



POLICY

TITLE: Capital Asset Policy
NUMBER: FIN-003
CATEGORY: Finance
DATE: March 22, 2018
REFERENCES: By-Law 2018-36

1.0 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.

2.0 SCOPE:

This policy applies to all Municipal departments, boards and commissions, agencies and other organizations falling within the reporting entity of the Municipality.

3.0 DEFINITIONS:

Tangible Capital Assets:

Assets having physical substance that;

- a) Are used on a continuing basis in the Municipality's operations.
- b) Have useful lives extending beyond one year.
- c) Are not held for re-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 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.

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.

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.

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 Municipality. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met;

- a) There is reasonable assurance that the Municipality will obtain ownership of the leased property by the end of the lease term.
- b) The lease term is of such a duration that the Municipality will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.
- c) The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.

4.0 Capital Asset Addition Overview:

A. Purchased Capital Assets greater than the capitalization threshold for the asset class will be recorded at historical/original cost. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs and professional fees.

Group purchases of assets greater than the capitalization threshold should be recorded at historical cost. Group assets are assigned to one specific location, are movable property requiring loss control, and have a useful life extending beyond a single reporting period. Group assets include office furniture, library books, and computer equipment. Group purchases less than the threshold are not capitalized.

Capital Assets should be amortized over their useful lives as determined for each asset class. Land, and some land improvements, are considered inexhaustible and are, therefore, not subject to amortization.

B. If determining historical costs is not practical due to inadequate records, reporting will be based on estimates of original cost at the date of construction or purchase.

C. Depending upon the information available and the category of the asset, capital asset records will include all or part of the following:

Description	Estimated Useful Life
Asset Class	Amortization Method
Serial Number	Salvage Value
Cost	Accumulated Amortization
Location or Functional Area	Amortization Expense
Acquisition Date	Replacement Cost

D. The Department Head will inform the Treasurer of each asset acquisition so all the required information is recorded in the asset register for future tracking, amortization and accounting of the asset.

5.0 Categories

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

- Land
- Land improvements
- Buildings
- Roadway systems
- Water systems
- Wastewater systems
- Storm sewer systems
- Machinery and equipment
- Vehicles
- Playground Equipment

6.0 Donations:

Donated Capital Assets will be reported at fair market value plus ancillary charges, if any, at the time of donation. Donated assets are amortized over their useful lives as determined for each asset class. If determining historical costs is not practical due to inadequate records, reporting will be based on estimated fair market value at the date of donation.

7.0 Collections:

Works of art, historical treasures and similar assets will not be capitalized.

8.0 Infrastructure:

Definition: Infrastructure assets are long-lived capital assets that normally are stationary in nature and can normally be preserved for a significantly greater number of years than most capital assets. Infrastructure includes roads, electrical distribution systems, street lighting, water wells, etc.

A. Infrastructure assets will be amortized over their useful lives.

B. Routine repairs and maintenance costs are charged to operations as incurred. Expenditures that extend the useful life of the infrastructure are capitalized as part of the asset and amortized over the newly established useful life.

9.0 Useful Lives:

Useful lives of capital assets relate to the life expectancy as used by the specific governmental unit. The following table should be used to assist the municipality in estimating the useful life of a capital asset:

Asset Class Years/Range

Land N/A

Site Improvements Paving, retaining walls, sidewalks, fencing, outdoor lighting 15-20

Buildings 40-50

HVAC Systems Heating, ventilation and air conditioning systems 20-25

Roofing 20-25

Interior Construction 25-30

Electrical/Plumbing 25-30

Sprinkler/Fire System 20-25

Outdoor Equipment Playground, radio towers, fuel tanks, pumps 15-20

Computer Hardware PC's, printers, network hardware 3-5

Computer Software 5-10

Library Books Collections 5-7

Licensed Vehicles 8-10

Equipment Mowers, tractors, attachments 10-15
Road base 50
Road surface 15-25
Water infrastructure 40-60
Sewer infrastructure 60

10.0 Amortization:

A. Amortization is required for the Municipality's Capital Assets. Amortization is allocated to expense in a systematic and rational manner. Amortization is calculated using the Straight Line method and reported by areas of activity (function). The municipality calculates amortization on all capital assets reported in the municipality's financial statements other than land, permanent improvements to land, and construction in progress.

B. Amortization may be calculated for a class of assets, a network of assets or individual assets.

C. Additions and disposals/reductions/writedowns will be deemed to have occurred on January 1st in the year of the change. A full year of amortization will be taken in the year of acquisition and none in the year of disposal.

11.0 Disposals:

A. Sale of Capital Assets: When capital assets are sold, calculation of gain or loss on disposal is required. The calculation is based upon the amount of proceeds received less the net book value (cost less accumulated amortization taken on the asset).

B. Trade-ins: The value given for a trade is part of the cost of the newly acquired asset. The costs and accumulated amortization of the traded-in asset must be removed from the books. Any gain or loss resulting from the disposition of the asset will be recognized as a gain or loss on disposal.

C. Disposal of tangible capital assets is the responsibility of the appropriate Department Head. Department Heads must notify the Treasurer when assets become surplus to operations, destroyed or replaced due to obsolescence, scrapping or dismantling. Notification will include the asset description, asset number, effective date and the proceeds of the disposal (if any). The Financial Assistant is responsible for updating the asset registers and accounting records.

12.0 Assets Acquired by Capital Lease:

Assets acquired by Capital Lease are recorded at the net present value of the future minimum lease payments. A corresponding liability is established at this time. Assets acquired under the terms of capital leases are amortized over the useful lives designated for the asset class.

13.0 Scheduled Review

The capital assets in each asset class should be reviewed periodically to ensure the municipality is still actively using all the assets and the assumptions regarding useful life and value remain the same.

Summary Table of Classes, Capitalization Thresholds and Amortization Method

Major Asset Class	Minor Asset Class	Capitalization Threshold	Amortization Method
Land		All land will be recorded	N/A
Land Improvements		\$10,000	Straight Line
Buildings		\$50,000	Straight Line
	HVAC	\$5,000	Straight Line
	Roofing	\$10,000	Straight Line
	Interior Construction	\$25,000	Straight Line
Engineered Structures	Roadway Surface	\$50,000	Straight Line
	Roadway Base	\$50,000	Straight Line
	Water System	\$50,000	Straight Line
	Wastewater System	\$50,000	Straight Line
Machinery		\$20,000	Straight Line
Vehicles		\$10,000	Straight Line
Equipment & Software		\$5,000	Straight Line
Playground		\$5,000	Straight Line