

Asset Capitalization – B-F-005

Board of Health Policy

1.0 Policy Statement

The Board of Health for the North Bay Parry Sound District Health Unit (Health Unit) ensures that a process is in place for the capitalization, depreciation, and disposal of its tangible capital assets by the most efficient and information quality means.

2.0 Purpose

This policy describes the framework for the capitalization of the Health Unit's tangible capital assets.

3.0 Scope / Responsibility

This policy applies to the procurement of and record keeping for all tangible capital assets.

The Board of Health, through the Medical Officer of Health/Executive Officer, ensures that this policy is implemented.

4.0 Procedure

4.1 Definitions

Tangible Capital Assets: Non-financial assets having physical substance that:

- are held for use in the supply of goods or services, for rental to others, for administrative purposes, or for the development, construction, maintenance, or repair of other tangible capital assets;
- have a useful economic life extending beyond one year; and
- are to be used on a continuing basis and are not for sale in the ordinary course of business.

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, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset is considered to be equal to its fair value at the date of contribution. Capital grants are not netted against the cost of the related tangible capital asset.

Contributed Assets: Assets received for which no Health Unit payment is made whether received from another branch of the public sector or a private donor.

Capitalization: The process of recording the value of a tangible capital asset in the original books of record.

Residual Value: The estimated resale value of the asset at the end of its useful life.

Depreciation/Amortization: A systematic method of expensing the wear and tear on an asset over its useful life.

Useful Life: The period over which an asset, singly or in combination with other assets, is expected to contribute directly or indirectly to the future operations of the Health Unit.

Betterment: The cost incurred to enhance the service potential of an asset.

Leasehold Improvements: The costs associated with making leased premises ready for occupation by the tenant.

4.2 Procurement

Tangible capital assets are purchased following policy [B-F-001](#) - Procurement and related work instructions.

4.3 Recording

Tangible capital assets are recorded on the books of record at their historic cost.

Work in progress on a building is recorded at cost but not depreciated until substantial completion has been reached.

The listing of tangible capital assets must contain sufficient detail to assess the age, location, historic cost, expected useful life, and depreciated value.

4.4 Classification

Tangible capital assets are classified as one of the following categories:

- a) Land
- b) Buildings
- c) Furniture and Equipment
 - Portable Equipment
 - Furniture
 - Information Technology, including software
 - Telecommunications
- d) Leasehold Improvements

4.5 Capitalization Thresholds

The tangible capital assets are recorded in the books of record as assets when they reach the following dollar values:

Always Recorded:

- Land
- Buildings

Over \$750:

- Furniture and Equipment
 - Portable Equipment
 - Furniture
 - Information Technology, including software
 - Telecommunications

Over \$1000:

- Leasehold Improvement or Betterments

4.6 Leased Tangible Capital Assets

Assets acquired under a lease agreement must be assessed to determine if they should be capitalized. A leased tangible capital asset is a non-financial asset that has physical substance and a useful life extending beyond one year, and is held under lease by the Health Unit for use, on a continuing basis, in the production or supply of goods and services. If substantially all the benefits and risks of ownership of the asset have been transferred to the Health Unit, without necessarily transferring legal ownership, then the leased item becomes an asset of the Health Unit and is classified and capitalized according to the previous table.

4.7 Depreciation

It is required that the cost of the tangible capital assets, less any residual value, be amortized over its useful life. Factors to be considered in estimating the useful life of a tangible capital asset include:

- a) Expected future usage;
- b) Effects of technological obsolescence;
- c) Expected wear and tear from use or the passage of time;
- d) The maintenance program;
- e) Studies of similar items retired; and
- f) The condition of existing comparable items.

The following list identifies the number of years to be used for straight-line depreciation per asset classification based on its expected useful life:

- Land – not depreciated
- Buildings – 40 years
- Furniture and Equipment
 - Portable Equipment – 5 years
 - Furniture – 10 years
 - Information Technology – 4 years
 - Software – as reasonable using above factors
 - Telecommunications – 8 years
- Leasehold Improvements – length of lease
- Betterments – according to classification of assets being improved

For items which do not fit easily into one of the above classifications, useful life should be determined using the factors above.

4.8 Contributions

The cost of a contributed asset is considered equal to its fair value at the date of contribution. Fair value of a contributed tangible capital asset may be estimated using market or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset is recognized at nominal value.

4.9 Disposals

Assets of the Health Unit (not including real estate) that are no longer of value are tracked and disposed of by sale, destruction, loss, or abandonment or any other manner deemed most appropriate by the Executive Director, Finance. Any revenues generated by the sale shall be used to offset budget expenditures and accounted for accordingly.

4.10 Write Downs

The Health Unit writes down the cost of a tangible capital asset 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) A change in the extent to which the tangible capital asset is used;
- b) A change in the manner in which the tangible capital asset is used;
- c) Significant technological developments;
- d) Physical damage;
- e) Removal of the tangible capital asset from service;
- f) A decline in, or cessation of, the need for the services provided by the tangible capital asset;
- g) A decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition; and
- h) A change in the law or environment affecting the extent to which the tangible capital asset can be used.

4.11 Works of Art

The works of art owned by the Health Unit are not recorded in the books in accordance with the Public Sector Accounting Standards. Instead, a list of the works is maintained at the appraised value upon donation. Details of the works must be maintained with the current insurance provider according to their requirements.

5.0 Records Retention

All records relating to this Policy are retained in accordance with the Records Retention and Management work instruction ([WI-HU-108](#)).

6.0 References

Internal References

- a) North Bay Parry Sound District Health Unit, [Board of Health Bylaws](#).
- b) [Quality Assurance Manual](#) (1999).
- c) Records Retention and Management – [WI-HU-108](#)
- d) Procurement - [B-F-001](#)

External References

- a) *Health Protection and Promotion Act*, R.S.O., 1990, c H.7. [Ontario E-Laws Website](#)
- b) *Municipal Act*, 2001, S.O. 2001, c. 25. [Ontario E-Laws Website](#)
- c) CICA Handbook Accounting Standards. Section 3061. Property Plant and Equipment.
- d) CICA Public Sector Accounting Standards. Section 3150. Tangible Capital Assets.
- e) CICA Public Sector Accounting Guidelines. PS-2. Leased Tangible Capital Assets.
- f) BDO Dunwoody. Tangible Capital Assets - Time to Get Ready.

7.0 Summary of Revisions

2019-08-06 – Scheduled review with minor revisions to sections 1.0, 4.4, 4.5, and 4.7, addition of section 4.11, and updated hyperlinks.

8.0 Board Policy Development Details

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