

SECTION: Finance		POLICY #: FIN-007
Date Approved: November 17, 2008		Tangible Capital Assets
Revision Date: December 17, 2018	Review Date: October 30, 2018	
Authority: DCS-14-08, DCS15-18		

COVERAGE

All Town Departments

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, Infrastructure 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 costs, the calculation of amortization charges and the recognition of any related impairment losses.

In addition the policy covers policy and procedures to:

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

2.0 DEFINITIONS

Amortization

Amortization or depreciation is an accounting cost allocation concept in which the recorded cost of a capital asset less estimated residual value (if any) is distributed over its estimated useful life in a consistent manner. This is a process of allocation, not valuation. Amortization is to begin in the month following the month of "in service" date (acquisition and/or invoice date).

Betterments

Betterments are enhancements to the service potential of an asset after its purchase or construction.

Subsequent expenditures on tangible capital assets that fulfill one or more of the following requirements:

- **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.

Capitalization Threshold

Capitalization threshold is the minimum cost an individual asset must have before it is recorded as an asset.

An individual asset purchased under the threshold amount is expensed unless it is part of a pooled asset class.

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;

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

- 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.

Cost

Cost is the amount of consideration given up to acquire, construct, develop or better a capital asset. The cost includes all costs directly attributable to the acquisition, construction, development or betterment including installing the asset at the location and in the condition necessary for its intended use.

Component

Component is a part of an asset with a cost significant in relation to the total cost of the asset. Components of an asset may have different useful lives and are accounted for separately because replacement is expected to occur at a different time than other components of the asset.

Contributed Capital Asset

A contributed capital asset is any capital asset that has been donated, contributed or transferred to the Town without a cash outlay by the Town. The cost of a contributed capital asset is considered to be equal to its fair value at the date of the contribution.

Disposal

Disposal refers to the removal of a capital asset from service as a result of sale, destruction, loss or abandonment.

Estimated Useful Life

A tangible capital assets useful life is the time duration over which benefits are expected to be derived from the asset. It is not to be confused with the assets physical life.

Fair Value

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 in a biased manner. Fair value would be used to assign an amount to a donated asset received by the Town of Hanover.

Gain on Disposal

Gain on disposal is the amount by which the proceeds realized upon an asset’s disposal exceeds the asset’s net book value.

Group/Pooled Assets:

Assets that have a unit value below the capitalization threshold (on their own) but have a material value as a group. Such assets shall be “pooled” and 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 would include the following:

Software	Fire Hydrants	Benches & other park furniture
Street Lights	Firefighter’s Uniforms	Playground Equipment
Furniture & Fixtures	Fencing	Culverts
Small Machinery	Guns, Rifles and other weaponry (ammunition is inventory)	

As similar items are purchased, they will be added to the pool. This may require an inventory to be taken at the end of each fiscal year. If necessary (if the actual count is less than the system tally), an entry will be recorded to adjust the pool balance to the actual inventory count (this will account for pooled units disposed of during the year).

Impairment

Impairment occurs when conditions indicate;

- a) that a tangible capital asset no longer has the ability to provide goods or services;
- b) has the ability to provide the goods or services but at a reduced rate or quality; or
- c) that the value of future economic benefits associated with the capital asset is less than its book value.

“In Service” Date

Realized as the date at which the asset begins to be utilized by the Town. The calculation and recording of amortization will not begin until the “in service” date has been reached.

Loss on Disposal

Loss on disposal is the amount by which the net book value of a capital asset exceeds the proceeds realized upon the asset’s disposal.

Net Book Value (NBV)

Net Book Value is the capital asset cost less accumulated amortization and write-downs. It represents the assets unconsumed cost.

Repairs and Maintenance

Repairs and maintenance are ongoing activities to maintain a capital asset in operating condition. They are required to obtain the expected service potential of a capital asset over the estimated useful life. Costs for repairs and maintenance are expensed.

Residual Value

Residual Value is the amount the Town expects to be able to realize on disposal of a capital asset at the end of its useful life.

Straight Line Amortization

This is a method of amortization in which the periodic charge is computed by dividing the amortization base by the estimated number of periods of service life.

