	25%
Keep the program, but modify the program	26%
Phase out the program over a number of years	9%

Staff are recommending that the Vacant Unit Tax Rebate be phased out over a period of two years commencing in 2019, as follows:

Phase-Out of Vacant Unit Tax Rebate

Year	Commercial	Industrial
2018 - Current Rate	30%	35%
2019	15%	15%
2020 and Onwards	0%	0%

Financial Impact: The financial cost to the City of maintaining a Vacancy Rebate Program for Industrial and Commercial properties is \$108,610 in 2017 dollars.

Staff Recommendation: THAT the Vacancy Rebate Program be phased out over a two year period commencing January 1, 2019, pending Ministry of Finance approval.



Michael Humble, Director of Corporate Services



Rob Horne, Chief Administrative Officer



MANAGEMENT REPORT

Date: January 22, 2019
To: Finance & Labour Relations Sub-committee
From: Michael Humble, Director of Corporate Services
Report#: FIN19-002
Attachments: Carry Forward Capital Projects Into 2019

Title: Capital Amounts Carried Forward to 2019

Objective: To provide Council with information regarding the carry forward of unfinished capital projects into 2019.

Background: The expenditure and funding of new Capital projects are approved annually by Council as part of the budget process.

It is reasonable to expect that capital projects can be completed by staff within their year of approval. While every effort is made to complete capital works in a timely manner some capital projects, by their nature, will span two or even three years (linear infrastructure work), while others may face unexpected and unforeseen delays that will prevent their completion within a calendar year.

In this case, staff will report to Council for each project that is incomplete:

- The date approval for the project was originally granted,
- the reason for the delay,
- the amount of funds unspent and needed to be carried forward in order to complete the project,
- the revised timeline for completion of the carried-forward project.

Analysis: The attachment contains a list of all capital projects approved in 2018 and prior years that remain unfinished as at 31st December 2018.

The expenditure and various funding sources have been approved in past capital budgets and have not been included again in 2019 budget requests.

Once a funding source is committed to a particular capital project, those funds remain earmarked until the project is completed, funded and closed.

For each request to carry forward, staff have been encouraged to include a brief status update to include delays encountered that prevented timely completion, a revised projected completion date and the amount of funds required for completion and carry forward.

There are a total of 37 total capital projects unfinished at the end of 2018 (44 – 2017).

This represents a request to carry forward \$27,053,775 of approved spending into 2019 (\$15,103,406 – 2018).

For comparison purposes, the total 2019 capital budget request is for \$16,538,550 and 108 additional projects.

Three projects comprise a significant proportion of the \$27M carry forward balance.

- Britannia Street Affordable Housing - \$4,813,083
- Quinlan Pumping Station (Sanitary) - \$5,279,400
- Queen St Storm Sewer Diversion - \$11,859,590
\$21,952,073

The following details are provided for each of these projects:

Britannia Street Affordable Housing

Construction for the Britannia Street project started in the second half of 2018 and is projected to be completed the summer of 2019. The carry over request reflects the initial budget of \$5,993,323 less actual expenses at the time of the request. This project straddles two years (2018-2019) and therefore requires that a carry over of project monies be requested.

Quinlan Pumping Station

The Quinlan Pumping Station was awarded to Finnbilt General Contracting in July 2018 with construction commencing in September 2018. As noted in the report that went to Council to award the project, construction was expected to last up to 12 months.

Queen Street Storm Sewer Diversion

The design for the Queen Street Storm Sewer Diversion has been completed along with all environmental approvals. The tendering of this project has been delayed due to a new Federal funding program called the Disaster Mitigation and Adaptation Fund (DMAF). The DMAF is a national merit-based program that will invest \$2 billion to support large-scale infrastructure projects to help communities better manage the risks of disasters triggered by natural hazards. The Fund will cover 60% of eligible costs. The City submitted an expression of interest in July 2018 and was selected to proceed with a full application. The

full application was submitted by the January 11, 2019 deadline. It is anticipated that the City will be informed in March/April of this year on the status of the application.

The primary concern with carrying forward so many capital projects from one year to the next is maintaining a realistic and achievable work plan for staff.

It is best practice to finish off and complete the "old" projects approved in prior years, before taking on a full slate of "new" projects in the 2019 capital budget.

If staff can't address all current year projects until late in the year (because they are busy wrapping up the carry forward projects first), RFP's and Tenders issued late in the season will not yield best prices from contractors as their workload and schedules are typically full.

It is best practice to approve municipal budgets in December / early January so staff can issue ALL their tenders before contractors get busy for the year and prices will usually be more competitive.

Administration continue to work with capital project managers to ensure that capital projects are substantially completed within their year of approval, and before new capital requests are made for the following year.

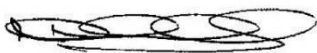
Once a capital project makes it to the budget list and gets Council approval, there should be sufficient staff resources available to start the purchasing process forthwith, anticipating a Spring / Summer commencement and a realistic expectation that completion can be achieved before year end.

If a major infrastructure capital project is expected to span more than one year, it will be noted as such when seeking budget approval.

Financial Impact: There is no financial impact as a result of this report. All projects were approved by Council in 2018 or prior years.

Surplus or deficits may arise if individual projects remain underspent or exceed their approved budget.

Staff Recommendation: THAT the report of the Director of Corporate Services dated January 22, 2019, regarding incomplete capital projects at 2018 year end that need to be carried forward into 2019, be received for information.



Michael Humble, Director of Corporate Services

A handwritten signature in black ink that reads "Rob Horne". The signature is written in a cursive style with a large, stylized "R" and "H".

