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 (TCAs) for incorporated communities only. 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. The department accounts for the TCAs of the unincorporated communities on their behalf on the government books.

Definitions

Amortization is a rational and systematic manner of allocating the cost of an asset over its estimated useful life.

Betterments are enhancements to the service potential of a capital asset such as:

- an increase in the previously assessed physical output or service capacity
- a reduction in associated operating costs
- an extension of the estimated useful life
- an improvement in the quality of output

Capital Assets are non-financial assets having physical substance that:

- are held for use by the community in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other TCAs
- have useful lives extending beyond a year and are intended to be used on a continuing basis
- are not intended for sale in the ordinary course of operations

Capital-type Expenses are costs for assets that meet the definition of a capital asset, but are less than the cost thresholds. These assets are expensed in the year in which they are purchased.

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

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

Estimated Useful Life is the estimate of the period over which a capital asset is expected to be used. It is the period over which an asset will be amortized.

Fair Value is the amount of the consideration that would be agreed upon in an arm's length transaction in an open market.

Financial Assets are assets that are available to discharge existing liabilities or finance further operations and are not for consumption in the normal course of operations. Examples of financial assets are cash on hand, accounts receivable and inventories for sale.

Gain/Loss on Disposal is the difference between the net proceeds received and the net book value of an asset and is accounted for as a revenue or expense, respectively, in the period the disposal occurs.

Leased Capital Assets are non-financial assets leased by an incorporated community for use in the delivery of goods and services. Substantially all of the benefits and risks of ownership are transferred to the community without requiring the transfer of legal ownership.

Net Book Value is the capital asset cost less accumulated amortization and any write-down. It represents the asset's unconsumed cost.

Non-financial Assets are assets that do not normally provide resources to discharge liabilities. They are employed to deliver services, may be consumed or used up in the delivery of those services and are not generally for sale. Examples of non-financial assets are capital assets and inventories held for consumption or use.

Residual Value is the estimated net realizable value of a capital asset at the end of its estimated useful life. A related term, salvage value, refers to the realizable value at the end of an asset's life. If the community expects to use a capital asset for its full life, residual value and salvage value are the same.

Straight-line Method is an amortization method which allocates the cost of a capital asset equally over each year of its estimated useful life.

Threshold is the value over which an asset will be recorded as a capital asset on the balance sheet.

Work in Progress is the accumulation of capital costs for partially constructed or developed projects. An example of a work in progress is the construction of a building, which occurs over several years. Work in progress would also include deposits which are to be applied to the cost of a capital asset.

Works of Art and Historical Treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually. These assets are not capitalized as their expected future benefits are difficult to quantify.

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 useful life. If a capital asset is deemed to have no economic potential and is fully written down, it is termed a **write-off**. A write-down or write-off will be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

Capital Asset Categories

Capital assets are assigned to the categories outlined and thresholds identified for each category as outlined in Appendix F13A – Capital Asset Thresholds and Estimated Useful Life based on their nature, characteristics and useful life. Where the community is uncertain as to which category a capital asset belongs (see Appendix F13-B Capital Asset Categories), 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 land, water and mineral resources
- works of art and historical treasure
- intangible assets such as patents, copyrights and trademarks

Costs

TCAs 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

Appendix F13-A 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 Appendix F13-A. 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 a 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 be 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
- Appendix F13-B Capital Asset Categories