Tangible Capital Assets

Tangible Capital Assets also called Capital Assets are non-financial assets having physical substance that;

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

Software is considered to be a tangible capital asset for purposes of this definition. All new assets are to be recorded and forwarded to the Corporate Services Department using the Capital Assets Inventory Form (see Appendix “A”).

Town

The use of the word Town throughout the policy shall mean “The Corporation of the Town of Hanover”.

Work In Progress (WIP)

Work in progress is the cost of a tangible capital asset under construction, constructed and not yet in service, or in an incomplete process of acquisition at a calendar year end.

Works of Art or Historical Treasures

These works of art or historical treasures are also called heritage assets, are properties that have cultural, aesthetic or historical value that is worth preserving perpetually. These assets are not capitalized as their service potential and expected future benefits are difficult to quantify. Their existence and nature are to be disclosed in the financial statements.

Write-Down

A write-down is a reduction in the cost of a capital asset as a result of a decrease in the quality or quantity of its service potential. A write-down should be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

3.0 POLICY STATEMENTS

3.1. Thresholds

Capitalization Threshold relates to the minimum dollar threshold that is used to assist in determining which expenditures will be capitalized as assets and amortized and which expenditures will be treated as current year expenses. The capitalization threshold has an impact on the size of the asset inventory and the complexity of managing subsequent acquisitions and disposals.

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

- a) All Land
- b) Land improvements (parking lots, retaining walls, sidewalks, etc.) with a unit cost of \$5,000 or greater
- c) Building and building improvements with a unit cost of \$5,000 or greater
- d) Leasehold improvements with a unit cost of \$5,000 or greater
- e) Vehicles and equipment with a unit cost of \$5,000 or greater
- f) Infrastructure expenditures with cost of \$10,000 or greater
- g) Pooled assets with a combined total of \$10,000 or greater
- h) All other assets with an individual unit cost of \$5,000 or greater

These are guidelines and discretion should be used.

Studies and other initiatives that relate *directly* to the acquisition of a tangible capital asset shall be capitalized. If the study/initiative does not relate *directly* to the acquisition of a tangible capital asset, then the expense shall be recorded in the year(s) in which they occur.

Tangible capital assets that are to be developed or constructed shall be recorded as "Work in Progress (WIP)". Costs for such projects will be tracked in separate accounts from other capital assets. No amortization is calculated on work in progress projects. Amortization shall begin on the earlier of the day that the asset goes into service or that ownership/responsibility/control is transferred to the Town. Subsequently, when the assets of the project are ready for use, the costs will be transferred from WIP into the appropriate capital asset categories and the amortization expense will be calculated in that year. Any interest (paid or accrued) that is directly attributable to the construction/development project shall be capitalized up to the "in service date". Examples of work in progress are the construction of a road or building or the development of any asset that occurs over at least one calendar year end.

Expenditures that qualify as betterments to existing assets should be capitalized when unit costs exceed the threshold.

All asset deletions/sales are to be recorded on the Disposal of Asset Form (See Appendix "B").

3.2. Departments

Title or ownership of capital assets held by departments rests with the Town. Departments maintain stewardship for the Town. A department generally has stewardship of a capital asset if the department provides for its operation and maintenance and controls the ability to change the asset's future service potential. For capital assets under their stewardship, departments are required to:

- a) Manage assets to provide effective, efficient and economical program delivery;
- b) Report to Corporate Services changes in the capital asset inventory for additions, disposals and write-downs;
- c) Review annually the reasonableness of the inventory listing for the department, capitalization thresholds, the estimated useful lives, and the unamortized amount of the department's capital assets.

The following is a list of the departments by Function that shall be used:

Function	Department
Environmental Services	PW – Roads PW - Water PW - Wastewater Landfill
General Government	Administration Civic Centre
Health Services	Cemetery Medical Clinic
Planning/Development	Planning Economic Development (EDC)
Protection Services	Fire Emergency Measures Police
Recreation & Cultural Services	Recreation Library Theatre
Social & Family Services	YATC - Launchpad
Transportation Services	PW - Roads

3.3. 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 and sub-categories (segments) shall be used:

