Municipality of the District of Lunenburg

POLICY

Title: **Tangible Capital Assets Policy**	
Policy No. **047**	
Effective Date: February 12, 2013	Amended Date:

1. GUIDELINE OBJECTIVE

The purpose of these tangible capital asset guidelines is to provide a standard approach to the budgetary process for the accounting for tangible capital assets (TCA). These tangible capital assets guidelines are based on the recommendations of the Public Sector Accounting Standards Board, PSAB 3150, which requires municipalities to report and amortize physical assets in the financial statements.

2. TANIGBLE CAPITAL ASSETS DEFINITION

For municipal accounting purposes, capital assets generally include any asset, which has been acquired, constructed or developed with the intention of being used on a continuous basis, and are not intended for sale in the ordinary course of business.

2.1 As defined by PSAB 3150, tangible capital assets are non-financial assets, which have physical substance and which:

2.1.1 are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
2.1.2 have economic useful lives extending beyond an accounting period;
2.1.3 are used on a continuing basis;
2.1.4 are not intended for sale in the ordinary course of operations.

Tangible Capital Assets are most capital projects or acquisitions, the acquisition/replacement or creation of new assets, such as roads/sidewalks, sewers, parks, infrastructure, including major rehabilitation, replacement, betterment or expansion of existing assets. These projects will generally benefit Municipal residents for many years.

2.2 Two main reasons why it is important that all capital items meet the definitions as set forth in PSAB 3150*:

2.2.1 PSAB 3150 recommendations apply to not only Federal, Provincial/Territorial governments, and will also apply to all municipal governments effective for fiscal period beginning on or after, January 2009. Audited financial statements will be required to be in compliance with the PSAB 3150 guidelines.

2.2.2 A municipality's power to borrow is limited by the Municipal Government Act (MGA) and approval to borrow must be obtained from Service Nova Scotia and Municipal Relations of the Province of Nova Scotia. The debt financing approval process would require the Province to apply the uniform definition of tangible capital assets, and the Financial

Report and Accounting Manual (FRAM) of the Province of Nova Scotia has been revised to incorporate the new provisions.

3. USEFUL LIFE

The TCA committee of the Service Nova Scotia has suggested the useful lives provided in the table below. These guidelines are to be used both provincially and municipally:

Asset Category	Amortization period
Land	Indefinite
Land Improvements	20-25 years
Municipal buildings	40 years
Building – Plant (includes integral component e.g. equipment or fixture that is fixed and part of the structure)	20-25 years
Office equipment	5 years
Electronic Data Equipment (IT related)	3-5 years
Machinery and Equipment	10-15 years
Vehicles (other than heavy equipment and fire trucks)	5 years
Wharves	25 years
Streets, Roads and Curbs	25-30 years
Traffic & Street Lights	25-30 years
Sidewalk	20-25 years
Sewer Lines	50 years
Lagoons	50 years
Fiber Optic Lines (needs further refining)	5-10 years (to be determined)
Landfill	See PSAB 3270
Capital Lease	Depends on Asset Type
Work in Progress	N/A

4. TANGIBLE CAPITAL ASSETS CRITERIA

Capital items that provide benefits to the Municipal residents for a period per above table will be capitalized. Tangible capital assets do not include repairs to existing capital assets or any on-going maintenance of a capital asset unless the change has materially enhanced the service potential of the asset and the useful life of the asset is extended beyond its original estimate of economic life.

For capital budgetary consideration, the following criteria are used to determine if an item or project is deemed a tangible capital asset:

4.1 Economic life of 5 years and above with the exception of IT or electronic data equipment. (IT related equipment becomes obsolete within 3-4 years);
4.2 Capital acquisition value at $10,000 and above (see note *);
4.3 Extension of economic life of an asset resulting from a major rebuilding, extension or replacement (betterment).
4.4 Exclusions: Intangibles, land and other assets acquired by right, works of art and historical treasures.

*The TCA Committee identified the common thresholds currently being used across Canada, both Provincially and Municipally. The suggested threshold is based on Revenues. The suggested thresholds are the minimum values municipalities should use when determining whether or not to capitalize a tangible asset.

5. SCHEDULED MAINTENANCE

Scheduled maintenance would not be considered as Tangible Capital Assets regardless of the amount. This is defined in PSAB 3150. Example of this type of operating expenditure would be roof repairs, parts replacement etc.

