



Policy #10 – Tangible Capital Asset

Approval Date: December 7, 2017

Policy Statement

This policy is to ensure consistent recording of tangible capital assets and to help with the preparation of financial statements that will comply with generally accepted accounting principles.

The objective is to prescribe the accounting treatment for tangible capital assets so that users of the financial reports 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.

The intent is to provide policy and procedures to:

- Protect and control the use of all tangible capital assets;
- Provide accountability over tangible capital assets; and
- Gather and maintain information needed to prepare financial statements.

The tangible capital assets will be recorded as of December 31st of the current year and reported by December 31st of the following year.

Definitions

Tangible Capital Assets – Assets having physical substance that:

- Are used on a continuing basis in the Village's operation;
- Have useful lives extending beyond one year; and
- 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 Village. 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 Village will obtain ownership of the leased property by the end of the lease term;
- The lease term is of such a duration that the Village 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.

Procedure

1. Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:
 - a. All land;
 - b. All buildings;
 - c. Civil infrastructure systems (built assets such as roads, sewers, water, parks, etc.) with unit cost of \$10,000 or greater;
 - d. All others with unit cost of \$2,000 or greater.

Different thresholds may be used for group assets. Capitalize betterments to existing assets when unit costs exceed the threshold.

2. A category of assets is a grouping of assets of a similar nature or function in the Village's operations. The following list of categories shall be used:
 - a. Land
 - b. Buildings
 - c. Equipment
 - d. Roads
 - e. Sidewalks
 - f. Curb & gutter
 - g. Water
 - h. Sewer
 - i. Motor vehicles
 - j. Furniture and fixtures
 - k. Computer systems (hardware and software)
3. 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.

- a. 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 discounts or rebates.

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 part of the 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.

- b. Acquired, Constructed or Developed assets – Cost include all costs directly attributable (eg. 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.

- c. 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. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

- d. 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 appraised values. Cost may be determined by an estimate of replacement cost. Ancillary costs should be capitalized.
4. 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.

Civil infrastructure systems should use the component approach. Major components should be grouped when the assets have similar characteristics and estimated useful lives or consumption rates.

5. 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.

Generally, the Village uses a straight-line method for calculating the annual amortization. A comprehensive list of estimated useful lives of assets and amortization rates is attached as Schedule "A".

6. Disposal of tangible capital assets that are moveable personal property is the responsibility of the CAO. The Public Works Foreman should notify the CAO when assets become surplus to operations.

Disposal of real property will be the responsibility of the CAO.

When other constructed tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the Public Works Foreman must notify the CAO of the asset description and effective date. The CAO is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

7. Account for a capital lease as acquiring a capital asset and incurring a liability. Account for a lease as an operating lease when the net present value of the future minimum lease payments or fair value, whichever is less, is less than \$10,000.
8. This policy will be updated as required in conjunction with recommendations by either Municipal Affairs or the Village Auditor.

“Schedule A”

Maximum Useful Life for Village of Delia Assets

Land

- Right of Way
- Undeveloped Right of Way
- Parks
- General

Land Improvements

- Parking Lot
 - Gravel 15 yrs
 - Asphalt 25 yrs
- Playground Structures 15 yrs
- Landscaping 25 yrs
- Fences 20 yrs
- Sprinkler Systems 25 yrs
- Outdoor Lighting 20 yrs
- Bike/jogging/walking Paths
 - Gravel 15 yrs
 - Asphalt 20 yrs

Buildings

- Permanent Structures
 - Frame 50 yrs
 - Metal 50 yrs
 - Concrete 50 yrs
- Portable Structures
 - Metal 25 yrs
 - Frame 25 yrs
- Leasehold Improvements variable

Engineered Structures

Roadway system

- Curb & gutter 30 yrs
- Roads & Streets
 - Lanes/alleys
 - Gravel 15 yrs
 - Nonconforming 20 yrs
 - Surface
 - Concrete 30 yrs
 - ACP – hot mix 20 yrs
 - ACP – cold mix 10 yrs
 - Chip seal 10 yrs
 - Oil 5 yrs
 - Gravel 25 yrs
 - Subsurface 40 yrs
- Road Signs
 - Traffic control 30 yrs
 - Information 30 yrs
- Lights
 - Decorative 30 yrs
 - Street 30 yrs
- Guard Rails 30 yrs
- Ramps 30 yrs
- Sidewalks & para-ramps 30 yrs

Water system

Distribution system	
Mains	75 yrs
Services	75 yrs
Pump, lift and transfer stations	45 yrs
Plants and facilities	
Structures	45 yrs
Treatment equipment	
Mechanical	45 yrs
Electrical	45 yrs
General	45 yrs
Pumping equipment	45 yrs
Hydrants/fire protection	75 yrs
Reservoirs	45 yrs

Wastewater system

Collection system	
Mains	75 yrs
Services	75 yrs
Pump, lift and transfer stations	45 yrs
Plants and facilities	
Structures	45 yrs
Treatment equipment	
Mechanical	45 yrs
Electrical	45 yrs
General	45 yrs
Pumping equipment	45 yrs
Lagoons	45 yrs

Machinery and Equipment

Fire equipment	12 yrs
Communications	
Radios	10 yrs
Telephone Systems	10 yrs
Tools, shop and garage equipment	15 yrs
Meters	
Water	40 yrs
Turf Equipment	10 yrs
Office Furniture & Equipment	
Furniture	20 yrs
Office Equipment	10 yrs
Photocopier	5 yrs
Computer Systems	
Hardware	5 yrs
Software	10 yrs

Vehicles

Light duty	10 yrs
Medium duty	10 yrs
Heavy duty	10 yrs
Fire trucks	25 yrs