Category	Sub-Category (Segment)
Land/Land Improvements	Land, Land Improvements, Land Under Road.
Building	Structure; Site Elements; Interior Components; Exterior Components; Mechanical/Electrical System; Elevator; Site Services; Fire/Life Safety; Leasehold Improvements.
Equipment/Machinery	Medical; Operational; Unlicensed Equipment; Attach/Fixtures; Misc. Equipment; Other; Signs, Library Books; Pooled Equipment/Machinery, Unlicensed Equip.
Infrastructure	Roads; Culverts, Sidewalks; Bridges; Sanitary System, Storm System, Water System
Technology / Communications	Software; Radio Equipment; Other; Computers, Pooled IT
Traffic Signals	Traffic Signal/Equip
Vehicles	Licensed Vehicles; Heavy Licenced Vehicles
Furniture and fixtures	Pooled Furniture/Fixtures; Misc. Furniture/Fixtures
INFRASTRUCTURE Sub-Categories	INFRASTRUCTURE– Sub Category Segments
Roads	Road Base, Road Surface, Roads, Sidewalks, Street Lighting
Sanitary System	Sanitary Mains, Treatment Facility
Storm System	Catch Basin Manholes, Catch Basins, Storm Mains
Water System	Hydrants; Water Mains, Treatment Facility

The asset categories are described in more detail as follows:

Land/Land Improvements

Land normally has an indefinite life that exceeds the useful life of the buildings, land improvements and roads situated on it. The cost of land will be recorded separate from any other assets situated on it. The cost of land will not be amortized. Land includes the land under municipal buildings, parks, parking lots and open spaces. Land under roads has been recorded separately from the road base.

Land Improvements consist of betterments, site preparation and site improvements other than buildings that ready land for its intended use. Land improvements decay or breakdown over time and include but are not limited to driveways, parking lots, trails, fencing, irrigation systems, sport fields, and tennis courts. The cost of land improvements is amortized.

Buildings

Buildings include all structures that provide shelter from the elements. Betterments are included. Examples include but are not limited to office buildings, recreational facilities, police and fire stations, libraries, park washrooms and water/wastewater treatment buildings and pump houses.

Equipment/Machinery

Equipment/Machinery includes apparatus, tools, devices, implements or instruments that use energy to facilitate a process, function or task. It may be installed within a building, but is generally capable of being moved and reinstalled at a different location. That is, it is not permanently affixed or integrated into a building or the structure in which it resides. Examples include but are not limited to office equipment, firefighting equipment, operations equipment/machinery and computer equipment.

Furniture/Fixtures

Furniture and fixtures are movable furniture and fixtures that have no permanent connection to the structure of a building and used by the town to conduct its normal daily operations. Examples include but are not limited to office furniture, tables, desks, couches and chairs.

Technology/Communication

Technology/Communication refers to all equipment and programs that are used to process and communicate information. Examples include but are not limited to computers, hardware and software systems, and radio operations.

Traffic Signals

Traffic Signals are signalling devices positioned at road intersections and other locations to control flows of traffic. Traffic signs or road signs are signs erected at the side of or above roads to give instructions or provide information to road users.

Vehicles

Vehicles include licensed means of transportation usually having wheels, for transporting persons or things or designed to be towed behind such as an apparatus. Examples include but are not limited to automobiles, trucks, trailers, backhoes, graders and tractors.

Infrastructure/Linear Assets

Linear assets and their components are constructed or arranged in a continuous and connected network. They include transportation infrastructure such as roads, bridges, railways and airports; Environmental infrastructure includes water/wastewater treatment and storm drainage systems. Surface systems include but are not limited to roads, sidewalks, bridges, and streetlights. Underground systems include but are not limited to water distribution systems, wastewater collection pipe systems, manholes, catch basins and storm drainage collection systems.

3.4. 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.

3.4.1. 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 discount or rebate.

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 a part of 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.

3.4.2. 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.

3.4.3. 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.

3.4.4. 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. Ancillary costs should be capitalized.

3.4.5. Original Value of Asset is Unknown

In the case where historical records cannot be located in order to value an asset, it is necessary to develop costs in today's dollars and then discount them back to the date the asset was constructed/acquired. In the case where the year the asset was constructed or acquired is unknown, an estimate of the number of years remaining and the current value of the asset, working backward an estimated year and value can be determined.

3.5. 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:

- a) Major components have significantly different useful lives and consumption patterns than the related tangible capital asset.
- b) Value of components in relation to the related tangible capital asset.

