Tangible Capital Asset Policy	**Policy No. 1.5.2**
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Purpose

This policy prescribes the accounting and financial reporting treatment of tangible capital assets for all departments of the Town of Nipawin (the Town).

The objective of this policy is to outline the accounting treatment for tangible capital assets.

This policy is intended to:

- Establish accounting policies for tangible capital assets in accordance with PS 3150 – Tangible Capital Assets and their respective representation on the financial statements of the Town of Nipawin.
- Determine recognition of the assets, the determination of their carrying amounts, amortization charges, and the recognition of any impairment losses.
- Establish a consistent approach to accounting estimates in areas where measurement uncertainty exists in accordance with CICA Section 1508 – Accounting for Estimates.
- Establish accountabilities and responsibilities for all departments that purchase, contract, and construct tangible capital assets and have asset management responsibilities.
- Ensure consistent, transparent treatment of all tangible capital assets.

Definitions

Accumulated Amortization represents the total to date of the periodic amortization charges relating to the tangible capital assets since the assets were placed in use.

Amortization is the process of allocating the cost of a tangible capital asset, net of its residual value, over its estimated useful life.

Acquisition Cost is the amount of consideration given up to acquire, construct, develop, or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development, or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use.

Betterments are costs incurred to enhance the service potential of a tangible capital asset and may or may not extend the useful life of the asset. In general, the service potential of a tangible capital asset may be enhanced when:

- there is an increase in the previously assessed physical output or service capacity;
- there is a significant reduction in the operating costs of the tangible capital assets due to

efficiency gains;
- the useful life of the tangible capital asset is extended; or
- the quality of the output is improved.

Capital Assets are non-financial assets having physical substance that:
- are held for use by the Town 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 tangible capital assets;
- have useful lives extending beyond a year and are intended to be used on a continuing basis; and
- are not intended for sale in the ordinary course of operations.

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. For contributed assets, the cost is equal to its fair market value at the date of contribution.

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

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 and is normally the shortest of the physical, technological, commercial, or legal life.

Fair Value is the amount of the consideration that would be agreed upon in an arms-length transaction between knowledgeable, willing parties, who are under no compulsion to act.

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

Gain on Disposal is the amount by which the net proceeds realized upon the asset's disposal exceed the asset's net book value.

Leased Capital Assets are non-financial assets with physical substance and a useful life of greater than one year which are leased by the Town for use in the delivery of goods and services. Substantially all the benefits and risks of ownership are transferred to the Town without necessarily requiring the transfer of legal ownership.

Loss on Disposal is the amount by which the net book value of a capital asset exceeds the net proceeds realized upon the asset's disposal.

Net Book Value is the capital asset cost less accumulated amortization and any write-downs. It represents the unconsumed cost of an asset.

Non-Financial Assets are assets that do not normally provide resources to discharge liabilities. They are employed to deliver municipal 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.

Repairs and Maintenance are ongoing activities to maintain a capital asset in operating condition. They are required to obtain the expected service potential of a capital asset over the estimated useful life. Costs for repairs and maintenance are expensed in the year they occur.

Residual Value is the estimated net realizable value of a capital asset at the end of its estimated useful life to the Town.

Service Potential is the output or service capacity of a capital asset.

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

Tangible Capital Assets are defined by the Canadian Institute of Chartered Accountants (CICA) as non-financial assets having physical substance that:

I. are held for use 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 tangible capital assets;
II. have useful economic lives extending beyond a year and intended to be used on a continuing basis; and
III. are not intended for sale in the ordinary course of business.

Threshold is the minimum cost an individual tangible capital asset must have before it is recorded as a capital asset on the statement of financial position.

Useful Life is the estimate of the period over which the Town expects to use a tangible capital asset. The life of a tangible capital asset may extend beyond its useful life. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial, or legal life.

Work in Progress is the accumulation of capital costs for partially constructed or developed projects.

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 service potential and expected future benefits are difficult to quantify.

Write-down is a reduction in the cost of a capital asset when conditions indicate that the asset no longer contributes to the Town's ability to provide goods and services or the value of future economic benefits associated with the asset is less than net book value. A write-down should be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

Scope

This policy applies to all tangible capital assets owned, purchased, constructed by the Town, or donated to the Town by other governments and non-governmental parties. This policy applies to all Town departments. Intangible assets are not covered by this policy.

Policy

Recognition of Tangible Capital Assets

As defined in PS 3150, tangible capital assets are non-financial assets having physical substance that:

I. are held for use 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 tangible capital assets;
II. have useful economic lives extending beyond a year and intended to be used on a continuing basis; and
III. are not intended for sale in the ordinary course of business.

For the Town, tangible capital assets have the following characteristics:

- beneficial ownership and control clearly rest with the Town; and
- the tangible capital asset is utilized to achieve Town plans, objectives, and services.

