

Bylaw # 2017 – 040

June 2017

***MUNICIPALITY OF
HASTINGS
HIGHLANDS***

FIN-04 Finance Policy – Capital Assets

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Municipality of Hastings Highlands

Policy Type: **Finance**

Policy Number: **FIN-04**

Policy Title: **Capital Assets**

Policy Approval Date: **June 28, 2017**

A policy in accordance with Public Sector Accounting Board (PSAB) Handbook Section PS 3150; This policy replaces the provisions of the Capital Asset Policy Statement approved by Council in June of 2008.

This policy does not apply to works of art, historical treasures and similar assets.

1.0 Purpose

The purpose of this policy is to prescribe the accounting treatment for tangible capital assets in accordance with generally accepted accounting principles as determined by PSAB so that users of financial reports can obtain information about the investment in property, plant, equipment and infrastructure 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.

2.0 Scope

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

The policy is intended to:

- Protect and control the use of all tangible capital assets;
- Provide accountability over tangible capital assets;
- Appropriately and accurately record and account for tangible capital assets; and
- Gather and maintain information needed to prepare financial statements

Should there be any incongruences between the policy and the governing legislation, the provisions of the governing legislation will prevail.

3.0 Definitions

“Betterments” are 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 the expenditure is made.

“Council” means the Council for The Corporation of the Municipality of Hastings Highlands.

“Fair Market 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.

“Group/Pooled Assets” are assets that have a unit value below the capitalization threshold but have a material value as a group. These assets are normally recorded as a single asset with one combined value. Although the asset is 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 but are not limited to computers, furniture and fixtures and small movable equipment.

“Municipality” means The Corporation of the Municipality of Hastings Highlands.

“Tangible Capital Assets” are assets having physical substance that are used on a continuing basis in the municipality’s operations, have useful lives extending beyond one year and are not held for resale in the normal course of operations.

4.0 Capital Asset Additional Overview

- 4.1 Purchased capital assets greater than the capitalization threshold for the asset class should be recorded at historical (original) cost. The cost of a tangible capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition such as freight and transportation charges, site preparation costs and professional fees.
- 4.2 Group/Pooled purchases of assets greater than the capitalization threshold should be recorded at historical cost. Group/Pooled assets are assigned to one specific location, are moveable property requiring loss control, and have a useful life extending beyond a single reporting period. Group assets include office furniture, library books, and computer equipment. Group purchases less than the threshold are not capitalized.

- 4.3 Capital assets should be amortized over their useful lives as determined for each asset class. Land and some land improvements, are considered inexhaustible and are, as such, not subject to amortization.
- 4.4 If determining historical costs is not practical due to inadequate records, reporting should be based on estimates of original cost at the date of construction or purchase.
- 4.5 Depending upon the information available and the category of the asset, Tangible Capital Asset records should include all or part of the following: 1.) Description; 2.) Asset Class; 3.) Serial Number; 4.) Cost; 5.) Location or Functional Area; 6.) Acquisition date; 7.) Estimated Useful Life; 8.) Amortization Method; 9.) Salvage Value; 10.) Accumulated Amortization; 11.) Amortization Expense; and 12.) Replacement Cost.

5.0 Asset Categories

- 5.1 A category of assets is a grouping of assets of a similar nature or function in the Municipality's operation. The following list of categories shall be used:

- **Land**
- **Land Improvements**
- **Buildings**
- **Roadway Systems**
- **Water Systems**
- **Wastewater Systems**
- **Storm Sewer Systems (when applicable)**
- **Machinery and Equipment**
- **Vehicles**
- **Computer Systems (hardware and software)**
- **Furniture and office equipment**

6.0 Useful Lives

- 6.1 Useful lives of tangible capital assets relate to the life expectancy as used by the specific governmental unit. The following table should be used to assist the municipality in estimating the useful life of a capital asset.