Infrastructure assets and Building assets should be recorded using the component approach. Major components are grouped together when the assets have similar characteristics and estimated useful lives or consumption rates.

INFRASTRUCTURE SUB-CATEGORY	COMPONENT
Roads	Road Surface; Road Base; Land Under Roads, Sidewalks, Street Lighting
Sanitary System	Sanitary Mains,
Storm System	Storm Mains, Catch Basins
Water System	Hydrants; Water Mains
Traffic Signals	n/a
Culverts	n/a
Signs	n/a
BUILDING SUB-CATEGORY	COMPONENT
Structure	n/a
Site Elements	Asphalt/Concrete/Retaining Walls; Fencing; Playground Equip; Site Drainage, Misc (Sheds, Signs, etc)
Exterior Components	Roofing; Siding/Facia/Eaves; Windows & Doors; Masonry / Concrete Repairs; Other
Interior Components	Kitchen/Bath Upgrades; Flooring; Appliances; Furnishings; Other
Site Services	Water/Sewer; Electric Power System
Mechanical / Electrical	Internal Lighting; Plumbing (<i>incl. HWT</i>); Exhaust Fans; Electrical/Distribution Panels; Security Access System & Exterior Lighting; Heating System
Fire & Life Safety	Control Panel; Smoke Detectors; Fire Protection/Sprinkler System
Elevator	n/a

3.6. Amortization

The cost, less any residual value, of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use. The amortization method and estimate of useful life of the remaining unamortized portion should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

Useful life is normally the shortest of the asset's physical, technological, commercial or legal life.

The Town will use a straight-line method for calculating the annual amortization in most situations. Town departments, boards and commissions, agencies and other organizations are responsible for establishing an appropriate estimated useful life for assets acquired.

3.7. Disposal

When tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the department head or designate must notify the Treasurer regarding the asset description and effective date, using the Disposal of Asset Form (see Appendix "B"). The Corporate Services department is responsible for adjusting the asset registers and accounting records recording a loss / gain on disposal.

3.8. Write Down/Off

A write-down is used to reflect a partial impairment in the value of an asset (PSAB 3150.31). 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. Conditions that indicate a write-down is necessary may include a change in the manner or extent to which the 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 usable or saleable condition OR;
- A change in the law or environment affecting the extent to which the asset can be used.

3.9. Capital Leases

When a capital lease is recorded, the asset is treated as an acquisition of a capital asset and thereby setting up a liability. A lease may be recorded as an operating lease when the net present value of the future minimum lease payments or fair value is less than \$5,000.

APPENDIX 'A' – CAPITAL ASSETS INVENTORY FORM

ID# _____

- | | | | |
|---------------------|--|---|---|
| FIR FUNCTION | <input type="checkbox"/> General Government | <input type="checkbox"/> Protection Services | <input type="checkbox"/> Transportation Services |
| | <input type="checkbox"/> Environmental Services | <input type="checkbox"/> Health Services | <input type="checkbox"/> Recreation & Cultural Services |
| DEPARTMENT | <input type="checkbox"/> Planning & Development | <input type="checkbox"/> Social & Family Services | |
| | <input type="checkbox"/> Administration/Civic Centre | <input type="checkbox"/> Cemetery | <input type="checkbox"/> Recreation |
| | <input type="checkbox"/> Police | <input type="checkbox"/> Planning/EDC | <input type="checkbox"/> PW - Landfill |
| | <input type="checkbox"/> Fire/Emergency Measures | <input type="checkbox"/> PW – Roads | <input type="checkbox"/> Hanover Public Library |
| | <input type="checkbox"/> PW Water | <input type="checkbox"/> PW Wastewater | <input type="checkbox"/> Medical Clinic |
| | <input type="checkbox"/> Theatre | <input type="checkbox"/> YATC-Launchpad | |