Rob Horne, Chief Administrative Officer

CARRY FORWARD CAPITAL PROJECTS INTO 2019								
								27-Dec-18
Description	Account	Council Approved Budget		Expenditure	Carry Forward	Status Update		
		Date	Amount	YTD				
<u>Corporate Services</u>								
Cooper Site Expropriation Cost	G-911-9065		0	250,993	250,993	Unfunded capital.		
Cooper Site Capital Maintenance	G-911-9084		0	89,766	89,766	Unfunded capital.		
Cooper-Adaptive Reuse Costs	G-911-9089		0	146,257	146,257	Unfunded capital.		
Parking Tech Enhancements	G-911-9101	2017	9,799	0	9,799	Online parking ticket payment model in development by IT department. Testing in January for subsequent launch.		
Wayfinding Signs	G-911-9108	2018	50,000	0	50,000	RFP awarded to Stempski Kelly & Associates. To be completed by April 2019.		
Pay-by-plate Installation	G-911-9109	2018	50,000	40,094	9,906	One machine to be installed Albert Lot in Spring 2019.		
IT System Implementation	G-912-9012	2017-2018	774,883	115,365	100,000	Corporate Intranet: Contract awarded. Completion expected May 2019. \$60,000 Security Systems: Waiting on hardware delivery. Completion expected February 2019. \$20,000 Camera Upgrades: Waiting on hardware delivery. Completion expected February 2019. \$20,000		
<u>Social Services</u>								
Driveway and Parking Lots - several locations	G-915-9203	2018	200,000	0	93,100	Contract awarded to Armstrong Paving and Materials Group Ltd. for \$142,930 (including HST). The work began in 2018, however, has been delayed due to weather. The contractor has submitted 2 invoices for services rendered to date - total \$39,553 (including HST). Carry forward the remaining value of the contract of \$103,377 to 2019.		
Roof/Eaves and Downspouts - several locations	G-915-9203	2018	260,000	0	72,340	Contract awarded to Industrial Roofing Services Ltd. for \$137,606 (including HST). The work commenced in 2018, however, has been delayed due to weather. The contractor has been paid \$57,277 (including HST) for services rendered to date. Carry forward the remaining value of the contract of \$80,329 to 2019.		
Housing Division Software Upgrade	G-915-9204	2018	200,000	0	20,000	Upgrade to Yardi Systems purchased in 2018 for \$9,600 (including HST). We are requesting to carry forward \$20,000 for the implementation in 2019.		
Social Service Department Renovations	G-915-9206	2018	250,000	0	250,000	No renovations completed in 2018 as we are awaiting to present options for Council approval.		
Furniture and Equipment - for renovations	G-915-9206	2018	20,000	0	20,000	No renovations completed in 2018 as we are awaiting to present options for Council approval.		
Britannia Street Housing	G-915-9207	2018	5,339,298	526,215	4,813,083	This project was awarded to PM Contracting and is currently underway with estimated occupancy in late summer/early fall of 2019. We request that all unspent funds be carried over to 2019.		
<u>Community Services</u>								
Parks:								
North Shore Pathway	G-971-9379	2017	80,000	0	80,000	Council requested further information to be provided by Engineering.		
Recreation:								
North Shore Washroom Facility	G-973-9382	2017-2018	239,906	140,861	99,045	Facility build complete. 10% holdback to be paid first week of January. Carry forward an additional \$3500 to cover final project items such as landscaping which will take place in spring 2019.		
Dufferin Roof Restoration	G-973-9390	2018	25,000	0	19,500	Project awarded to Nedlaw Roofing in amount of \$19,461.60 (Inc HST). Further work will take place in May 2019 when the rink is not in use.		
Rotary Roof	G-973-9393	2018	30,000	0	21,184	Project awarded to Nedlaw Roofing in amount of \$21,184 (Inc HST). Further work cannot take place until May when rink is not in use.		
Gallery HVAC - Engineering	G-973-9394	2018	40,000	0	40,000	The initial phase of design was awarded to NA Engineering in the amount of \$19,537.92 (incl. 1.0176% HST). The contract is to provide two proposals that will include costing for each. Proposals to be received by the first quarter 2019. Upon receiving two proposals, further review will be required to continue the work on engineering design. Projected to be completed in the second quarter of 2019.		
Regular Transit:								
Transit Hub	G-933-9385	2018	2,283,741	1,740,735	543,006	Phase 1 nearing completion and occupancy anticipated prior to 2018 year end. Phase 2 (washroom facility) was approved on the basis of \$360,000 (with 50% contribution from PTIF).		
Accessible Bus Stops	G-933-9398	2018	100,000	0	100,000	Concrete pads are in, shelter arrival delayed until March 2019.		
Real Time Arrival Web App	G-933-9399	2018	25,000	0	25,000	Transit and IT are reviewing needs and solutions.		
Parallel Transit:								
Bus Replacement	G-933-9333	2018	90,000	0	90,000	Awarded to Overland Coach in the amount of \$75,556.80 (incl. 1.0176% HST). Vehicle currently in production, arriving in February 2019. Carry forward \$90,000 as lettering and striping will need to take place once received.		

CARRY FORWARD CAPITAL PROJECTS INTO 2019								
								27-Dec-18
Description	Account	Council Approved Budget		Expenditure	Carry	Status Update		
		Date	Amount	YTD	Forward			
Engineering & Public Works								
Asset Management	G-930-9052	2017	122,976	60,707	62,269	Project ongoing with Public Sector Digest.		
G-931 Road Capital								
Asphalt resurfacing, cracksealing & surface treatment	G-931-9502	2017	751,146	697,406	53,740	Holdback release in September 2019.		
Large Vehicles & Equipment - Purchase	G-931-9571	2017-2018	659,895	339,861	34,728	Q2018-52, estimated delivery March 2019.		
Erie Street Sidewalk - West Gore to Lorne	G-931-9762	2018	300,000	0	300,000	Work to proceed in 2019.		
Lorne Ave Turning Lane	G-931-9765	2018	280,000	238,860	41,140	Holdback release June 2019.		
G-941 Sanitary Capital								
Sanitary Sewer Model	G-941-9532	2015	174,053	25,392	148,661	Completion by end of 2019.		
Quinlan PS Engineering	G-941-9710	2017-2018	5,609,182	329,782	5,279,400	In-field work completed by Sept 2019; one-yr maintenance holdback complete by December 2020.		
Sewer Relining	G-941-9749	2017-2018	835,852	770,463	65,389	Holdback release in June 2019.		
RNG Project	G-941-9771	2018	308,943	77,236	231,707	Design work underway. Business case for entire project will come forward in 2019 for Council's consideration.		
G-942 Storm Capital								
Bridge/Culvert Projects	G-942-9615	2017-2018	1,513,084	1,415,475	97,609	Holdback release in October 2019.		
Queen Street Diversion Engineering	G-942-9754	2017-2018	11,881,912	22,322	11,859,590	Construction to be completed 2022.		
G-943 Water Capital								
Water Model/Master Plan	G-943-9733	2015	119,196	59,155	60,041	Completion by end of 2019.		
G-919 Municipal Facilities								
Justice Building - HVAC and Windows	G-919-9003	2018	90,000	5,147	84,853	RFP Q2018-40 Re-Support of Existing Brick Façade. Start mid-January 2019, complete late March 2019.		
City Hall - New Washroom	G-919-9007	2018	200,000	0	200,000	RFP prepared for issue and anticipated to close 23 January 2019.		
Linear Component Projects								
St. Vincent - Lorne to Patricia	G-931-9729	2017-2018	1,123,589	498,321	625,268	Topcoat in 2019 and holdback release in November 2020.		
Ballantyne Street - Front to Queen	G-931-9739	2016-2018	1,721,178	777,079	944,099	Topcoat in 2019 and holdback release in November 2020.		
Erie St. Improvements - Lorne to Gibb	G-931-9747	2017-2018	940,894	918,592	22,302	Holdback release in June 2019.		
TOTALS OF CARRY FORWARD PROJECTS			36,699,527	9,286,084	27,053,775			



MANAGEMENT REPORT

Date: January 22, 2019
To: Finance and Labour Relations Sub-committee
From: Michael Humble, Director of Corporate Services
Report#: FIN19-003
Attachments: Draft Tangible Capital Asset Policy

Title: Tangible Capital Asset Policy

Objective: To seek Council approval for a tangible capital asset policy.