Useful Life In Years	Asset Type
N/A	Land
3-5	Computer Hardware, Office Computers, Printers, Network Hardware
5-7	Carpe Replacement
5-7	Library Book Collections
5-10	Custodial Equipment, Floor Scrubbers, Vacuums, Other
5-10	Business Machines, Fax, Copiers, Printing Equipment
5-10	Communication Equipment
5-10	Computer Software
7-10	Audio Visual Equipment, Projectors, Camera (still and digital)
8-10	Licenses Vehicles, Buses, other "on-road" Vehicles
10-15	Machinery and Tools in Shop, Maintenance Equipment
10-15	Kitchen Equipment Appliances
10-15	Grounds Equipment, Mowers, Tractors, Attachments
15-20	Outdoor Equipment, Playgrounds, Radio Towers, Fuel Tanks, Pumps
15-20	Furniture and Accessories
15-20	Site Improvements, Paving, Flagpoles, Retaining Walls, Sidewalks, Fencing, Outdoor Lighting
20	Land Improvements
20-25	Heating, Ventilation and Air Conditioning Systems
20-25	Roofing
20-25	Fire System and Sprinklers
25-30	Interior Construction
25-30	Electrical and Plumbing
40-50	Buildings

7.0 Amortization of Capital Assets

- 7.1 The municipality will amortize its tangible capital assets over the asset's useful life.
- 7.2 Amortization expense will be recorded annually in a systematic and rational manner.

- 7.3 Amortization will be calculated using the Straight Line method.
- 7.4 Amortization will be reported by function (areas of activity).
- 7.5 The Municipality calculates amortization on all capital assets reported in the Municipality's financial statements other than land, permanent improvements to land, and construction in progress.
- 7.6 Amortization may be calculated for a class of assets, a network of assets or individual assets.
- 7.7 Additions and disposals/reductions/write downs will be deemed to have occurred on January 1st in the year of change. A full year of amortization will be recorded in the year of acquisition and none in the year of disposal.

8.0 Infrastructure

- 8.1 Infrastructure assets should be amortized over their useful lives.
- 8.2 Routine repairs and maintenance costs are charged to operations as incurred. Expenditures that extend the useful life of the infrastructure are capitalized as part of the asset and amortized over the newly established useful life.

9.0 Capital Lease

- 9.1 A capital lease is a lease with contractual terms that substantially transfer all the benefits and risks inherent in ownership of the property to the Municipality. 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.
 - There is reasonable assurance that the municipality will obtain ownership of the leased property by the end of the term of the lease
 - The lease term is of such a duration that the municipality will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span
 - 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

- 9.2 Assets acquired by capital lease are recorded at the net present value of the future minimum lease payments. A corresponding liability is established at the time the asset is recorded. Assets acquired under the terms of capital leases are amortized over the useful lives designated for the asset class.

10.0 Donations

- 10.1 Donated tangible capital assets must be reported at fair market value plus ancillary charges, if any, at the time of the donation. Donated assets are amortized over their useful lives as determined for each asset class. If determining historical costs is not practical due to inadequate records, reporting should be based on estimated fair market value at the date of the donation.

11.0 Disposals

- 11.1 When tangible capital assets are sold, calculation of gain or loss on disposal is required. The calculation is based upon the amount of proceeds received less the net book value (cost less accumulated amortization taken on the asset).
- 11.2 When tangible capital assets are traded in, the value given for a trade is part of the newly acquired asset. The costs and accumulated amortization of the traded-in asset must be removed from the books. Any gain or loss resulting from the disposition of the asset will be recognized as a gain or loss on disposal.
- 11.3 The disposal of tangible capital assets is the responsibility of the appropriate department head. Department heads must notify the Treasurer when assets become surplus to operations, destroyed, or replaced due to obsolescence, scrapping or dismantling. Notification will include the asset description, asset number, effective date and the proceeds of the disposal, if any. The Treasurer is responsible for updating the asset registers and accounting records.

12.0 Summary Table of Classes, Capitalization Thresholds & Amortization Method

<u>Major Asset Class</u>	<u>Minor Asset Class</u>	<u>Capitalization Threshold</u>	<u>Amortization Method</u>	<u>Review Schedule</u>
Land		All land will be recorded	N/A	N/A
Land Improvements		\$10,000	Straight Line	Every 3 years
Buildings		\$10,000	Straight Line	Every 5 years
Engineered Structures	Roadway System	\$10,000	Straight Line	Every 5 years
	Water System	\$10,000	Straight Line	Every 5 years
	Wastewater System	\$10,000	Straight Line	Every 5 years
	Storm System	\$10,000	Straight Line	Every 5 years
Machinery & Equipment		\$10,000	Straight Line	Every 3 years
Vehicles		\$10,000	Straight Line	Every 3 years
Computer System (Hardware & Software)		\$10,000	Straight Line	Every 3 years
Furniture & Office Equip.		\$10,000	Straight Line	Every 3 years
Group/Pooled assets (all categories)		\$15,000	Straight Line	N/A

13.0 Policy Review

13.1 This policy should be reviewed regularly to ensure the municipality is still actively using all the assets and the assumptions regarding useful life and value remain the same.