

# **Tangible Capital Asset Policy**

## **Purpose:**

The objective of this policy is to prescribe the accounting treatment for tangible capital assets. 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.

## **Scope:**

This policy applies to all Town departments and Boards falling within the reporting entity of the Town.

## **Definitions:**

### **Tangible Capital Assets (TCA):**

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.

### **Betterments:**

Subsequent expenditures on tangible capital assets that:

- Increase the 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.

### **Grouped Assets:**

Assets that have a unit value below the capitalization threshold but have a material value as a group. A grouped asset will be considered for only the implementation of the TCA policy as a single asset with one combined value. Thereafter, the individual asset capitalization threshold will be considered to determine whether the asset is capitalized or expensed.

### **Fair Value:**

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties.

### **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.

### **Linear Assets:**

Linear assets are assets generally constructed or arranged in a continuous and connected network. Linear assets include surface systems such as roads, sidewalks, bridges, street lights, and underground systems such as water distribution systems, wastewater collection systems, manholes, catch basins and storm drainage collection systems.

### **Policy Statements:**

#### **Capitalization:**

Tangible capital assets should be capitalized according to the following thresholds:

- All land;
- All land improvements (i.e. site improvements, irrigation, etc.);
- Motorized vehicles with a unit cost of \$5,000 or greater;
- Building and building improvements with a unit cost of \$25,000 or greater.
- Linear assets with a unit cost of \$25,000 or greater.
- All other assets with a unit cost of \$5,000 or greater.

Works of art and historical treasures are not recognized as tangible capital assets.

Assets with costs below the above thresholds are not capitalized or tracked.

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

**Categories:**

A category of assets is a grouping of assets of a similar nature or function. The following list of categories shall be used:

- Land;
- Buildings;
- Equipment;
- Roads;
- Storm sewers;
- Bridges;
- Communication networks;
- Motor vehicles;
- Furniture and fixtures;
- Computer systems (hardware and software).

**Valuation:**

Tangible capital assets are recorded at cost, plus all ancillary charges necessary to place the asset in its intended location and condition of use. For implementation purposes, where historical cost records are not available, the Town will discount the asset's estimated replacement cost back to the year of acquisition to arrive at the asset's estimated original cost.

Cost of purchased assets is the gross amount of consideration paid to acquire the asset and includes all non-refundable taxes, duties, freight, delivery charges, installation and site preparation costs. Cost of land includes the purchase price plus legal fees, land registration fees, transfer taxes and any costs to make the land suitable for intended use, such as site improvements. When two or more assets are acquired for a single purchase price, the purchase price is allocated 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.

Cost of acquired, constructed or developed assets includes all costs directly attributable to the asset. Carrying costs, such as administrative costs and borrowing costs, are not capitalized.

The cost of donated or contributed assets is equal to the fair value at the date of construction or contribution. Fair value may be determined using market or appraisal values.

**Componentization:**

Tangible capital assets are accounted for using:

- Aggregate or single asset approach based on segments, for linear assets;
- Component approach based on unit values for all other assets.

The aggregation of linear assets will result in individual sub-projects being expensed. For example, all costs related to the reconstruction of a road segment are aggregated and capitalized. However, for the resurfacing of a segment of roads, this is a maintenance or operating expenditure.

#### **Amortization:**

The cost, less any residual value, of a tangible capital asset is amortized over its useful life using a straight-line method of amortization. The amortization method and estimate of useful life of the remaining unamortized portion is reviewed on a regular basis and revised when appropriate. Useful life is the shortest of the asset's physical, technological, commercial or legal life.

#### **Disposal:**

Disposal of tangible capital assets is the responsibility of each Director. Each Director will notify the Director of Finance of such a disposal or when a tangible capital asset is taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling. The Finance department is responsible for adjusting the asset register and accounting records recording a loss/gain on disposal.

#### **Capital Leases:**

Account for a capital lease as acquiring a capital asset and incurring a liability where the net present value of the future minimum lease payments or fair value, whichever is less, exceeds the capitalization threshold. If the NPV or fair value, whichever is less, falls below the threshold, the lease is treated as an operating lease and payments are expensed when made.

### **17. Tangible Capital Assets**

Presented By: Director of Finance

#### **Resolution**

No. 16

Moved by Councillor Lewis

Seconded by Councillor Beres AND RESOLVED THAT report FI 2007-023 Public Sector Accounting Board Reporting Requirements dated July 31, 2007 be received;

AND FURTHER THAT the Tangible Capital Assets Policy dated July 31, 2007 be adopted.

"Carried"

July 31, 2007