

Asset Capitalization Policy

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Introduction

Tangible capital assets are a significant economic resource managed by Simcoe Muskoka District Health Unit (SMDHU) and a key component in the delivery of many programs. SMDHU tangible capital assets may include land, buildings, leasehold improvements, vehicles, computer equipment, and office equipment and furniture. The Canadian Institute of Chartered Accountants (CICA) requires that Capital Assets be capitalized and depreciated. All tangible capital assets are to be accounted for on the Statement of Financial position and related depreciation is to be recognized as an expense on the Statement of Operations.

Purpose

To provide a framework for the recognition, measurement, and disclosure of tangible capital assets and to ensure compliance with the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Standards.

Legislative Authority

Health Protection and Promotion Act, R.S.O., 1990, c H.7. www.e-laws.gov.on.ca
Municipal Act, 2001, S.O. 2001, c 25. www.e-laws.gov.on.ca
CICA Public Sector Accounting Standards, Section 3150, Tangible Capital Assets.
CICA Public Sector Accounting Guidelines, PSG-2, Leased Tangible Capital Assets.

Policy Definitions and Interpretation

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

- Have a useful life of more than one year,
- Are held for use in the supply of goods and services, for rental to others, for administrative purposes, or for the development, construction, maintenance, or repair of other tangible assets,
- Are to be used on a continuing basis
- Are not for sale in the ordinary course of business.

Amortization is a systematic method used for determining the depleted cost of a tangible capital asset.

Betterment is a cost incurred to enhance the service potential of a tangible capital asset.

Contributed tangible capital assets are assets received by the SMDHU where no payment is made. They are recorded at their fair market value at the date of receipt (contribution).

Cost: is 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, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset. The cost of a leased tangible capital asset is determined in accordance with PUBLIC SECTOR GUIDELINE PSG-2, Leased Tangible Capital Assets.

Fair value is 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.

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 SMDHU 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 SMDHU with necessarily transferring legal ownership.

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

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

Service potential is the output or service capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.

Straight-line is calculated by taking the total cost of the tangible capital asset less any residual value divided by the useful life.

Useful life is the estimate of either the period over which a tangible capital asset is expected to be used by SMDHU, or the number of production or similar units that can be obtained from the tangible capital asset by SMDHU. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to SMDHU. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life.

Policy

The Board of Health through the Medical Officer of Health will ensure that a process is in place for the recognition, capitalization, depreciation and disposal of its tangible capital assets. The process will:

- Achieve the consistent recording of tangible capital assets,
- Gather and maintain information required to prepare financial statements,
- Protect and control the use of all tangible capital assets, and
- Provide accountability over tangible capital assets.

Tangible capital assets will be recorded at Cost. All categories of tangible capital assets with a value greater than or equal to \$5,000.00 will be capitalized and depreciated for the purpose of reporting in the audited financial statements.

Procedures

1. Tangible capital assets are purchased in accordance with the Procurement Policy FI0107
2. An inventory of tangible capital assets will be maintained that includes the following information as a minimum
 - Description of the asset,
 - Year of acquisition,
 - Purchase price of the asset including acquisition costs if any,
 - Expected useful life at the time of acquisition,
 - Significant improvements made to the asset (additional cost),
 - Service hours, production, or mileage to date (if applicable),
 - Estimated residual value, if any on disposal.

3. Tangible capital assets will be classified into one of the following categories:
 - Land
 - Buildings
 - Equipment and Furniture
 - Computer equipment/software
 - Leasehold improvement's
 - Vehicles including the Dental Van

All capital projects in progress must become a tangible capital asset as soon as the asset is usable and/or put into service.

4. All tangible capital assets will be amortized over their useful life in accordance with the straight line method as follows:

Classification	Number of Years (estimated useful life)
Land	Not Depreciated
Buildings	20 Years
Furniture and Equipment	5 to 20
Computer Equipment	3 to 5
Leasehold Improvements	5 to 20 years
Vehicles	
• Cars/Vans	5 years
• Dental Van	7 years

5. Assets that are no longer of value are tracked and disposed of by sale, destruction, loss, abandonment or donation. Any revenues generated by the sale shall be used to offset budget expenditures and accounted for accordingly.
6. A write down the cost of the tangible capital asset will occur 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 salable condition, and
- A change in the law or environment affecting the extent to which the tangible capital asset can be used.

7. The financial statements will disclose for each major category of tangible capital assets and in total:

- Cost at the beginning and end of the period,
- Additions in the period,
- Disposals in the period,
- The amount of any write downs in the period,
- The amount of amortization of the costs of tangible capital assets for the period,
- Accumulated amortization at the beginning and end of the period, and
- Net carrying amount at the beginning and end of the period.

The financial statements will disclose amortization method used, and other notes as per PS3150.

8. Leased tangible capital assets will follow the accounting guideline PSG-2. Leased property that meets the definition of a leased tangible capital asset will be accounted for as a tangible capital asset and the associated liability recorded separately. A leased tangible capital asset will be amortized over the period of expected use of the asset, on a basis that is consistent with SMDHU amortization policy for other similar tangible capital assets.

9. In accordance with the budgeting and reporting requirements of the Ministry of Health and Long Term Care, tangible capital assets are expensed in the year they are purchased. Depreciation or amortization of tangible capital assets is not recognized as an allowable expense within the program based budget or year-end settlement.

Related Policies

N/A

Related Forms

N/A

Final Approval Signature: _____

Review/Revision History: