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CORPORATE POLICY, STANDARDS and PROCEDURE

POLICY TITLE		NUMBER
CAPITAL ASSETS		TBA
AUTHORIZATION Vice President, Facilities Management and Chief Financial Officer	**DATE APPROVED** June 2006	**CURRENT VERSION DATE** November 2017

DATE(S) REVISED / REVIEWED SUMMARY

Version	Date	Comments / Changes
1.0	June 2006	Initial Policy Released
2.0	June 2012	Revised
3.0	November 2017	Revised

1. Purpose

The purpose of this policy is to establish the accounting treatment for the purchase, maintenance, and disposal of capital assets. The capital assets are defined in general principle and by capital asset category so stakeholders in the capital process will be able to make decisions based on the appropriate accounting treatment.

2. Scope

This policy applies to all capital assets that are owned or leased by Fraser Health including all departments managed by another Lower Mainland Health Organization or by BC Clinical and Support Services Society (BCCSS).

3. Application

The policy applies to capital assets including land, facilities, equipment and software either acquired or developed for internal use. Copyrights, intellectual property, patents and other such intangible assets are excluded.

4. Principles

4.1 Capital Assets Defined

4.2 Land and Land Improvements

4.3 Buildings and Building Service Equipment

4.4 Leasehold Improvements

4.5 Equipment

4.6 Software and Software License Fees

4.7 Assets Under Capital Lease

4.8 Assets Write-downs and Write-offs

4.9 Disposal of Assets

4.1 Capital Assets Defined

4.1.1 Capital assets are defined as those items that meet all of the following criteria:

a) Have a useful life expectancy of greater than one year.

b) Are held for the purpose of rendering a service rather than for sale or immediate consumption.

c) Fraser Health acquires effective ownership of a tangible asset.

d) Have a unit cost of more than the following threshold:

Category	Capitalization Threshold
Facility Projects	$ 50,000
Leasehold Improvements	$ 50,000
Information Systems	$ 50,000
Equipment	$ 5,000

4.1.2 The cost for each capital asset will reflect the total expenditures incurred to acquire, install and prepare the capital asset for service. For a detailed list of capitalized expenditures by asset category refer to 4.2 to 4.7. of this policy.

4.1.3 The cost of a capital asset is not an operating expense in the year of acquisition. Rather, the cost is recorded as an asset and is amortized (or depreciated) over the expected useful life of the asset.

4.1.4 Capital assets may be purchased by or donated (contributed) to Fraser Health. Donated (contributed) capital assets are recorded at their fair value at the date of contribution.

4.1.5 Certain capital assets are classified as “Capital Assets in Progress” because they are not yet available for use. These assets will remain “in progress” until they are transferred into “in service” when the asset is substantially complete and capable of operation.

4.1.6 Where a project has distinct, multiple, self-contained phases or modules that will be brought into production or use at different points of time, the completed phases should be transferred from ”in progress” to “in service” when available for use and each phase/module will be depreciated independently. Project phases should be identified in the planning phase and disclosed in the Business Case/Capital Request Form before the project begins. Project Managers are required to notify Capital Accounting of the appropriate timing for transfers to “in service”.

4.1.7 Capital Assets are classified under the following categories for financial statement presentation:

a) Land

b) Land Improvements

c) Buildings

d) Building Service Equipment

e) Construction in Progress

f) Leasehold Improvements

g) Equipment

h) Information Systems Equipment

i) Equipment in Progress

j) Software License Fees

k) Assets Under Capital Lease

4.1.8 Capital Assets are amortized (depreciated) on an individual or pooled basis over the expected useful lives of the assets on a straight-line basis.

4.2 Land and Land Improvements

4.2.1 Land is always considered a capital asset. It differs from other capital assets in that it does not have a finite useful life. Therefore, the cost of land is not amortized.

4.2.2 The capitalized cost of land includes:

a) The purchase price and net applicable taxes.

b) Costs incurred to make the land ready for use by Fraser Health including legal fees, survey costs, rezoning costs and clearing of the land (including demolition of existing buildings).

4.2.3 If land is purchased and held for future specified development financing costs may be eligible to be capitalized as an addition to the cost of the land.

