Town of Kentville Policy Statement G55F
Tangible Capital Asset Policy

1.0 Purpose

The Town of Kentville is committed to safeguarding and identifying all assets (capital and non-capital) belonging to, having title to, or in the custody of the Town of Kentville. When assets are acquired, the Town of Kentville will identify, safeguard, track and record them in an equitable manner that maximizes the useful life of the asset.

- To clarify the assets to which this policy applies.
- To clarify responsibility and safeguarding measures for all assets.
- To determine which assets are to be capitalized in accordance with generally accepted accounting principles.
- To determine the appropriate valuation of the capitalized asset.
- To provide the appropriate period of amortization of that capitalized asset over its estimated useful life.
- To provide a basis for insurance coverage and the external reporting of capitalized costs.
- To provide control and accountability over capital assets and to assist in gathering and maintaining information needed for the preparation of financial statements.

This policy and procedures are the minimum requirements for capital assets that are acquired by the Town of Kentville.

2.0 Definitions

"Capital assets"

Comprising tangible properties, such as land buildings and equipment. Having physical substance that is held for use in the supply of goods and services which are used on a continuing basis and are not for sale in the ordinary course of business.

"Cost"

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

"Fair Value"

The amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

"Net Book Value"

Of a tangible capital asset is its cost, less both accumulated amortization and the amount of any write-downs.

"Useful life"

The estimate of the period over which a capital asset is expected to be used by an organization. The life of a capital asset may extend beyond the useful life to an organization. The life of a capital asset is normally the shortest of the physical, technological and legal life.

3.0 SCOPE

The Town of Kentville shall have the objective to capitalizing all asset acquisitions according to this policy statement. This policy shall apply to all departments of the Town of Kentville and to all funds owed and operated by the Town of Kentville.

4.0 PROCEDURES

SAFEGUARDING MEASURES

Care and custody of capital and non-capital assets rest with the Department Head providing the resources for the purchase of assets and/or the person responsible for the physical area where the assets are located.

All persons/departments that use and care for capital and non-capital assts must ensure that reasonable safeguarding measures are in place at all locations where these assets reside to prevent damage to or the loss of such assets.

VALUING CAPITAL ASSETS

Capital versus Non-Capital Assets

Threshold

An asset will be classified as a tangible capital asset (capitalized under generally accepted accounting principles), if it is a non-consumable, tangible item, valued at a single amount greater than $ 5,000 and with a life expectancy extending beyond two years. Tangible items valued at single amounts less than $ 5,000 will be classified as a non-capital asset.

Purchased Assets

Purchased capital assets should be valued at historical cost including all ancillary charges less any discounts or rebates necessary to place the asset in its intended location and condition for use. Capital equipment purchased sometimes have add-on items that are not initially ordered as a single amount, but should still be included as part of the historical cost.

If the historical cost is not easily determined, use estimated cost.

The capitalized value of land includes the purchase price plus costs such as legal fees, fill and any excavation costs incurred to put the land in condition for its intended use.

Building costs include both acquisition and capital improvement costs including interest. Capital improvements include structures and all other property permanently attached to of an integral part of the structure (e.g. heating and air conditioning equipment)

Furniture, fixtures and other equipment should be classified as equipment. They are not considered capital improvements. The cost for this asset type reflects the actual of estimated cost of the asset. Include the cost of an extended maintenance/warranty contract in the asset's valuation if the contract is purchased at the same time (or soon thereafter) as the capital asset.

For the purposes of this policy statement, computer server equipment, firewalls (if purchased) and computer software related to the operation of the information technology systems are deemed to be purchased capital assets.

Constructed Assets

Capitalize all direct costs associated with construction and management costs associated with a construction project. Department project management costs may be capitalized in one of two ways:

1. Use actual project management costs when they are practicably discernible and directly associated with the project; or
2. Apply a percentage of total budgeted project costs.

Include interest costs incurred during the period of construction in the capitalized cost of the asset, if material.

Ancillary Costs

Ancillary costs should be included in the cost of a capital asset. However, minor ancillary costs, not determinable at the time a capital asset is recorded, are not required to be capitalized.