- | | | | |
|--|---|---|---|
| CATEGORY: | SUB-CATEGORY | | |
| <input type="checkbox"/> Land/Land Improvements | <input type="checkbox"/> Land | <input type="checkbox"/> Land Improvements | <input type="checkbox"/> Land Under Road |
| <input type="checkbox"/> Building | <input type="checkbox"/> Structure | <input type="checkbox"/> Site Elements | <input type="checkbox"/> Interior Components |
| | <input type="checkbox"/> Exterior Components | <input type="checkbox"/> Mechanical/Electrical System | <input type="checkbox"/> Elevator |
| | <input type="checkbox"/> Site Services | <input type="checkbox"/> Fire & Life Safety | <input type="checkbox"/> Leasehold Improvements |
| <input type="checkbox"/> Equipment/Machinery | <input type="checkbox"/> Medical | <input type="checkbox"/> Operational | <input type="checkbox"/> Unlicensed Equipment |
| | <input type="checkbox"/> Attachments/Fixtures | <input type="checkbox"/> Misc. Equipment | <input type="checkbox"/> Other |
| | <input type="checkbox"/> Library Books | <input type="checkbox"/> Pooled Equip/Machinery | <input type="checkbox"/> Signs |
| <input type="checkbox"/> Infrastructure | <input type="checkbox"/> Roads | <input type="checkbox"/> Sanitary System | <input type="checkbox"/> Storm System |
| | <input type="checkbox"/> Culverts | <input type="checkbox"/> Sidewalks | <input type="checkbox"/> Bridges |
| | <input type="checkbox"/> Treatment Plants | <input type="checkbox"/> Water System | |
| <input type="checkbox"/> Technology/Communications | <input type="checkbox"/> Computers | <input type="checkbox"/> Software | <input type="checkbox"/> Radio Equipment |
| | <input type="checkbox"/> Other | <input type="checkbox"/> Pooled IT | |
| <input type="checkbox"/> Traffic Signals | <input type="checkbox"/> Traffic Signal/Equip | | |
| <input type="checkbox"/> Vehicle | <input type="checkbox"/> Licensed Vehicles | <input type="checkbox"/> Heavy Licensed Vehicles | |
| <input type="checkbox"/> Furniture/Fixtures | <input type="checkbox"/> Pooled F/F | <input type="checkbox"/> Misc. Furniture | |

Location _____

Description (What is it?) _____

Make/Model _____

Serial#/VIN# _____ Other Identifier _____

Manufacturer _____

Approx. Date of Acquisition _____

Supplier #1 _____

Supplier #2 _____

Estimated Purchase Price \$ _____ Source _____

Current Market Value to Replace \$ _____ Source _____

Estimated Life of Asset Remaining _____

Condition of Asset Poor Fair Good Excellent

Date Completed _____

Person (s) Completing above _____

COMMENTS: _____

NOTE: A copy of any costing information including CMV (Invoices) you have
 Picture to be taken of each individual asset records (if available)
 For vehicles include VIN# and License Plate #

Minimum Requirements

Office Use: Inputted Info Only

APPENDIX "B" – CAPITAL ASSETS DISPOSAL FORM

- DEPARTMENT**
- | | | |
|--|---|---|
| <input type="checkbox"/> Administration/Civic Centre | <input type="checkbox"/> Cemetery | <input type="checkbox"/> Recreation |
| <input type="checkbox"/> Police | <input type="checkbox"/> Planning/EDC | <input type="checkbox"/> PW - Landfill |
| <input type="checkbox"/> Fire/Emergency Measures | <input type="checkbox"/> PW – Roads | <input type="checkbox"/> Hanover Public Library |
| <input type="checkbox"/> PW Water | <input type="checkbox"/> PW Wastewater | <input type="checkbox"/> Medical Clinic |
| <input type="checkbox"/> Theatre | <input type="checkbox"/> YATC-Launchpad | |

Location _____

Description _____

ASSET VERIFICATION

Make/Model _____

Serial#/VIN# _____

Manufacturer _____

Date of Disposal _____

DETAILS OF DISPOSITION

Purchaser _____

Other Method _____

Value Received \$ _____

Date Completed _____

Person (s) Completing above _____

COMMENTS: _____

NOTE: Attach a copy of any sales information (sales slip, invoice for new asset indicating trade-in etc.)

Office Use Only

Asset Id # on file: _____

- FIR FUNCTION**
- | | | |
|---|---|---|
| <input type="checkbox"/> General Government | <input type="checkbox"/> Protection Services | <input type="checkbox"/> Transportation Services |
| <input type="checkbox"/> Environmental Services | <input type="checkbox"/> Health Services | <input type="checkbox"/> Recreation & Cultural Services |
| <input type="checkbox"/> Planning & Development | <input type="checkbox"/> Social & Family Services | |