The following will help determine whether an asset is a tangible capital asset:

- includes land, buildings, infrastructure assets (road and water network), vehicles, purchased computer software, in-house developed computer software, computer hardware, tools, furniture, equipment, leasehold improvements, and assets acquired by capital leases or by donations;
- includes operational heritage assets such as buildings;
- excludes archaeological sites, ruins, and burial sites;
- excludes intangible assets such as copyrights, trademarks, patents, human capital, easements, and rights-of-way;
- excludes natural resources that have not been purchased are not recognized as assets in the consolidated financial statements;
- excludes non-operational heritage assets will not be capitalized. Non-operational heritage assets include museum and gallery collections, other works of art, historical treasures, monuments, and statues;
- includes spare parts acquired as part of the same procurement as the original capital asset. These will be considered integral to the acquisition of the capital asset and form

part of the total cost of the tangible capital asset.

Asset Classes
Tangible capital assets shall be classified using two distinct categories. The first is a "primary" category, which describes what an asset objectively is. The second category is the "functional" service area in which the asset is used.

Primary Category
The primary asset categories are as follows:
- Land
- Land Improvements
- Buildings
- Machinery & Equipment
- Vehicles
- Linear Assets

Functional Category
The functional asset categories are as follows:
- Environmental & Public Health
- General Government
- Planning & Development
- Protective Services
- Recreation
- Transportation
- Water & Sewer

Capitalization Thresholds
Tangible assets shall be capitalized and recorded in the tangible capital asset spreadsheet according to the following thresholds:
- all land;
- any individual item that meets the definition of a tangible capital asset with a cost of $5,000 or greater;
- pooled assets with a combined total of $25,000 or greater and meets the definition of a tangible capital asset;
- any other asset below these limits that is deemed necessary to capitalize by the Chief Financial Officer of the Town.

Each department will keep an inventory listing of equipment and tools with a value between $500 to $5,000. This listing will aid in establishing a replacement program for the items and will serve as a tracking tool for managing the equipment and tools.

Studies and other initiatives that relate directly to the approved 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, it shall be expensed in the year(s) in which it occurs.
Tangible capital assets that are to be developed or constructed shall be recorded as "Work in Progress". Amortization shall begin the year after the asset goes into service or that ownership/responsibility/control is transferred to the Town, whichever is earlier. Subsequently, the asset will be transferred from "Work in Progress" to the applicable asset category. The Town does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

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

Amortization

I. Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development, or betterment of the asset.
II. All tangible capital assets shall be amortized on a straight-line basis.
III. Amortization will be calculated annually and listed in the tangible capital asset register.
IV. Annual amortization will begin to be charged in the year after acquisition.
V. Land and land components of tangible capital assets (for example, the land on which a building is situated) shall be recorded at cost and not amortized.
VI. Estimates of useful life (for the purposes of the amortization calculation) will be determined by the Town based on the expected use of the asset. The expected use of the asset will be based on reasonable assumptions.
VII. The Town will consider various other sources when making useful life assumptions, including but not limited to:
    - Expected future use
    - Expected wear and tear from use or passage of time
    - Effects of technological obsolescence
    - Maintenance program for the asset
    - Capacity versus actual usage or changes in demand for services
    - Condition of existing comparable assets
    - Manufacturer estimates
    - Previous experience
VIII. The useful life estimate for leasehold assets will be restricted by the terms of the lease agreement. The useful life will be the lesser of the actual estimate, and the sum of the number of years remaining in the current and ensuing lease terms.
IX. The estimated useful life will be reviewed on a regular basis. This review is event driven. Significant events that may indicate the need for revision include:
    - A change in the extent to which the tangible capital asset is used;
    - A change in the manner in which the tangible capital asset is used;
    - Removal of the tangible capital asset from service for an extended period of time;

- Physical damage;
- Significant technological developments;
- A change in the demand for the services provided through use of the tangible capital asset;
- A change in the law or environment affecting the period of time over which the tangible capital asset can be used.

Determination of Residual Value of Tangible Capital Assets

In most instances, the Town will assume that the asset will be fully used up upon disposal, however, where a department head expects the residual value of a tangible capital asset to be significant, it shall be factored into the calculation of the amortization.

The department head in consultation with the Chief Financial Officer will determine the appropriate residual value based upon market information and experience with the particular tangible capital asset.

Pooled Assets

Certain items such as tools, furniture, and computers are generally below the capitalization threshold individually but may be purchased in large quantities which may represent significant expenditures overall. In such cases, it is reasonable to capitalize all items acquired in a given year in an asset class or pool and amortize the pool over a pre-determined amortization period.

Bundling of Assets

For the purposes of capitalization and amortization, the two methods of defining tangible capital assets are whole asset and component asset.

- The whole asset approach considers an asset to be an assembly of connected parts. Costs of all parts would be capitalized and amortized as one asset. For example, a computer network would be considered one asset.
- Under the component approach, different components are individually capitalized and amortized. Under this approach, the server, routers, lines, software, etc. used in a network would all be individual assets.

