

## TITLE: TANGIBLE CAPITAL ASSETS

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POLICY #: CP-017

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### **PURPOSE**

The object 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.

### **SCOPE**

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

### **DEFINITIONS**

#### **Tangible Capital Assets:**

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.

#### **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 are recorded 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 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.

**POLICY STATEMENTS:**

**Capitalization**

Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:

- a) all land;
- b) land improvements with a unit cost of \$5,000 or greater;
- c) buildings with a unit cost of \$25,000 or greater;
- d) engineered structure systems (built assets such as roads, bridges, sewers, water, parks, etc.) with unit cost of \$25,000 or greater;
- e) all machinery, equipment & vehicles with unit cost of \$5,000 or greater.

Different thresholds may be used for group assets. 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 in the Town's operations. The following list of categories shall be used:

- land;
- land improvements;
- buildings;
- roads;
- water;
- sewer;
- storm sewer;
- machinery & equipment;
- vehicles.

### 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.

#### 1.1 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 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.

#### 1.2 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.

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

### 1.4 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 cost. Ancillary costs should be capitalized.

## 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.

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

### **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.

Generally, the Town uses a straight-line method for calculating the annual amortization. A comprehensive list of estimated useful lives of assets and amortization rates is as follows:

- a) land – no amortization;
- b) land improvements – 15–25 years;
- c) buildings – 25-50 years;
- d) engineered structure systems – 15-75 years;
- e) machinery & equipment – 5-25 years
- f) vehicles – 10-25 years.

Town departments, boards and commissions, agencies and other organizations are responsible for establishing and utilizing an appropriate amortization methodology and rate for assets acquired. Town departments, boards and commissions, agencies and other organizations are responsible for establishing and utilizing an appropriate estimated useful life for assets acquired.

### **Disposal**

Disposal of tangible capital assets that are moveable personal property is the responsibility of the Chief Administrative Officer (CAO) unless delegated to operating departments. Department heads should notify the Manager when assets become surplus to operations.

Disposal of real property will be the responsibility of facilities services.

When other constructed tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the department head or designate must notify corporate services of the asset description and effective

date. The corporate services department is responsible for adjusting the asset registers and accounting records and recording a loss/gain on disposal.

### **Capital Leases**

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 the same threshold amounts listed above for the various tangible capital assets (see Capitalization heading above).