4.2.4 Improvements made to the land to prepare it for construction have a finite useful life and, therefore, are capitalized separately and amortized over the useful life.

4.2.5 The capitalized cost of land improvements includes municipal finite development cost charges, drainage systems, fencing, paving of roads or parking lots and landscaping.

4.3 Buildings and Building Service Equipment

4.3.1 Buildings include the cost of the building shell and building components.

4.3.2 Building service equipment includes equipment affixed to buildings and required to make the structure useable. Examples include elevators, HVAC systems and boilers.

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4.3.3 Wherever possible the service equipment should be segregated from the building at the time of recording the asset.

4.3.4 The cost of the building does not include the land on which the building sits or improvements to the land.

4.3.5 During the life of a building, renovations are incurred with respect to that asset. These expenditures must be analyzed to determine whether they are a betterment to be added to the cost of the building or a repair and maintenance of the building.

4.3.6 These renovations are capitalized separately from the original building and amortized over their useful lives.

4.3.7 Renovations to a building are capitalized as a betterment if they are over $50,000 and significantly meet any one of the following criteria:

a) Extends the useful life of the building.

b) Adds to the output or service capacity of the building.

c) Reduces the associated operating costs of the building.

d) Improves the quality of the services provided by the building.

4.4 Leasehold Improvements

4.4.1 Leasehold improvements are defined as permanent improvements constructed or installed on property that is leased to Fraser Health under an operating lease or rental agreement.

4.4.2 Permanent improvements to leased property are those items that cannot be removed without causing substantial damage to the leased premises such as wiring, walls, carpeting, etc.

4.4.3 Equipment and furnishings that can be removed at the termination of the lease must be accounted for as Equipment.

4.4.4 Leasehold improvements with an aggregate cost of $50,000 or more are capitalized and amortized over the lesser of the remaining life of the lease or the estimated useful life of the improvements.

4.5 Equipment

4.5.1 Equipment acquired for use by Fraser Health will be classified as capital providing it meets all of the following criteria:

a) The item has a useful life expectancy of greater than one year.

b) The item is held for the purpose of rendering a service rather than for the consumption.

c) The unit cost of the equipment is more than $5,000. Equipment valued under $5,000 is an operating expense.

4.5.2 Equipment costs include:

a) Purchase price and net applicable taxes.

b) Foreign exchange.

c) Freight.

d) Brokerage fees.

e) Software and/or software license fees that are necessary to the functioning of the equipment in its intended purposes.

f) Installation:

i) Labour and ancillary equipment required to make the equipment operational and that have no value when the equipment is disposed of.

ii) Building renovations that would have no value if that or like equipment were removed.

g) Travel expenses only related to the initial training for maintenance and operations.

4.5.3 Equipment costs do not include the following which must be recorded as operating expenses:

a) Training costs including staff compensation and local travel expenses.

b) Costs related to project, vendor or equipment approval, planning or selection.

c) Extended warranties.

d) Supplies used in the normal operation of the equipment.

e) Service/maintenance contracts.

4.5.4 Grouped Items versus Components of a System:

a) Generally grouped items are multiple orders of the same equipment. If the total cost of each individual item is less than $5,000, then the entire order is typically an operating expense. However, orders of extreme magnitude may be considered capital where all the criteria of capital are met other than the unit value threshold.

b) A system is comprised of components that work together to create a single working asset. When determining whether a system meets the $5,000 threshold and is a capital asset, the combined cost of all of the components must be considered.

4.6 Software and Software License Fees

4.6.1 Software acquired by purchase or pursuant to the terms of a licensing agreement may be classified as capital providing it meets all of the following criteria:

a) The software has a life expectancy of greater than one year.

b) The software is to be used solely for Fraser Health's internal needs and is not for resale.

c) Components of an integrated systems project are considered capital if the combined cost of the project is greater than $50,000.

4.6.2 Upgrades, interfaces and enhancements should only be capitalized if they result in significant increases in functionality. Routine upgrades included in maintenance agreements are not capitalized unless they provide a significant enhancement in software functionality.