Background: The City does not currently have a policy relating to the financial management and tracking of Tangible Capital Assets (TCA). A draft policy relating to TCA's was developed in 2008 and has been used by Finance staff to monitor asset acquisitions, disposals and calculate gains/losses on disposal and amortization for reporting purposes.

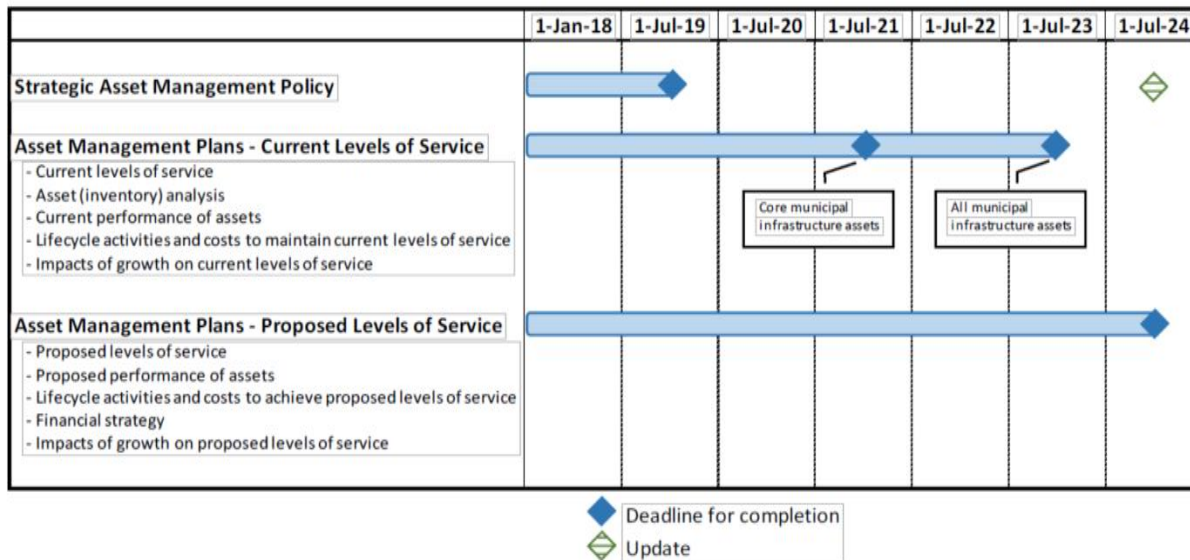
This draft policy was the guiding document for the creation of the original asset database to ensure compliance with PSAB 3150 regulations that came into effect in 2009.

The Provincial Municipal Infrastructure Strategy (2012) required municipalities that were requesting infrastructure funding to prioritize their needs by showing how projects fit within an asset management plan.

The City of Stratford's Asset Management Plan was completed in 2013 by Public Sector Digest (PSD) and included the requisite asset classes of Roads, Bridges & Culverts, Storm Network, Water and Wastewater.

On 27th December 2017, the Province of Ontario released O. Reg. 588/17 under the *Infrastructure for Jobs and Prosperity Act, 2015 (IJPA)* which regulates asset management planning for municipal infrastructure.

The figure below provides a graphical representation of the phase-in timing identified in the Regulation.



a) **1st July 2019** – all municipal governments to have a strategic asset management policy. Section 3 of the regulation sets out 12 matters that this policy must include and the policy must be reviewed every 5 years.

b) **1st July 2021** - all municipal governments to have an adopted asset management plan for core assets (roads, bridges and culverts, water, wastewater and storm-water management) that discusses current levels of service and the cost of maintaining those services. The regulation sets out both qualitative descriptions and technical metrics for each of the core assets.

c) **1st July 2023** - Municipal governments to have an adopted asset management plan for all of its other municipal infrastructure assets, including current levels of service and the cost of maintaining those services. The municipality is to set the technical metrics and qualitative descriptions for its other assets (e.g., culture and recreation facilities).

d) **1st July 2024** - The asset management plans shall include a discussion of proposed levels of service, the assumptions related to the proposed levels of service, what activities will be required to meet proposed levels of service, and a strategy to fund the activities.

Analysis: Public Sector Digest has been engaged to guide the City through the various stages of

- Identifying, collecting and recording all asset data in a consistent format,
- promoting the use of condition-based data to measure remaining useful life (instead of broad age-based criteria,
- incorporating replacement cost metrics instead of inflating historical cost for assets,
- consideration of both current and desired service levels,
- refreshing our Asset Management Plan and expanding its scope from core infrastructure assets to all asset categories (now to include Land Improvements, Buildings, Fleets Vehicles and Equipment),
- meeting regulatory compliance timelines.

The first step before embarking on this project is to define what an asset is, set thresholds for measurement materiality, provide direction for the recognition, recording and reporting of Tangible Capital Assets on a consistent basis and in accordance with Public Sector Accounting Standards.

The Tangible Capital Assets Policy is required to:

- measure and report the full cost of the City's capital operations;
- ensure that all tangible capital asset acquisitions are approved by Council;
- ensure that clear guidance and support is provided to departments; and
- support stewardship of the City's tangible capital assets.

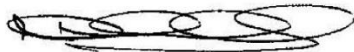
The attached policy has been updated from the 2008 internal draft document in terms of materiality thresholds and the updated definition of pooled asset classes.

The policy has been discussed and reviewed by Corporate Leadership Team and will promote a consistent corporate consideration of asset activity.

Financial Impact: There is no financial impact to adopting a Tangible Capital Asset policy for the City of Stratford.

Staff Recommendation: **THAT the report of the Director of Corporate Services dated 15th January 2019, regarding a tangible capital asset policy be received for information;**

AND THAT Council approve the attached draft Tangible Capital Asset policy.



