



## Policy F06-2009-04

### Tangible Capital Assets

<b>Department:</b>	Finance and Accounting	<b>Policy Number:</b>	F06-2009-04
<b>Section:</b>		<b>Effective Date:</b>	December 7, 2009
<b>Subject:</b>	Tangible Capital Assets	<b>Revised Date:</b>	
<b>Authority:</b>	Applies to all Municipal Departments		

#### 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. 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

#### 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.

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").

#### Betterments:

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.

**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:

Fire Hydrants	Street Lights
Firefighter’s Uniforms	Fencing
Furniture & Fixtures	

As similar items are purchased, they will be added to the pool. This may require at the end of each fiscal year, an inventory to be taken. 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).

**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 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 leaser 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.

**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 Municipality of Brockton.

**“In Service” Date:**

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

**Policy Statements**

## Thresholds

Capitalization Threshold – Historical cost, 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) Land \$10,000 or greater
- b) Building and building improvements with a unit cost of \$25,000 or greater
- c) Machinery and Equipment with a unit cost of \$5,000 or greater
- d) Vehicles and equipment with a unit cost of \$5,000 or greater
- e) Infrastructure expenditures with cost of \$10,000 or greater
- f) Pooled assets with a combined total of \$10,000 or greater, additions total \$3,500
- g) All other assets with an individual unit cost of \$5,000 or greater

**These are just 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 “Capital Work in Progress”. Amortization shall begin on the earlier of the day that the asset goes into service or that ownership/responsibility/control is transferred to the Municipality. Subsequently, the asset will be transferred from “Capital Work in Progress” to the applicable asset category. Any interest (paid or accrued) that is directly attributable to the construction/development project shall be capitalized up to the “in service date”.

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

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

### Departments:

All assets will be assigned to departments within the Municipality. The following is a list of the departments that shall be used:

- Municipal Office
- Recreation
- Building
- Planning
- Fire Department
- Cemetery
- Day Care
- Garbage

- Roads
- Library
- Utilities

**Categories (incl. Sub-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 and sub-categories shall be used:

Category	Sub-Category
<b>Land/Land Improvements</b>	
<b>Building</b>	Structure; Site Elements; Interior Components; Exterior Components; Mechanical/Electrical System; Elevator; Site Services; Fire & Life Safety
<b>Machinery and Equipment</b>	Operational; Attachments / Fixtures; Misc. Equipment; Other
<b>Infrastructure</b>	Rural and Urban Roads; Sidewalks; Bridges; Plants & Facilities; Water Distribution Pipe Systems, Waste Water Collection Pipe Systems, Manholes, Catch Basins; Storm Drain Collection Systems
<b>Vehicles</b>	Licensed Vehicles; Unlicensed Equipment

**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.

**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.

**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.

**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.

**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.\

**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.

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

<b>Infrastructure Sub-Category</b>	<b>Component</b>
<b>Urban and Rural Roads</b>	Surface; Base; Land
<b>Bridge</b>	Footings, Super Structure, Deck
<b>Traffic Signals</b>	N/A

<b>Building Sub-Category</b>	<b>Component</b>
<b>Structure</b>	Includes building structure
<b>Mechanical/Electrical</b>	Heating/Cooling system, equipment that does not form part of the building structure

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

### **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 Treasury department is responsible for adjusting the asset registers and accounting records recording a loss / gain on disposal.

### **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.

**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, whichever is less, is less than \$5,000.

**Appendix “A” To Tangible Capital Assets Policy**

**Municipality of Brockton Capital Assets Inventory Form**

ID#:

**FIR Function:** General Government      Protection Services      Transportation Services  
 Environmental Services      Health Services      Recreation & Cultural  
 Planning & Development

**Department:** Municipal Offices      Cemetery      Recreation Building  
 Garbage      Fire Dept. Roads      Library Utilities

<b>Category:</b>	<b>Sub-Category:</b>	
<b>Land/Land Improvements</b>	Site Elements	Other
<b>Building</b>	Structure	Site Elements Exterior Components Interior Components Mechanical/Electrical System Elevator
	Site Services	Fire and Life Safety
<b>Equipment/Machinery</b>	Operational	Unlicensed Equipment
	Attachments/Fixtures	Misc. Equipment Other
<b>Infrastructure</b>	Road Sidewalks Bridges	
<b>Vehicles</b>	Licensed Vehicles	
<b>Furniture/Fixtures</b>	Other	

Location:

Description:

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:

**Minimum Requirements**

**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 #

**Office Use:** Inputted