4.6.3 Equipment purchases and renovations related to software systems are capitalized separately.

4.6.4 The capital cost of major software systems include:

a) Purchase price of software or license fees including related interfaces, and net applicable taxes.

b) Software development costs.

c) Foreign exchange.

d) Freight.

e) Brokerage fees.

f) Cost of installation and testing:

i) Professional fees for incremental resources.

ii) Out of town travel for site visits and vendor meetings related to installation.

iii) Incremental staff compensation (over and above normal operating levels) to install and test the system.

iv) Vendor travel expenses for on-site training.

4.6.5 Software costs do not include the following which must be recorded as operating expenses:

a) Training costs including staff compensation and local travel.

b) Any costs related to project, vendor or software approval, planning or selection.

c) Service and maintenance contracts.

d) Catering, office supplies and other costs associated with software implementation not specifically mentioned in 4.6.2 above.

e) Intangibles where the expenses incurred do not directly result in an identifiable asset owned by Fraser Health that has future benefit or embodies the talent or intellectual capital of Fraser Health employees such as a program redesign, data clean-up, policies and procedures.

4.7 Assets Under Capital Lease

4.7.1 Fraser Health enters into various leasing agreements for the use of equipment and facility space. Accounting guideline (PSG-2) requires that leases be defined as capital or operating leases. If the lease meets one or more of the following five criteria at the beginning of the lease agreement, it is classified as a capital lease. Otherwise, it may be classified as an operating lease or a rental agreement. The accounting guideline includes qualitative criteria that requires the use judgement. Each lease must be reviewed in detail and classified on a balance of probabilities. Final judgement will be made by the Executive Director, Corporate Finance.

A lease will be classified as a capital lease if any one of the following criteria is met:

a) The lease transfers ownership of the property to the lessee by the end of the lease term.

b) The lease contains a bargain purchase option.

c) The lease term is equal to 75% or more of the estimated economic life of the leased asset.

d) The net present value of the minimum lease payments exceeds 90% of the fair value of the leased asset at the inception of the lease.

e) The overall effect of the transaction is that all the benefits and risks are substantially transferred to Fraser Health.

4.7.2 A lease of land by Fraser Health is an operating lease unless the lease transfers ownership of the property to Fraser Health at the end of the lease term.

4.7.3 Leases for the use of equipment or real property must be reviewed and approved to by the Executive Director, Corporate Finance **prior** to signing of the lease.

4.8 Assets Write-downs and Write-offs

4.8.1 A write-down is used to reflect a partial impairment in the value of an asset. A write-off is used to reflect 100 percent permanent impairment in the value of an asset. When reduction in the value of the asset can be objectively estimated and it is expected to be permanent, the tangible capital asset must be written down or written off.

4.8.2 The write-down or write-off of a tangible capital asset requires the appropriate approval as per the Fraser Health's Signing Authority policy.

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4.8.3 A write-down or write-off occurs when any of the following conditions are present:

a) A change in the manner or extent to which the tangible capital asset is used.

b) The asset is destroyed, damaged, stolen, lost or obsolete.

c) Removal of the tangible capital asset from service.

d) Significant technological developments render the asset obsolete.

e) The development of an asset is halted prior to completion.

f) The cost of developing the asset exceeds the final assessed value.

4.8.4 Any abandoned or indefinitely postponed projects must be written-down to their realizable value. Asset write-downs and write-offs are recorded in the period in which determination is made.

4.8.5 An asset write-down cannot be reversed.

4.8.6 Capital Accounting must be informed of any situations that may require a write-down or write-off and will determine the appropriate course of action.

4.9 Disposal of Assets

Refer to the Fraser Health Disposal or Movement of Capital Assets policy.

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5. Asset Custody and Control

Department Heads have custodial responsibility for the capital assets that are normally physically located within their department as well as capital assets affiliated with their department but physically located elsewhere.

The Department Head is responsible to:

a) Ensure that capital assets are properly maintained and safeguarded.

b) Conduct a periodic physical inventory check of capital assets.

c) Report to the Capital Accounting department those capital assets permanently transferred to another department/site or permanently out of service.

d) Report stolen capital assets to the Capital Accounting, Risk Management, and Security departments.

Capital assets may only be removed from the worksite where necessary for the conduct of official business and with the advance approval of the department head. Upon completion of the business, the capital asset must be returned promptly. Assets removed from the worksite that contain confidential and/or personal information must be appropriately safeguarded.