Michael Humble, Director of Corporate Services



Rob Horne, Chief Administrative Officer

The Corporation of the City of Stratford

Policy Manual

F.1 Financial and Fiscal

Dept: Corporate Services

Committee: Finance and Labour Relations

F.1.16 Tangible Capital Asset Policy

Adopted: _____, 2019

Amended:

Reaffirmed:

Related Documents:

☒ Council Policy ☐ Administrative Policy

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Tangible Capital Asset Policy (TCA Policy)

SECTION 1: GENERAL

1.1 Purpose

The purpose of this policy is to provide a framework for the City of Stratford's asset accounting processes in accordance with Generally Accepted Accounting Principles (GAAP) and pronouncements of the Public Sector Accounting Board (PSAB) specifically PS 3150.

1.2 Policy Objectives

The objective of this policy is to ensure that tangible capital assets are recorded appropriately and accurately. This policy supports the following corporate objectives:

- Fiscal responsibility
- Accountability
- Compliance with PSAB
- Need to manage corporate infrastructure
- Enhanced measurement of cost of service
- Improved information to support long term planning
- More comprehensive communication with citizens

1.3 Application

This policy applies to all Departments, Agencies and Boards of the City of Stratford. All entities to which this policy is applicable are responsible for the implementation and operation of an internal control system that ensures tangible capital assets are accounted for in accordance with this policy.

SECTION 2: POLICY DIRECTIVES AND GUIDELINES

The following guidelines are intended to facilitate decision-making and assist departments in applying this policy:

- Capital investment decisions will have a significant impact on future operations as a result of amortization charges, and the fact that these charges represent non-discretionary costs. Departments, Agencies and Boards should recognize the impact such investments will have on annual costs of the City; and
- Departments, Agencies and Boards are to apply the policy consistently from year to year.

2.1 Definition of Tangible Capital Assets

Tangible Capital Assets (TCA) are non-financial assets having physical substance that are acquired, constructed or developed and:

- are held for use in the production or supply of goods and services;
- have useful lives extending beyond an accounting period;
- are intended to be used on a continuing basis; and
- are not intended for resale in the ordinary course of operations.

Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and sewer systems, computer hardware and software (either purchased or developed internally), bridges, leasehold improvements, and capital assets acquired by capital lease or through donation.

Approaches to Defining TCAs

The two methods of defining capital assets are:

- Whole Asset Approach
- Component Approach

The whole asset approach considers an asset to be an assembly of connected parts. Costs of all parts would be capitalized and amortized as a single asset by year of acquisition. For example a computer network, signage or a building may be considered as single assets.

Under the component approach different components are individually capitalized and amortized. For computers, the servers, routers, lines, software may be listed as individual assets. For buildings, the roof, foundation, HVAC and framing may be components. Either approach is equally acceptable. A department may choose the method that best serves its needs. In certain circumstances, it is appropriate to allocate the total disbursement on an asset to its component parts and account for each component separately. This is the case when the component assets have different useful lives or provide economic benefits or service potential to the entity in a different pattern, thus necessitating use of different amortization rates.

Factors that may influence the choice of method include:

- Significance of amounts;
- Quantity of individual asset components (volume);
- Availability of information with respect to specific components;
- Specific information needs of management for decision-making and asset control purposes.

2.2 Exclusions

The following capital assets are excluded from the TCA policy:

- Intangibles including copyrights, trademarks, patents, goodwill and rights of way;
- Assets listed for sale if the following conditions are met:
 - a. The asset is in a condition to be sold
 - b. There is an active market for the asset
 - c. There is a plan for selling the asset; and,
 - d. It is reasonably anticipated that the sale to a purchaser external to the City will be completed within one year of the reporting date.

Although works of art and historical treasures will not be recognized as tangible capital assets in the financial statements, notes to the financial statements must disclose these items and therefore must be inventoried with no historical cost.

2.3 When to Account for and Recognize a TCA

A tangible capital asset should be accounted for and recognized in Stratford's financial statements when:

- It is probable that future benefits associated with the tangible capital asset will be obtained;
- There is an appropriate basis of measurement and a reasonable estimate of the amount can be made;

The acquisition date of a tangible capital asset is the earliest of:

- The date on which the tangible capital asset being constructed is complete and ready for use; or,
- The date legal ownership of the tangible capital asset is transferred to the Municipality.

Determining when a tangible capital asset is completed and ready for use requires consideration of the circumstances. Such determination would normally be made with reference to whether the tangible capital asset is in a condition ready to be put into service. Normally, it would be pre-determined with reference to factors such as productive capacity or occupancy level.

For a new tangible capital asset, certification that the asset has met engineering and safety standards and is ready for public use will provide evidence that the tangible capital asset is completed and ready for use. Certification by an architect, issuance of an occupancy permit or engineering certification may provide evidence that a new building or highway is ready for use.

If construction of the tangible capital asset is terminated or deferred indefinitely before completion, the costs capitalized to-date must be expensed, unless there is an alternative use for the tangible capital asset.

2.4 Defining the Cost of Tangible Capital Assets

Cost is the amount of consideration given up to acquire, construct, develop, or better a tangible capital asset and includes all costs directly attributable to its acquisition (including installation), construction, development or betterment of the tangible capital asset.

These costs may include, but are not limited to:

- Professional fees charged by an outside third party for services rendered such as appraisal, application, survey, inspection, design, engineering, architectural environmental assessments and other similar types of activities;
- The costs of a betterment (see Betterments Section 2.10) that is incurred subsequent to the initial acquisition or construction of a tangible capital asset, such as an addition to existing tangible capital asset (e.g. addition of a lane to an existing highway or a new extension to a building).
- An appropriate share of overhead and indirect costs that can be directly attributable to the acquisition, development and construction of a tangible capital asset;
- Direct costs incurred with outside parties for the inspection, supervision and administration of construction contracts and construction work;
- Land acquisition costs, such as purchase price, appraisal fees, brokerage fees, survey fees and legal fees;
- Site preparation costs, such as landscaping for buildings;
- Land improvement costs, such as the cost of preparing land to facilitate the new construction or expansion of an existing highway or road, such as rock-cuts, back-filling, grading and major landscaping;
- Miscellaneous costs such as handling and storage charges; transportation/ freight charges to the point of initial use; transportation insurance costs; utility costs; and any other costs incurred related to the acquisition, construction, development or betterment of the tangible capital asset;
- Damage claims made by outside parties during the construction of a tangible capital asset and related legal fees; and
- Fair values of land, facilities and equipment donated (see Contributed Assets Section 2.20) to the Municipality.

Indirect labour costs are allowable as long as the staff time is clearly attributable to the project and staff are 100% chargeable to certain projects and do not have other non-chargeable duties when not engaged in project work.

Interest costs related to the financing of the acquisition or construction of a tangible capital asset are not capitalized.

