Tangible Capital Assets	Policy	F13
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What is the policy?

This policy outlines the accounting and reporting requirements for tangible capital assets for both incorporated and unincorporated communities. The Public Sector Accounting Board (PSAB) published PS 3150 the accounting standard set for reporting of tangible capital assets by governments and public sector organizations. A community generally has stewardship of a capital asset if it provides for its operation and maintenance and controls the ability to change the asset's future service potential.

Capital Asset Categories

Capital assets are assigned to the categories outlined in the appendix based on their nature, characteristics and useful life. For definitions of the asset categories, see the *Financial Management Guide*. Where the community is uncertain as to which category a capital asset belongs, or where no appropriate category exists, contact the department.

Excluded Assets

The following assets will not be capitalized and amortized under this policy:

- land (or other assets) acquired by right, such as Crown, water and mineral resources
- works of art and historical treasure
- intangible assets such as patents, copyrights and trademarks

Costs

Tangible capital assets are recorded at cost. Where several capital assets are purchased together, the cost of each asset is determined by allocating the total price in proportion to each asset based on their relative fair value at the time of acquisition.

The cost of a constructed asset includes direct construction or development costs such as materials, labour and overhead costs directly attributable to the construction or development activity. Capitalization of administrative costs will be limited to salaries, benefits and travel for staff directly involved in project delivery (ex. project management or construction).

Where the construction or development of a capital asset occurs over several years, capital costs are accumulated until the asset is ready for use. A work in progress account is established to allow work in progress capital costs to be tracked separately from capital assets subject to amortization. If the construction or development of a capital asset is terminated, delayed for more than one year, or unlikely to be completed to a usable state, the costs that would otherwise be capitalized are expensed in the same fiscal year.

Thresholds

The appendix outlines the thresholds for each capital asset category. Capital assets not meeting the thresholds are expensed in the year in which they are purchased. Costs for these assets are referred to as capital-type expenses. Thresholds are applied on an individual asset or per item basis.

Estimated Useful Life

All capital asset categories have predetermined estimated useful lives as outlined in the appendix. The estimated useful lives specified are intended to apply to assets in new condition. When used assets are acquired the estimated useful lives will be reduced based, on the age and condition of the asset.

Amortization

Amortization is calculated using the straight-line method based on the estimated useful life of each asset. Land has an unlimited estimated useful life and will not be amortized. Amortization is calculated based on the full cost of the capital asset. Where an asset's residual value is expected to be significant in comparison to its costs (20 per cent or more), the amount is deducted from the cost before calculating amortization.

A full year's amortization is recorded in the year of acquisition, construction and development or when the asset is placed in service, regardless of when this event occurs in the fiscal year. No amortization is recorded in the year an asset is disposed of. This does not apply to disposals being considered. No amortization is recorded on a work in progress or capital asset which has been removed from service, but not yet disposed of.

Disposals

When a capital asset is disposed of, the cost and accumulated amortization are reversed in the accounting records and any gain or loss on disposal is recognized. Costs of disposal paid by the community should be expensed.

Write-down

Conditions that may indicate a write-down is required include (i) an expectation of providing services at a lower level than originally planned, (ii) a change in use of the asset, (iii) technological advances which render the asset obsolete or other factors such as physical damage which reduces the asset's service potential. Documentation for write-down must be retained. Any write-down of tangible capital assets must be approved by council resolution.

Write-down of capital assets will be accounted for as an expense in the period it occurs. Annual amortization of an asset that has been written down should be calculated using the net book value after the write-down and the remaining estimated useful life. Regardless of any change in circumstances, a write-down should not be reversed.

Betterments

Betterments which meet the threshold of the applicable capital asset category are capitalized, otherwise, they are expensed. Where a betterment increases the estimated useful life of a capital asset, its useful life should be changed.

Where a betterment involves the replacement of an identifiable component of a capital asset, the original cost of that asset and the related accumulated amortization should he removed from the accounting records.

Donated Assets

If a capital asset is donated to the community, the cost is its fair value at the date of contribution. Fair value of a donated capital asset may be estimated using market or appraised value.

Leased Capital Assets (Incorporated Communities Only)

If the following criteria exist, the lease should be accounted for as a capital lease:

- there is reasonable assurance that the community will obtain ownership at the end of the lease
- transfer of ownership occurs at the end of the lease
- the lease has a bargain purchase option (Note: A bargain purchase option exists if the purchase option at the end of the lease is well below the expected residual value at the end of the lease. In most cases, a zero or close to zero residual value definitely establishes the existence of a bargain purchase option lease.)

Community responsibilities

- The administration is responsible for maintaining accounting records and preparing reports for capital assets under their stewardship as follows:
  - manage them to provide effective, efficient and economical program delivery
  - establish and maintain accounting systems to collect, record and report information
  - establish and maintain adequate internal control systems to ensure the accuracy and reliability of information and reports

Other information

- Appendix F13-A Capital Asset Thresholds and Estimated Useful Life