Both the whole asset method and the component method are equally acceptable under Generally Accepted Accounting Principles.

The Town of Nipawin will utilize the whole asset approach for all assets.

Tangible Capital Assets Under Construction (Work in Progress)

Determining when a tangible capital asset, or a portion thereof, is ready for productive use requires consideration of the circumstances in which it is to be operated.

Assets under construction will be reflected in the work in progress inventory until it is determined that the asset has been placed in service.
Assets under construction will not be amortized while in progress.

Segments
Linear assets, such as roads, water mains, and sewer lines, will be broken down into logical segments, as determined by the operating department responsible for the tangible capital asset, to provide a better basis for asset management.

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

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

Betterments need to meet the capitalization threshold.

A betterment expenditure adds to the useful life of an asset once the original useful life has been attained. A repair and maintenance expenditure allows or assists in attaining the original useful life. A betterment cost is capitalized and a repair and maintenance cost is expensed.

When recording a betterment, the cost of the betterment should not be added to the original cost of the asset, rather it will be set up as its own standalone asset with a partial disposal processed against the original existing asset when the improvement occurs.

Examples of betterments that should be capitalized includes replacing an entire roof, replacing entire HVAC systems, building new offices within an existing building, installing new sleeves within infrastructure assets, and major parking lot asphalt resurfacing, provided they extend the life of the asset. Examples of modifications that would generally not be capitalized are items such as a minor or partial resurfacing of a parking lot, replacing a road asphalt overlay, or partial roof replacements.

Where a cost cannot easily be differentiated between a repair and a betterment, the accounting principle of conservatism dictates that the cost should be expensed.

Donated Assets
Contributions of tangible capital assets are recorded at their fair market value at the date of receipt and are also recorded as revenue. Contributed or donated assets will be recognized as Town owned assets when the legal title is transferred.

In order to determine the fair market value, an independent valuation of the tangible capital asset will be undertaken such as an appraisal, professional opinions, or quotes from independent sources. These accounting estimates must be documented and provided to the Chief Financial Officer for the appropriate financial transactions.

Disposal of Assets

When tangible capital assets are taken out of service, destroyed, or replaced due to obsolescence, scrapping or dismantling, the Operating Department must notify the Chief Financial Officer of the asset description and effective date of the disposal.

Assets will be retired from the accounts of the municipality when the asset is disposed of. The gain or loss on disposal will be calculated as the difference between the proceeds received and the net book value of the tangible capital asset. The gain or loss on disposal will be recorded in the accounts of the Operating Department.

Asset disposals must follow the guidelines contained in Policy 1.3.4 – Purchasing Policy.

Impairment of Assets/Write-downs

The net write-downs of the tangible capital asset will be accounted for as an expense and cannot be reversed. The Town should write-down the cost of a tangible capital asset when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:

- a change in the extent to which the tangible capital asset is used;
- a change in the manner in which the tangible capital asset is used;
- significant technological developments;
- physical damage;
- removal of the tangible capital asset from service;
- a decline in, or cessation of, the need for the services provided by the tangible capital asset;
- a decision to halt construction of the tangible capital 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 tangible capital asset can be used.

The persistence of such conditions over several successive years increases the probability that a write-down is required unless there is persuasive evidence to the contrary.

When the tangible capital asset no longer contributes to the Town's ability to provide goods and services, it should be written down to residual value, if any. This would be appropriate when the Town has no intention of continuing to use the asset in its current capacity, and there is no alternative use for the asset.

In other circumstances, it will be necessary to estimate the value of expected remaining future economic benefits. Where the Town can objectively estimate a reduction in the value of the asset's service potential, and has persuasive evidence that the reduction is expected to be permanent in nature, the tangible capital asset would be written down to the revised estimate of the value of the asset's remaining service potential to the Town.

Capital Leases

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

As defined by the CICA, a leased tangible capital asset is a non-financial asset that has physical substance and a useful life extending beyond an accounting period, and is held under lease by the Town for use, on a continuing basis, in the production or supply of goods and services. Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are, in substance, transferred to the Town without necessarily transferring legal ownership.

A tangible capital asset procured and financed, meeting the definition of a capital lease, must be capitalized in the same manner as all other tangible capital assets and follow this policy. The Chief Financial Officer, in conjunction with the Department, will make the determination of the type of lease – capital versus operating lease.

All operating lease costs are treated as an expense.

Leasehold Improvements

A leasehold improvement is a betterment made to a leased property. Betterments are expenditures relating to the alteration or modernization of an asset that appreciably prolong the item’s period of usefulness or improve functionality for more than one year.

Transition

All tangible capital assets owned by the Town will be inventoried and valued as of December 31, 2007. The tangible capital asset Continuity Schedule will be used to track 2008 additions and disposals. The accounting for tangible capital assets is effective January 1, 2009 at which time tangible capital assets will be recorded in the Town’s financial system.