The definition of cost precludes the netting of capital grants or donations against the cost of the asset.

If a cost, direct or indirect, is not absolutely necessary for completing the acquisition or betterment of a tangible capital asset, it is not allowable for capitalization.

2.5 Thresholds

Tangible Capital Asset	Threshold
Land	Capitalize all
Land Improvements	\$25,000
Buildings and Building Improvements	\$10,000
Leasehold Improvements	\$10,000
Vehicles	\$10,000
Equipment	\$10,000
Infrastructure	\$25,000

Note – The threshold for pooled assets will be \$25,000. The threshold for individual items within the pooled assets is \$1,000.

2.6 Asset Classes and Sub-classes

Tangible capital assets must be classified in order to facilitate reporting. Assets will be classified in two ways; the first is a “primary” classification that describes what an asset objectively is (i.e. land, building, equipment etc.). This primary asset class will have two tiers, the first of which will classify assets as either “general capital” or “infrastructure”. Assets will also be assigned a second sub-tier which identifies more specifically whether it is part of one of the following list of objects: land, land improvements, buildings and building improvements, leasehold improvements, vehicles, machinery & equipment or linear. These classes and sub-classes are defined in the following table:

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
Tangible capital assets that is part of the infrastructure asset class. Includes, but is not limited to Parks, Recreation facilities, Fire, EMS, Police, Waste Collection and Disposal, Landfill.	Tangible capital assets are composed of linear assets and their associated specific components, generally constructed or arranged in a continuous and connected network. Includes but is not limited to: Transportation Infrastructure (Roads – including cycling lanes, bridges, tunnels, public transit rail line portion only, drainage systems), Utilities (telephone, gas and electrical) and Environmental Infrastructure (water delivery systems, waste water treatment, storm drainage systems).

Land

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
<p>Real property in the form of a plot, lot or area. 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, and clearing, removal of old buildings (net of salvage), assumption of liens or mortgages, and any additional land improvements that have an indefinite life. The costs associated with improvements to land are added to the cost of the land if those improvements can be considered permanent (such as re-grading or filling of the land).</p> <p>Excludes forests, water and other mineral resources and land held for resale (a separate non-financial asset). General Capital - Land includes land for administrative buildings, parks, playgrounds, fields, open space.</p>	<p>Land as defined in the General Capital asset class that is associated with infrastructure. Includes land under roads and land associated with road allowances, sewage treatment plant sites, pump station properties, etc.</p>

Land Improvements

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
<p>Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use, which generally decay or break down over time. Land improvements that are removable and can degrade or deplete over the course of time through use or due to the elements, should be separately capitalized and their value amortized over the useful life of the improvement.</p> <p>General capital land improvement examples include but are not limited to: landfill site development, construction of driveways, parking lots, retaining walls, bike paths in parks, drop off locations, sidewalks, fencing, patios, water fountains, outdoor swimming or wading pools, ball diamonds, soccer fields, irrigation systems, tennis courts and the like.</p>	<p>Land improvements as defined in the General Capital asset class that are associated with infrastructure. Examples include but are not limited to: parking lots for water/waste water sites, driveways through such sites; site improvements such as grading at works yards whose purpose is to serve as a base for maintaining Infrastructure.</p>

Buildings

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
<p>General capital buildings include all structures that provide shelter from the elements which function independent of an infrastructure network. Includes capital and betterments to general capital buildings that are owned by the municipality.</p> <p>Examples include but are not limited to: EMS stations, bus transit facilities, sport and recreation facilities, office buildings, fire/police stations, libraries, pavilions, change rooms, park washrooms & concession buildings, band shells, ticket kiosks, crematoriums, chapels, mausoleums, waste depots, recycling facilities.</p>	<p>Buildings as defined in the General Capital asset class that is associated with infrastructure. Examples include: wastewater treatment control buildings, water supply buildings, buildings in works yards dedicated to Infrastructure maintenance, rail transit facilities.</p>

Machinery & Equipment

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
<p>An apparatus, tool, device, implement or instrument that likely uses energy (for ex. human, electrical, hydraulic fuel, or thermal) to facilitate a process, function or completion of a task. Machinery and equipment may also include furniture and fixtures. It may be installed within a building, but is generally capable of being moved and reinstalled at a different location, if need be (that is, it is not permanently affixed to or integrated into the building or structure in which it resides).</p>	<p>Machinery & Equipment as defined in the General Capital asset class that is associated with infrastructure.</p>

Vehicles

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
<p>A means of transportation, usually having wheels, for transporting persons or things or designed to be towed behind such an apparatus. Includes automobiles, trucks, trailers, motorcycle, boats, etc.</p>	<p>N/A</p>

Linear Assets

GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
	<p>The Linear assets sub class applies only with respect to the "Infrastructure" class and has no counterpart in the "General Capital" class. Linear assets are assets generally constructed or arranged in a continuous and connected network. "Infrastructure – Linear assets" includes connected :</p> <ul style="list-style-type: none"> • surface systems such as roads, sidewalks, bridges, drainage ditches, street lights, and transit rail lines; and • underground systems such as water distribution pipe systems, wastewater collection pipe systems, manholes, catch basins, and storm drainage collection systems and tunnels.

Each asset will also be classified according to its "functional" category which identifies the program area in which the asset is used. Functional categories will tie to those used in the Financial Information Return (FIR). If an asset is used by two or more program areas additional allocation methods will be utilized.

2.7 Amortization

Amortization (Depreciation) is the process of allocating the cost of a tangible capital asset (less its residual value), over its estimated useful life in order to match costs with the revenues or public services that they help generate. Amortization expense is an important part of the cost associated with providing municipal services, regardless of how the acquisition of tangible capital assets is funded. Amortization should be apportioned over an assets' useful life in a rational and systemic manner appropriate to that particular asset's nature and use.

Amortization for the City of Stratford will be based on the straight line method of depreciation.

Amortization should start as soon as an asset is completed and ready for use, therefore, work in progress accounts (see Work-in-Progress Section 2.19) should be closed as soon as the asset is completed. This would be the case even if the decision were made to delay placing the asset into service. Where construction of an asset is comprised of distinct, multiple and self-contained phases, amortization must begin for the distinct phases that are completed. The start date will be the first day of the month following the month the asset is placed into service.

For example, the construction of a new road may involve multiple phases that will be open for public use at different points in time. The amortization must begin as soon as each individual distinct phase is completed and ready for public use.

The amortization charge calculated each year is treated as an expense. It forms part of the cost of operations and contributes directly to the net annual operating cost of the department. The annual amortization expense does not represent a cash outflow in that year – the cash outflow occurred when the asset was acquired. It also is not an indication of how much is needed to be spent on future asset acquisition (replacement or renewal) or on asset maintenance.