6. CAPITAL ITEMS LESS THAN $10,000 AND/OR SMALL EQUIPMENT

Items to be included in the capital budget must meet both the PSAB tangible capital asset definition as well as the minimum threshold of $10,000 and over. Capital items that do not meet both of these criteria will be part of the Municipal Operating Budget. This includes office and IT equipment purchases of less than $10,000.

Many small equipment or purchases that have a useful life or 3 – 5 years but are below the threshold of $10,000 will be included in the Operations and Maintenance Budget (O&M budget). An asset control system with a systematic tagging is in place to ensure that each operating unit is accountable for the small equipment inventory in their respective departments.

7. COST OF THE TANGIBLE CAPITAL ASSETS

The cost of a physical asset includes not only its purchase price or construction cost but also related charges such as freight or transportation, duty, net taxes, legal, inspection or survey fees or costs associated with site preparation (see below demolition costs) necessary to bring the capital assets to its intended location and into condition for use.

8. CAPITAL ITEM UNIT COST

Capital items are perceived as the resources required to achieve a desired outcome (e.g. production of services). When estimating capital cost for budgetary purposes, it is important to note that the cost per capital item must meet the above criteria. That is, the cost per capital item is defined as the complete associated cost for a capital purchase to meet the above criteria. For example, the cost for the purchase of a desktop computer would include the computer, the monitor, and all necessary hardware components required to perform its intended function.

9. BUNDLING COST (WHOLE APPROACH)

The whole asset approach considers an asset to be an assembly of connected parts. For example, a computer network implementation such as a GIS module or an implementation of an accounting system will normally fall under this category and may be capitalized and amortized as one asset. Due to the expensive nature of the IT component, the decision to capitalize may be made based on the useful life criteria as well as the total cost of the bundle purchases.

10. COST OF DEMOLITION

When demolition of a structure is required for replacement or rebuilding of an asset, the demolition costs will be considered part of the new asset and will be capitalized accordingly. If a demolition is a stand alone project which does not yield any new capital value (demolish an old fence or any structure without further improvement to the land or to build a replacement), demolition costs will be considered O&M.

In the case of new acquisition of land and building in a single purchase, and the building is demolished, any cost attributed to the building and related demolition is considered a part of the cost of the land or land improvement.

11. DEVELOPMENT COST

The cost of a self-constructed asset would normally include direct construction or development costs (such as materials and labour), and overhead costs directly attributable to the construction or **development activity**. For example, the costs may include costs of leased space, and other overhead costs associated directly with the development and construction activities of the capital asset. Example: LCLC project.

12. CAPITAL GRANTS AND COST RECOVERY

Capital grants and cost recoveries received will not be netted against the cost of the related tangible capital asset. Both Capital grants and project recovery grant received will be accounted for in the revenue section of the capital fund.

13. FINANCING

In accordance with the Financial Reporting and Accounting Manual of Service Nova Scotia, the term of long term debt or debentures issued to finance tangible capital assets is not to exceed the economic life of the assets.

The financing of capital expenditures will comply with the Municipality’s Capital Debt Policy (MDL-62).

Appendix A

Classification of Capital Assets:

Land: Real property in the form of a plot, lot or area. Includes all expenditures made to acquire land and to ready its use for use where the improvements are considered permanent in nature and includes purchase, closing costs, grading. Filling, draining and clearing, removal of old buildings (net of salvage), assumption of liens or mortgages and any additional land improvements that may have an indefinite life. The costs associated with improvements to land are added to the costs of the land if those improvements can be considered permanent (such as re-grading or filling of the land).

Excludes forest, water and other mineral resources and land held for resale (a separate nonfinancial asset). Land includes land for administrative buildings, parks, playgrounds, fields, open space, treatment plants.

Land associated with roads, sewer lines, and sidewalks are assumed to be part of their respected assets (example roads) with no value associated to it.

Land Improvements: Land improvements consists of betterments, site preparation and site improvements (other than buildings) that ready the land for its intended use, which generally decay or breakdown over time. Land improvements that are movable and can degrade or deplete over the course of time through use or due to the elements, should be separately capitalized and their value amortized over the useful life of the improvement. Examples are solid waste site development, retaining walls, soccer fields, parking lots, grading at works yards whose purpose is to serve as a base for maintaining infrastructure.

