

DISTRICT OF FORT ST. JAMES
POLICY AND PROCEDURE MANUAL

POLICY GROUP:	Finance
POLICY#:	2.3
SUBJECT:	Tangible Capital Asset
ADOPTED:	August 18, 2010
REVISED:	
ADMINISTERED BY:	Director of Finance in conjunction with other department heads

PURPOSE: To provide guidance for the accounting treatment of tangible capital assets. The principal issues in accounting for tangible assets are the recognition of the assets, the determination of their carrying amounts, determination of amortization charges, accurately recording disposals and the recognition of any related impairment losses. In addition this policy covers policies 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.

SCOPE: This policy applies to all district departments, boards, agencies and other organizations falling within the reporting entity of the district.

DEFINITIONS:

“Tangible Capital Asset” A non-financial asset having physical substance that:

- ✓ Is used on a continuing basis in the district’s operations;
- ✓ Has a useful life that extends beyond one year; and
- ✓ Is not held for resale in the ordinary course of operations.

“Betterment” Subsequent expenditures on a tangible capital asset that:

- ✓ Increases previously assessed output or service capacity;
- ✓ Lowers associated operating costs;
- ✓ Extends the useful life of the asset; or
- ✓ Improve the quality of the output.

“Cost” The gross 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.

“Fair Value” 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 non-financial asset that has physical substance and a useful life extending beyond an accounting period and is held under lease by the District for use, on an ongoing 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 municipality without necessarily transferring legal ownership.
“Net Book Value”	the cost of a tangible capital asset less accumulated amortization and the amount of any write-downs.
“Useful Life”	the estimated period over which a capital asset is expected to be used by the District. A tangible capital asset’s useful life may be shorter than the actual life of the asset due to limitations on the physical, technological, commercial or legal life of the asset.
“Amortization”	the accounting process of allocating the cost less residual value of a tangible capital asset to operating periods as an expense over its useful life in a rational and systematic manner appropriate to its nature and use.
‘Residual Value”	the estimated net realizable value of a tangible capital asset at the end of its useful life to the District.
‘Write-down”	a reduction in the cost of a tangible capital asset to reflect the decline in the asset’s value due to a permanent impairment.

POLICY STATEMENTS

A) Valuation

Tangible capital assets should be recorded at cost plus all charges directly attributable to place the asset in its intended location and condition for use.

The cost of purchased assets is comprised of the consideration paid to acquire the item including all non-refundable taxes, duties, freight and preparation costs net of any discounts or rebates. For land, the cost will include costs such as legal fees, land registration and transfer taxes as well as any costs that make the land suitable for its intended use, such as demolition costs or site improvements that become part of the land.

The cost of constructed or developed assets will include all costs directly attributable to the asset constructed or developed including, but not limited to, construction costs, professional fees and architectural costs.

Donated or contributed assets will be recorded at the fair value at the date of contribution. Fair value may be determined using market or appraisal values.

B) Capitalization

Thresholds are established for a minimum dollar value and number of years of useful. Tangible Capital Assets should be capitalized according to the following thresholds:

ASSET CATEGORY	THRESHOLD
Land	Capitalize All
Land Improvements	\$12,500
Buildings	\$25,000
Building Improvements	\$25,000
Machinery and Equipment	\$5,000
Furniture and Fixtures	\$5,000
IT Infrastructure	\$5,000
Infrastructure (Roads, Water, Sewer)	\$25,000

C) Categories

A category of assets is a grouping of assets of a similar nature or function in the district's operations. The following categories shall be used:

1. Land
All land owned by the district is segmented by each parcel held.
2. Buildings
Buildings are segmented by envelope, roof, equipment and other significant component parts based on useful life.
3. Machinery and Equipment
Vehicles, machinery and equipment is segmented on a per unit basis
4. Furniture and Fixtures
Furniture and fixtures are pooled, segmented at the per unit level.
5. IT Infrastructure
Includes software, hardware, infrastructure, printers, scanners and photocopiers. Segmentation is on a per unit basis.
6. Roads
Road assets are segmented by roads, lanes, sidewalks and structures
7. Water
Water system components are segmented by water mains, pump stations, valves, hydrants and services
8. Sewer
Sewer system components are segmented by sewer mains, pump stations, manholes, catch basins and services.

D) Amortization

The cost, less any residual value, should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use.

Assets in their first year of ownership should record a half year

The district shall use the following amortization methods:

ASSET CATEGORY	AMORTIZATION METHOD	EXAMPLES
Land	Not Amortized	Vacant, Occupied for Municipal purposes, Parks, Fencing
Assets under Construction	Not Amortized	Buildings, Roadways and other assets currently under construction at year end
Buildings	Straight Line	All District owned (Fire Hall, Town Hall, Arena)
Machinery & Equipment	Straight Line	Boilers, Lifts, Pumps, Signage, Graders, Fire Trucks, Dump Trucks, Loaders, Vans
Furniture & Fixtures	Straight Line	Desks, Chairs, Cabinets
IT Infrastructure	Straight Line	Hardware, Software, Cabling, Printers, Photocopiers
Roads	Straight Line	Roads, Sidewalks, Parking Lots
Water System	Straight Line	Pump Stations, Pipes, Mains, Services, Hydrants
Sewer System	Straight Line	Mains, Piping, Treatment Plant

A general guideline for determining the estimated useful life of an asset is attached as Appendix 'A'

- Please note that these useful lives are not wholly inclusive and may be increased or decreased depending on specific circumstances

E) Write-Downs and Disposals

An asset is said to be disposed of when it becomes no longer useful for the purposes in which it was intended or legal ownership of the asset has been changed. The asset is removed from the TCA inventory and any consideration received in excess of its net book value is to be recorded as revenue.

Disposals of tangible capital assets must comply with the district's policies and procedures.

A write-down of a tangible capital asset would occur when the net book value exceeds the fair value of the asset. A write down is caused by a permanent impairment of the assets value.

F) Non-Capitalized Expenses

If the item in question is not to be capitalized, then that item is to be expensed within the current fiscal year.

The Director of Finance will review the purchase of all other assets on an individual basis.

DISTRICT OF FORT ST. JAMES

Schedule 'A' – Asset Useful Life (General Guidelines)

<u>ASSET TYPE</u>	<u>DEPRECIABLE LIFE IN YEARS</u>
Parks Infrastructure	
Playground Equipment	15 - 20
Building Structure	40 - 75
Building Improvements	
Exterior Envelope	30 - 40
HVAC Systems	10 - 12
Roofs	15 - 20
Electrical/Plumbing/Fire	15 - 20
Site works – Ashphalt, water and sewer lines, etc.	10 - 100
Machinery & Equipment	
General Equipment -	7 - 10
Grounds Equipment and Machinery	10 - 15
Heavy Construction Equipment	10 - 15
Vehicles	
Cars and Light Trucks	5 – 10
Fire Trucks	15 - 20
IT Infrastructure	
Hardware	3 - 5
Software	5 - 10
Infrastructure (dependent upon component and material)	
Electrical and IT	20 - 25
Water	10 - 100
Sewer	10 - 100
Drainage	10 - 100
Transportation	10 - 100