Procedure Name	Asset Capitalization		
Policy #	514	Category	GOVERNANCE
Steward	Board of Governors	Date Approved	July 1, 2023
Next Review Date		Date Reviewed or Revised	

PROCEDURES

1. Capital Asset Valuation:

Cost or Estimated Value

1.1 A capital asset should be recorded on the statement of financial position at cost. The cost of a capital asset includes the purchase price and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation, insurance costs and duties.

1.2 For a contributed capital asset, cost is considered to be fair value at the date of contribution. Fair value of a contributed capital asset may be estimated using market or appraisal values. A capital asset purchased at substantially below fair value would also be recognized at its fair value with the difference between the consideration paid for the capital asset and the fair value reported as a contribution.

1.3 In unusual circumstances when the fair value cannot be reasonably determined, the capital asset should be recorded at a nominal value.

Construction or Development Over Time

1.4 The cost of a capital asset includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. A capital asset which is developed or constructed by the College might include contributed materials or labour, which would be recognized at fair value at the date of contribution.

1.5 The degree of certainty as to future benefits to be derived from costs attributable to developing intangible property varies and, in many cases, the expected future benefits may be too uncertain to justify asset recognition. When future benefits are reasonably assured, however, such costs are capitalized.

Betterment

1.6 The cost incurred to enhance the service potential of a capital asset is a betterment. Service potential may be enhanced when there is an increase in the previously assessed service capacity, associated operating costs are lowered, the useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of a capital asset is a repair, not betterment.

2. Amortization:

2.1 The cost, less any residual or salvage value, of a capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the college. Amortization should be recognized as an expense in the College's statement of operations.

2.2 Amortization should be calculated using the straight-line method based on the useful life of the asset. All capital asset categories are defined in section 8 except for the "other" capital asset categories have predetermined estimated useful lives. If a capital asset belongs in the "other category", professional judgement must be used to estimate the useful life. The useful life estimates indicated in section 8 should be used as a standard for each category although Regional Colleges have the ability to change the useful life used for individual asset if the change can be justified. Factors to be considered in estimating the useful life of a capital asset include expected future usage, effect of technological obsolescence, expected wear and tear from use or the passage of time, the maintenance program, and the condition of existing comparable terms.

2.3 Residual value is the amount that the College expects to be able to realize on disposal of a negligible and would be ignored for the purpose of calculating amortization. However, when the College expects the residual value of a capital asset to be significant, it should be factored into the calculation of amortization.

2.4 Amortization begins in the year the capital asset is placed into use. A full year's amortization is provided for in the year the asset is put into use regardless of when this occurs in the fiscal year.

2.5 No amortization is provided in the year the asset is disposed of.

2.6 The amortization method and the estimate of the useful life of a capital asset should be reviewed on a regular basis.

2.7 When a separate capital fund is utilized, amortization expense should be shown as an expense of the capital asset fund in accordance with the restricted fund method prescribed by the Regional Colleges Accounting Reporting Manual.

3. Write Downs of Capital Assets:

3.1 When a capital asset no longer has any long-term service potential to the College, the excess of its net carrying amount over any residual value should be recognized as an expense in the statement of operations. A write down should not be reversed.

4. Disposal of a Capital Asset:

4.1 On disposal of a capital asset, whether by sale, destruction, loss, abandonment or expropriation, the difference between the net proceeds on disposal and the net carrying amount is recognized in the statement of operations.

5. Financial Presentation and Disclosure:

5.1 For each major category of capital assets defined in this section, there should be disclosure of:

- i) cost;
- ii) accumulated amortization, including the amount of any write downs; and
- iii) the amortization method used, including the amortization period or rate.

5.2 The net carrying amounts of major categories of capital assets not being amortized should be disclosed.

5.3 The amount of amortization of capital assets recognized as an expense for the period should be disclosed.

5.4 The amount of any write-downs of capital assets should be disclosed in the financial statements for the period in which the write-downs are made.

Utilizing a Separate Capital Fund

5.5 When a separate capital fund is utilized, all financial statements presentation and disclosure should be represented as part of the capital fund in accordance with the restricted fund method prescribed by the Regional College Accounting and Reporting Manual.

Contributed Capital Assets

5.6 The nature and amount of contributed capital assets received in the period and recognized in the financial statements should be disclosed.

5.7 Information should be disclosed about contributed capital assets recognized at nominal value.

6. Capitalization Categories and Thresholds:

The College will capitalize assets at cost based on the following thresholds. For the purpose of applying the capitalization threshold, the asset will be evaluated using the cost before taxes, rebates, and other incidental expenses such as courier or postage expenses.

The table below lists the minimum value that can be capitalized. Generally, the minimum value capitalized for each category represents the minimum cost an individual asset must have before it is to be treated as a capital asset and added to the proper category balance.

Category	**Minimum Value Capitalized**	**Estimated Useful Life**
Land	$0 *Land should not be amortized.	Indefinite
Land Improvements	$5,000	**5 years, unless stated otherwise**
Buildings: include any betterment to buildings	$20,000	20 years
Buildings: new construction	$20,000	50 years
Leasehold Improvements: includes all improvement and building renovations made to a building that has a definite lease period.	$10,000	Life of the lease (at College's discretion, may include any applicable renewal period that forms part of the lease agreement)
Vehicles	$5,000	5 years
Machinery and Equipment	$5,000	5 years
Computer Hardware: includes the purchase and installation of computer hardware, such as personal computers, laptops, monitors and printers.	$2000	3 years

Office Equipment: includes such items as purchased photocopiers, fax machines, video conferencing equipment, projectors, and other business equipment	$2000	5 years
Office Furniture: includes all office furniture and furnishings. Examples of office furniture are desks, tables, chairs, and filing cabinets.	$2000	10 years
System Development: includes costs incurred to design, develop and implement a computer system; both external costs (hiring a consultant) and internal costs (salary costs related to the development of the system) are included.	$20,000	Expected life of the developed system
Other: includes capital assets not included in another category	$5000	Dependent on asset acquired
Capital Maintenance: includes costs to maintain, extend, and improve capital assets	Projected minimum value capitalized per category	Projected minimum value capitalized per category