Municipal Buildings: Structures that provide shelter from the elements. Includes capital and betterments to buildings owned by the municipality. Includes equipment that is not capable of being moved. Examples are sport facilities, office buildings, and libraries.

Buildings/Plants: Structures that provide shelter from the elements and are used to provide sewer or water treatment. Includes capital and betterment to buildings owned by the Municipality. Includes equipment that is not capable of being moved.

Machinery and Equipment: An apparatus, tool, device, implement or instruments that likely use energy (human, electrical, hydroelectric fuel, or thermal) to facilitate a process, function or completion of a task. It may be installed within a building but is generally capable of being moved and reinstalled at a different location. Included in this category are heavy duty vehicles, construction vehicles, buses, boats (excluding ferries) and compost bins.

Vehicles: All other means of transportation, usually having wheels for transporting persons or things or designed to be towed behind such apparatus.

Wharves: Self - explanatory

Streets, Roads & Curbs: Cost of materials and labour used to construct roads.

Signs: Cost of material and labour used to construct and erect signs.

Sewer lines: Cost of materials and labour used to construct sewer lines.

Lagoons: Cost of materials and labour used to construct lagoons.

Solid Waste Facilities: Cost of materials and labour, other than those costs associated with land, used to construct solid waste facilities.

Computer Hardware and Software: Consists of all equipment and programs that can be considered a component of, is typically attached to, or communicates with an information system. A computer program, hardware system or subsystem, or computer component with single-unit costs of $5,000 or more shall be capitalized.

Utilities: All items, except land and building, associated with a water utility such as piping (transmission lines), steel storage tanks, dams, wells, water meters, hydrants, and pumps are included in the Utilities category. The land and building associated with a water utility will be set up in the respective Land and Building category.

Work in Progress: Cost associated under construction or in an uncompleted process of acquisition and are not yet in service.

Capital Leased Asset: A capital leased asset is valued at the net present value of future lease payments. It is recorded as an asset acquisition if the value meets the applicable asset class threshold. If the value does not meet the applicable asset class threshold, it is charged to expenses.

GLOSSARY:

Accumulated Amortization:
Accumulated amortization is the total of amortization charges to date on a tangible capital asset or group of tangible capital assets.

Amortization:
Amortization is a systematic and logical process of recognizing the expense associated with using a tangible capital asset during a fiscal period. Amortization is often thought of as depreciation.

Asset Class:
An asset class is a grouping of tangible capital asset that is similar in nature and useful life. "Buildings" is an example of an asset class. Asset classes form the basis for the general ledger accounts and the summary presentation of tangible capital assets by major groupings in the financial statements.

Assets Pools:
A large number of assets that fall below the $10,000 capitalization threshold, which when taken together will be worth a material amount and if omitted will result in a significant or material understatement of the municipality's net worth. Examples that may be appropriated are:

1. Computers
2. Benches and street furniture
3. Playground equipment
4. Office furniture & equipment
5. Hand held power tools
6. Printers, copiers & fax machines.

Betterment :
Betterment is a cost incurred that either increases the capacity, extends the useful life, or reduces the operating cost of a tangible asset.

Capital Lease:
A capital lease is a lease with terms and conditions that substantially transfers all the "benefits and risk" of ownership to the lessee (i.e. the municipality), without necessarily transferring legal ownership as defined by the CICA Handbook, Section 3065.03.

Capitalization:
Capitalization is the process of recording an eligible expenditure as a Tangible Capital Asset, or including it as part of the cost of a Tangible Capital Asset.

Capitalization Threshold:
The capitalization threshold is minimum dollar amount that the municipality will use in determining whether expenditure should be capitalized as a Tangible Capital Assets addition or expensed in the current year.

Capitalized Interest:
Capitalized interest is the interest and carrying charges owed on the debt to external parties that is included as part of the cost. Only interest that is directly attributable to the development and construction of a tangible capital asset can be capitalized. The capitalization of interest ends when the asset is put in use.

Component:
A component is a Tangible Capital Asset that forms part of a larger and wider tangible capital asset. Components are normally associated with infrastructure assets. The paved road is one component of the entire road and street infrastructure, which also includes the right of way (i.e. land), grade, street signs. A water pump is one component of the water supply system. The component approach to Tangible Capital Assets is the opposite of the single asset approach.