2.8 Useful Life

Useful Life is the estimate of the number of years over which a tangible capital asset is expected to be used.

The economic or physical life of an asset may extend beyond the useful life of an asset. Estimating useful lives of assets is a matter of judgement based on experience and should be applied on a consistent basis. Factors to be considered in estimating the useful life include:

- Expected future usage;
- Technical obsolescence;
- Expected wear and tear through the passage of time;
- Maintenance program; and
- Condition of existing comparable items.

Useful life will be established through collaboration with the operating departments and the Finance Department. The service potential of an asset is normally consumed through usage. Factors such as obsolescence, excessive wear and tear or other events could significantly diminish the service potential that was originally anticipated from the asset (see Write-Down Section 2.17).

Financial reporting standards require the useful life of an asset to be reviewed at the end of each reporting period, and, if expectations differ from previous estimates, the change in useful life is to be accounted for as a change in an accounting estimate. The rationale supporting the decision to revise useful life estimates of an asset should be documented.

Current Useful Life ranges are:

Land Improvements	20 to 30 years
Buildings and Building Equipment	15 to 50 years
Computer Equipment	5 years
Furniture and Fixtures	15 to 30 years
Vehicles	2 to 25 years
Machinery and Equipment	5 to 25 years
Linear Infrastructure	20 to 40 years
Other Capital Assets	50 years
Roads	15 to 60 years

Bridges	60 to 75 years
Water and Wastewater Facilities	35 to 100 years
Underground and Other networks	100 years

2.9 Capital Leases

A capital lease which is defined as a lease that transfers substantially all the benefits and risks incidental to ownership of the property to the City will be treated as a tangible capital asset. A capital lease would normally occur when, at the inception of the lease, one or more of the following conditions are present:

- There is reasonable assurance the City of Stratford will obtain ownership of the leased property by the end of the lease term. This condition is usually signified when ownership does pass at the end of the lease or when the lease provides for a bargain purchase option.
- The lease term is of such duration that the City of Stratford will receive substantially all the economic benefits expected to be derived from the use of the leased property over its life span. The threshold for this benefits test is 75%.
- The minimum lease payments, excluding any portion relating to executory costs, are equal to 90% or more of the fair market value of the leased property at the inception of the lease.

A lease for land is not considered a capital lease unless there is reasonable assurance that ownership will pass to the City of Stratford by the end of the lease term.

2.10 Valuation of Existing TCAs

All existing tangible capital assets must be identified and valued using an appropriate cost base. Departments should consider reasonableness and materiality in their approach. Existing tangible capital assets will be valued using historical costs adjusted for the proportion of the useful life of the asset that has already been consumed through the establishment of a provision for accumulated amortization.

In establishing a reasonable estimate of historical cost, departments may use appraised or some appropriate measure of current value and extrapolate back to estimate historical cost using relevant price/cost index. Replacement cost should not be used unless it is the lower of the cost alternatives.

2.11 Betterments

Expenditures on an asset incurred after it comes into service and prior to, or on its disposal, must either be accounted for as recurrent expenditure and expensed or as capital expenditure and added to the carrying amount of the asset when it is incurred. The decision as to whether the expenditure is expensed or capitalized depends on its relative size (materiality) and the nature of the benefits it brings.

Therefore, betterment costs must be distinguished from repair and maintenance costs. Betterment costs essentially improve or extend the future economic benefits of the assets in excess of that originally assessed. Maintenance costs on the other hand, are

incurred in ensuring the asset delivers its originally assessed economic benefits.

Betterments are costs incurred to enhance the service potential of a tangible capital asset and may or may not extend the useful life of a tangible capital asset. In general, the service potential of a tangible capital asset may be enhanced when there is:

- An increase in the previously assessed service potential;
- A significant reduction in the operating costs of the tangible capital assets due to efficiency gains;
- The useful life of the tangible capital asset is extended; or
- The quality of the output is improved.

Betterments are considered to be capital asset additions for the assets to which they relate and should be recorded as a sub category to the main asset. The following suggested guideline attempts to strike a balance between the risk of material misstatement and the impact on record keeping. Otherwise, the cost should be recorded as a repair and maintenance expense within the department.

- The minimum threshold limit for the capitalization of betterments is equal to or greater than 50% of the historical cost of the related asset and these costs may or may not meet the capitalization threshold for the main asset class; and
- One of the following criteria is met:
 - The estimated life of the asset is extended by more than 25%; or
 - The cost results in an increase in the capacity of the asset; or
 - The efficiency of the asset is increased by more than 10%.

Betterments and replacements include additions to a tangible capital asset, or a substitution of a component part of tangible capital asset. The distinguishing feature between a betterment and a replacement is that a betterment is the substitution of a better component for the one currently used. A replacement is the substitution with a similar component.

Betterments are treated as tangible capital assets, attached to the affected asset, and amortized accordingly. Replacements are treated as ordinary operating expenditures.

2.12 Maintenance

Maintenance expenses are incurred to repair or maintain the pre-determined service potential of a tangible capital asset to the end of its original useful life. These expenses do not enhance the functionality, capacity, usability, and efficiency of the tangible capital asset. Such costs should be accounted for as an expense in the fiscal year in which they are incurred.

Maintenance expenditures are costs to keep the condition of an asset at its expected operating standard. These expenditures are usually incurred on a more or less continuous basis. For example, regular maintenance activities prescribed by the

manufacturer of a new heating, ventilation and air conditioning system (HVAC) would normally be required to ensure that the asset is able to provide service at a level and quality as originally intended by the manufacturer (i.e. lubrication of motor and compressors, replacement of filters). Performance of regular maintenance may also be required as part of the product warranty provided by the manufacturer. Costs that do not increase the original assessed useful life, service capacity or quality of output would be expensed as incurred.

Examples of costs that would be categorized as maintenance expenses would typically include:

- Replacement of individual units or parts of a tangible capital asset due to age, wear-and-tear and damage in order to maintain the tangible capital asset in an operating condition without significantly enhancing the functionality, capacity, usability, and efficiency of the tangible capital asset;
- Costs incurred to service or maintain the tangible capital asset until the end of its estimated useful life, where the estimated useful life is expected not to extend beyond a fiscal year;
- Repairs, including emergency repairs, due to equipment failure;
- Routine cleaning and servicing of equipment;
- Repairs to restore assets damaged by fire, flood or similar events, to a condition just prior to the event; and,
- Costs that must be incurred in order to realize the benefits originally projected from the tangible capital asset.

2.13 Replacement

Replacements involve removal of component parts and substitution of a new part or component of essentially the same type and performance capabilities. If the component being replaced had been previously segregated in the accounting records as a distinct asset for amortization over its specific expected useful life, then the new component is capitalized and the old component is retired with its residual net book value removed from the accounts.

If on the other hand, the component being replaced was not significant enough to be previously segregated from the whole property as a distinct asset, then the replacement is normally considered a repair and the costs are expensed as incurred. If the replacement of the component results in an enhancement of the service potential of the property as a whole, the replacement is considered betterment and the costs are capitalized. Enhancements to service potential only result from replacements which extend the useful life of the property as a whole, increase the capacity or usage of the property, improve the quality of the property to a higher building class or improve the overall operating efficiency of the property. For example, replacing an old HVAC system with a new HVAC system may be viewed as increasing performance capabilities, since after prolonged use the operating efficiency of existing HVAC system usually deteriorates and a new replacement is always more efficient. If the

replacement is essentially restoring the system to the original design standard for the building, the service potential of the overall property has not been enhanced. Accordingly, the replacement is considered a repair cost and expensed.

2.14 Additions

Additions are made to an existing asset to extend, enlarge or expand the existing asset. Examples include adding an extra wing or room to a building or the addition of a lane to an existing roadway. As additions increase service capacity or physical output of a property, they are betterments. The costs of additions should be capitalized. The key consideration is increase of quantity of service or output.

2.15 Upgrades

Upgrades involve the removal of a major part or component of an asset and the substitution of a different component having significantly improved performance capabilities beyond the property's original design standard.

An upgrade increases the overall efficiency (i.e. increasing utilization, lowering operating costs, or increasing output of service) quality (i.e. transforms the asset into a higher class property) or extends expected service life of an asset. The costs of upgrades are capitalized.

The following examples would have characteristics of an upgrade:

- Installing air conditioning in a building that was previously not air-conditioned increasing the service quality of the property;
- Replacing existing lighting with energy saving lighting reducing future operating costs;
- Substituting a tile roof for wooden shingle increasing the expected useful life of the building beyond its currently estimated life;
- Replacing an elevator with a new high speed elevator improving the building class of the overall property; or
- Replacing a furnace with a high efficiency furnace decreasing future operating costs.

2.16 Trade-in

A trade in occurs when an asset is disposed and replaced with a new asset through the same supplier in the same transaction. This transaction should be accounted for as two separate entries. The trade in value should be treated as proceeds of disposal and is used in calculating the gain or loss on the disposal of the assets being traded in. The new asset acquired is recorded at its full cost; trade in value for the old asset does not affect cost.

2.17 Disposals, Gains and Losses of TCAs

On disposal, the historical cost and accumulated amortization is removed from the accounting records. Whether by sale, loss, destruction or abandonment, the difference between the net proceeds on disposal and the net book value should be recognized as a gain or loss in the period the transaction to dispose of the tangible capital asset is completed.

The costs of removal, disposal, and demolition, net of any proceeds on disposal, should be identified and any resulting loss on retirement recognized as an expense in the year of retirement.

Gain on Disposal

A gain on disposal is the amount by which the proceeds realized upon the asset's disposal exceed the net book value of the tangible capital asset. Gains should be allocated to the division that owns the asset.

Loss on Disposal

A loss on disposal is the amount by which the net book value of the tangible capital asset exceeds the proceeds realized upon the asset's disposal, after applying the half year of amortization in the year of disposal (if applicable). Losses should be allocated to the division that owns the asset.

2.18 Write-Down/Off

A write down is used to reflect a partial impairment in the value of an asset. A write off is used to reflect total impairment in the value of an asset. Capital assets are written off in instances where they are destroyed, stolen, lost, sold or obsolete. The write off of an asset requires approval by the Finance Department. Any abandoned or indefinitely postponed projects must be written down to their net realizable value and charged to the period in which the abandonment or indefinite postponement occurs. When the reduction in the value of the asset can be objectively estimated and it is expected to be permanent, the asset must be written down.

Conditions that indicate a write down is necessary may include a change in the manner or extent to which the asset is used:

- Change in the manner or extent an asset is used
- Removal of the asset from service;
- Physical damage;
- Significant technological developments;
- A decline in, or cessation of the need for the service provided by the asset;
- A decision to halt construction of the asset before it is complete or in useable or saleable condition; or
- A change in the law or environment affecting the extent to which the asset can be used.

Regardless of any change in circumstances, a write-down would not be reversed.

2.19 Removed From Service

If the tangible capital asset is permanently removed from service and is not being used by the City, amortization should cease and its carrying value should be written down to its residual value.

If the tangible capital asset is temporarily removed from service, amortization should continue. The estimated useful life of the tangible capital asset should not be revised due to the temporary nature of the removal of the tangible capital asset from service. Once the City has made a decision on how the tangible capital asset will be re-deployed, the estimated useful life of the tangible capital asset would be revised and amortization would be based on the new future usage of the tangible capital asset.

2.20 Work in Progress

Work in progress or construction in progress represents the costs incurred to date on a project, which is incomplete.

Work in progress for assets under development or construction must be recorded on the financial statements for the accounting period. All costs associated with holding assets that are currently in the construction phase are to be capitalized.

When a project has distinct, multiple, completely self-contained phases that will be brought into production or use at different points of time, the operating department shall use professional judgement to determine the appropriate timing for transfers from work in progress to assets.

Work in progress balances must be reconciled and the appropriate transfers from work in progress made to completed assets or written off to ensure that only active and incomplete work in progress is carried forward to the next period. The reconciliation should be done quarterly or at a minimum must be done annually.

The cost of a tangible capital asset under construction that is not completed and not ready to be put into service will be reported as work-in-progress in Stratford's statement of financial position.

Work-in-progress only applies to tangible capital assets that meet the capitalization threshold specific to the related asset class.

Costs included in work-in-progress are identical to those described in the paragraphs under Defining the Cost of Tangible Capital Assets.

All costs capitalized in work-in-progress must be written-off if construction of the tangible capital asset is terminated or deferred indefinitely, and there is no alternative use for the work-in-progress.

Amortization is not to be recorded on work-in-progress. Amortization should not be taken on work-in-progress until it is transferred into the specific tangible capital asset category that would indicate the work-in-progress is ready for use.

2.21 Contributed Capital Assets

Contributed Capital Assets are tangible capital assets which have been given to the City of Stratford for its use in delivering programs, whereby all or part of the acquisition costs of that asset are paid for by the contributor. For example, land may be contributed by another level of government at zero or nominal consideration to facilitate the construction of a roadway or structure. A developer may install services such as water/sewer mains or roads within a subdivision at its own cost and then turn them over to the municipality to operate, maintain and replace.