Ancillary costs for LAND include:

- Legal and title fees
- Professional fees of engineers, attorneys, appraisers, financial advisors
- Surveying fees
- Appraisal and negotiation fees
- Damage payments
- Site preparation costs
- Costs related to demolition of unwanted structures

Ancillary costs for INFRASTRUCTURE include:

- Professional fees of engineers, attorneys, appraisers, financial advisors
- Survey fees

- Appraisal and negotiation fees
- Damage payments
- Site preparation costs
- Costs related to demolition of unwanted structures
- Interest costs incurred during construction

Ancillary costs for BUILDINGS and BUILDING IMPROVEMENTS include:
- Professional fees of architects, engineers, attorneys, appraisers, etc.
- Damage payments
- Costs of fixtures permanently attached to a building or structure
- Insurance premiums, interest and related costs incurred during constructions and
- Any other costs necessary to place a building or structure into its intended location and condition for use.
- Interest costs incurred during construction

For FURNISHINGS, EQUIPMENT or other capital assets
- Transportation charges
- Sales tax
- Installation costs
- Extended maintenance/warranty contracts or any other normal or necessary cost required to place the asset in its intended location and condition for use.
- Interest costs incurred during construction

Donated Assets

Use the fair market value (FMV) at the time of acquisition plus all appropriate ancillary costs. If the FMV is not determinable, use the estimated cost. If land is acquired by gift, the capitalized value is to reflect its appraised or fair market value at the time of acquisition.

Consumables

Tangible assets may be considered consumable goods as they are used in the daily operations of the Town of Kentville. These will not be considered capital assets even if they are purchased in bulk and consumables will last more than five years. They will be expensed, or if material, established as inventory and expensed as the inventory is used or consumed over time.

When and What to Capitalize

Only items which will provide a benefit in excess of two years to the Town of Kentville are to be capitalized.

The general policy is to capitalize all assets with a cost of $ 5,000 or more.

All land will be capitalized.

Purchases of less than $ 5,000 will be considered an operating expenditure

Infrastructure, building and equipment projects will be recorded in Construction Work in Progress accounts (CWIP) and the Construction Work in Progress accounts will be closed out when the project is substantially complete, accepted and placed into service.

Exception

- For the purposes of this policy statement, desktop computers, laptops, printers and other miscellaneous peripheral technological equipment are not to be considered purchased capital assets. The life-span of this technology is deemed to be limited, and is therefore expensed when purchased.

New acquisitions- Capitalize new assets that meet the Town's capitalization policy as noted above. Additions, improvement, repairs or replacements to existing capital assets are not considered new acquisitions and are discussed below.

Additions- Capitalize expansions or extensions to existing capital assets that meet this policy

Extraordinary repairs, betterments or improvements- Capitalized outlays that increase future benefits from an existing capital asset beyond its previously assessed standard of performance.

Increased future benefits typically include:

- An extension in the estimated useful life of the asset
- An increase in the capacity or efficiency of an existing capital asset.

Replacements- For improvements (other than buildings) and equipment capitalize the cost of outlays that replace a part of another capital asset.

Exceptions

- Replacement roof coverings are not capitalized unless the replacement extends the useful life of the building
- Replacement floor coverings and window coverings are not capitalized
- Costs to remodel (convert) a building are not capitalized, unless they extend the useful life of the structure itself
- Repainting of a building or interior offices

Amortization

Amortization or depreciation is an accounting cost allocation method of a capitalized asset over its useful life. It is not intended, at any time, to necessarily represent the fair of market value of a capital asset. Amortization is recorded for a full year in the year of acquisition for all capital assets except for constructed capital assets. Amortization does not begin on constructed capital assets until work is substantially performed and the building or other constructed asset is ready for occupancy or use. Capital assets are placed into categories and amortized on a straight-line manner over the estimated useful lives and annual rates as follows:

Asset	**Years**	**Rate**
Office Equipment	5 years	**20%**
Motor vehicles	5 years	**20%**
Fixed and moveable equipment	10 years	**10%**

Compost bins	10 years	**10%**
Sidewalks	20 years	**5%**
Operating plants(sewage treatment)	25 years	**4%**
Wharves	25 years	**4%**
Ferry boats	30 years	**3.33%**
Municipal buildings	40 years	**2.5%**
Other infrastructure	50 years	**2.0%**
Landfill capital	at time when capacity of garbage is reached	landfill to accept

Disposal of Assets

Disposals of tangible capital assets may occur by sale, trade-in, destruction, loss or abandonment. Such disposals represent a reduction in a local government's investment in tangible capital assets. When an asset is replaced or disposed of, the cost and accumulated amortization are removed from the accounts. Any difference between net proceeds and the carrying amount of the asset is accounted for as revenue or expense in the statement of operations. The value given for a trade-in is the net proceeds on disposal.

The proceeds on disposal of any capital asset other than the trade-in of one asset for another are to be transferred to the Capital Reserve Fund.

5.0 ADDITIONAL DOCUMENTS

6.0 POLICY REVISION HISTORY

Date Created: February 11, 2009