Cost:
Cost is the gross amount of consideration directly attributable to acquire, construct, develop, or better a Tangible Capital Asset.

Declining Balance Method:
The declining balance method is an approach of amortizing a tangible asset where amortization is considered as a function of usage instead of a function of time. The periodic charge is a constant percentage of the unamortized cost so that the depreciated cost approaches zero by the retirement date. This method reflects a higher amortization charge in the early years of use, since the amortization is calculated by applying the identified rate to the annually declining net book balance.

Disposal:
Disposals result when ownership of a tangible asset is relinquished. Disposal reduces the cost of the tangible assets and accumulated amortization to zero.

Fair Value:
Fair value is the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act.

Financial Assets:
Financial Assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash, accounts receivable, temporary investments, and portfolio investments. Tangible Capital Assets are non-financial assets.

Intangible Assets:
Intangible assets are assets that have no physical form or substance. Goodwill, patents, and copyrights are examples on intangible assets. PSAB does not recognize intangible assets. Intangible assets should not be included with tangible capital assets. Software licenses are tangible capital assets.

Infrastructure:
Infrastructure assets are tangible capital assets that are normally comprised of a number of components to form complex network systems. Infrastructure assets are different from general capital assets in terms of access and consumption. The public has unlimited access to infrastructure assets and the benefits of the asset are consumed directly by the public. The municipality normally restricts public access to general capital assets. General capital assets are used by the municipality to provide services to the public. Infrastructure assets include roads, streets, bridges, water systems, sewers and surface water control devices such as dams, canals, levies, and erosion control devices.

Materiality:
Materiality is the point where a misstatement or aggregate of misstatements in financial statements would influence the decision of a person who is relying on the financial statements. Material misstatements in financial statements can arise from departures from GAAP, errors, fraud, inappropriate accounting estimates, and omissions of necessary information.

Net book Value:
The net book value of tangible capital assets is the cost, less the accumulated amortization and the amount of any write-downs.

Operating Lease:
An operating lease is a lease, in which the lessor does not transfer substantially all the benefits and risk to ownership of property,

Network System:
Network system is a term used to refer to infrastructure that has “linear” assets arranged in a continuous or connected network. Network systems normally mean roads, water systems and sewers.

Residual Value:
Residual value is the estimated net realized value of a Tangible Capital Asset at the end of its useful life. The colloquial term for residual value is “scrap” value.

Straight Line Method:
Strait line method is a method of amortizing a tangible capital asset where amortization is considered as a function of time instead of a function of usage. Whereas the assets economic usefulness is the same each year and repairs and maintenance expense is essentially the same each period, the periodic charge is the same in each year of the useful life of the asset.

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

1. are used to provide goods and services;
2. have an economic life beyond one year;
3. are used on a continuous basis; and
4. are not for sale in the ordinary course of operations.

Usage Based Method:
At the Solid Waste Management Facility, the solid waste cells shall be amortized by means of a **Usage Based Amortization**, as per PS3270, which recommends the operating life of the site be based on volume. This method assumes that an asset deteriorates on the basis of usage. This method requires that the upset limit be specific up front, and that the annual usage be accurately measured and logged.

Useful Life:
Useful life is the estimate of the period over which a tangible asset is expected to be used by the municipality. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a municipality. Other than land, the life of a tangible capital asset is finite and is normally the shorter of physical, technological, commercial and legal life. Useful life does not necessarily need to be measured in units of time. Useful life can also refer to the number of units of production that can be obtained from a tangible capital asset by the municipality.

Write-down:
A write-down is a reduction in the cost of an asset to reflect a decline in the asset's value. A Tangible Capital Asset should be written down whenever the benefits associated with the asset are less than its net book value. A write-down can never be reversed.

Clerk's Annotation for Official Policy Book	
Date of Notice to Council Members of Intent to consider	February 5, 2013
Date of Adoption	February 12, 2013
Date of Notice to Council Members of Intent to Consider Amendments	________________
Date of Passage of Amendments:	________________
I certify that this "*Tangible Capital Assets Policy* – MDL-47" was adopted by Council as indicated above.	
April Whynot Holmes Municipal Clerk	Feb. 14, 2013 Date