Where the City receives a contribution or donation of capital assets, the cost of the capital asset will be reflected at the fair value of the asset at the date of donation as at the acquisition date and deferred revenue will be recorded in an equivalent amount, for all assets except land. The deferred revenue will be recognized as revenue over the useful life of the related asset, on the same basis that the amortization of the asset cost is determined. Fair value may be estimated using market or appraised values. When an estimate of fair value cannot be reasonably estimated, the asset will be recognized at its nominal value.

Where the contributed asset is land, the land will be recorded at its fair market value on the date of contribution, and revenue will be recorded in an equivalent amount.

Fair value is established by reference to market or appraised values. Where fair value cannot be determined the asset should be recorded at a nominal value.

APPENDIX - DEFINITIONS

Accumulated Amortization

Accumulated amortization represents the total to date of the periodic amortization charges relating to tangible capital assets since the assets were placed in use or represents the total consumed or used portion of that asset.

Amortization

Amortization is the process of allocating the cost of a tangible capital asset, net of its residual value, over its estimated useful life. Amortization allocates the cost of a tangible capital asset in a systematic and rational manner matches the cost of the tangible capital asset to the periods in which service is derived from the asset.

Acquisition Cost

Acquisition cost is the 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.

Betterment

Betterments are costs incurred to enhance the service potential of a tangible capital asset and may or may not extend the useful life of a tangible capital asset. In general, the service potential of a tangible capital asset may be enhanced when there is:

- an increase in the previously assessed service potential;
- a significant reduction in the operating costs of the tangible capital assets due to efficiency gains;
- the useful life of the tangible capital asset is extended; or
- the quality of the output is improved.

Buildings

Buildings include large and complex high-rise office towers and special-purpose buildings such as prisons and courthouses and simple structures such as salt domes and tool sheds. Components of a building will include:

- Frame
- Walls
- Extensions
- Roof
- Doors
- Windows
- Floors

Capital Leases

A capital lease is defined as a lease that transfers substantially all the benefits and risks incidental to ownership of the property to the lessee. A capital lease would normally occur when, at the inception of the lease, one or more of the following conditions are present:

- There is reasonable assurance the lessee will obtain ownership of the leased property by the end of the lease term. This condition is usually signified when ownership does pass at the end of the lease or when the lease provides for a bargain purchase option.
- The lease term is of such duration that the lessee will receive substantially all the economic benefits expected to be derived from the use of the leased property over its life span. The threshold for this benefits test is 75%.
- The minimum lease payments; excluding any portion relating to executory costs, is equal to 90% or more of the fair market value of the leased property at the inception of the lease.

A lease for land is not considered a capital lease unless there is reasonable assurance that ownership will pass to the lessee by the end of the lease term.

Cost

The cost of a tangible capital asset is the 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.

Disposals

Disposals occur when the ownership of a tangible capital asset is relinquished and may occur by sale, destruction, loss or abandonment. At this time the cost and accumulated amortization of the asset is reduced to zero.

Expenditures

Expenditures are the cost of goods and services acquired in the period whether or not payment has been made or invoices received and include transfer payments due where no value is received directly in return.

Expenses

Expenses are the cost of resources consumed in and identifiable with the operations of the accounting period.

Fair value

Fair value is the amount of the consideration that would be agreed upon in an arms-length transaction between knowledgeable, willing parties, who are under no compulsion to act.

Infrastructure

Municipal infrastructure is all capital assets required to create and maintain a safe, secure and sustainable community. Municipal Infrastructure includes but is not limited to:

- transportation infrastructure (e.g., roads, bridges, public transit);
- utilities and environmental infrastructure (e.g., water delivery systems, sewage treatment systems, recycling systems, landfills);
- infrastructure enabling the provision of protective services (e.g., police, fire, flood mitigation);

- parks, recreation and cultural facilities (e.g., arenas, playgrounds, pools, trails, libraries, community and art centres);
- electronic infrastructure (e.g., broadband networks, information systems);
- municipal civic institutions (e.g., City/Town Hall, Administration buildings)

Land

Land includes land purchased or acquired for use, for preservation, for parks and recreation, for building sites, for infrastructure and for other program use.

Net Book Value

The net book value is the difference between the cost of a tangible capital asset and both its accumulated amortization and the amount of any write-downs. It represents the unconsumed cost of a tangible capital asset attributable to its remaining service life. Net book value will always include the residual (scrap) value of a tangible capital asset.

Professional Judgment

Professional judgment is based on an individual's past experiences and training. In the presence of uncertainty, the application of judgment is inevitable. Professional judgment must be used in determining which costs are to be capitalized; the proper classification of certain assets, the residual value to apply, and the appropriateness of the useful life, among other things.

Repairs and Maintenance

The cost incurred to maintain the service potential of a tangible capital asset is a repair. These expenditures are made to maintain the asset in operating condition and are expensed in the year they occur.

Residual Value

It is the estimated net realizable value of a tangible capital asset at the end of its useful life to the Municipality.

Service Potential

It is the output or service capacity of a tangible capital asset, that is normally determined by references to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

Straight Line Method of Amortization

The straight line method is an approach of amortizing a tangible capital asset where the amortization is considered as a function of time instead of a function of usage. It is assumed that the economic usefulness is the same each year and therefore the amortization charge is the same for each year of its useful life.

Threshold Amount

Generally, the threshold amount for each category is the minimum cost an individual asset must have before it is treated as a tangible capital asset and added to proper asset class balance. The threshold amount is to be used as a guide in addition to professional judgment.

Useful Life

Useful life is the estimated period over which a tangible capital asset is expected to be used by the City. The useful life of a tangible capital asset, other than land, is finite and is normally the shortest of the physical, technological, commercial, and legal life. The life of a tangible capital asset may extend beyond the useful life of the tangible capital asset.

Works of Art and Historical Treasures

Properties that have cultural, aesthetic or historical value that is worth preserving perpetually. These assets are not integral to the City's operations and are not included in the tangible capital assets at this time as a reasonable estimate of future benefits cannot be made.

Work-in-Progress

Work-in-progress consists of construction or development of a tangible capital asset in progress that is not yet in use.

Write-down

Write-down is the reduction in the cost of a tangible capital asset made when the value of future economic benefits associated with the asset is less than its net book value.

Write-off

A write-off is used to reflect a complete (100%) impairment of the value of a tangible capital asset. The carrying value of a tangible capital asset, net of its residual value, should be written off if the tangible capital asset can no longer contribute to the City's ability to provide service and the impairment is permanent in nature.