District of Lantzville

Incorporated June 2003

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Tangible Capital Assets

Introduction

The purpose of this policy is to convey the accounting requirements for tangible capital assets to all Municipal employees. This policy should provide direction for recognizing and recording tangible capital assets (TCA) on a consistent basis and is in accordance with the Public Sector Accounting Board (PSAB) Handbook Section PS 3150. Appendix A provides summary information relating to asset classes, useful lives, and thresholds. As changes may occur to the PSAB Handbook, the Handbook will take precedence over any discrepancies with this policy.

Capitalization Test

Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

i. Are normally employed to deliver government services;
ii. May be consumed in the normal course of operations, and
iii. Are not for sale in the normal course of operations.

In accordance with PSAB PS 3150, tangible capital assets are non-financial assets having physical substance that have all of the following four characteristics:

i. 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;
ii. Have useful economic lives extending beyond an accounting period;
iii. Are to be used on a continuing basis; and
iv. Are not for sale in the ordinary course of operations.

Acquisition & Valuation of Tangible Capital Assets

Tangible capital assets (TCA) are recorded at historical cost. Cost is the gross amount of consideration given up to acquire, construct, develop or better a TCA, and includes all costs directly attributable to acquisition, construction, development or betterment of the TCA, including all ancillary charges necessary to place the asset in its intended location and condition for use. Capital grants would not be netted against the cost of the related TCA. TCA are recognized as assets on the District`s Consolidated Statement of Financial Position on the date of the transfer of ownership for capital goods or when the asset is put into use for capital projects.

Purchased Assets

Cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc. It is net of any trade discounts or rebates.

Cost of land includes purchase price plus legal fees, land registration fees, transfer taxes, etc. Costs would include any costs to make the land suitable for intended use, such as pollution mitigation, demolition and site improvements that become part of the land.

When two or more assets are acquired for a single purchase price, it is necessary to allocate the purchase price to the various assets acquired. Allocation should be based on the fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

Acquired, Constructed or Developed assets

Cost includes all costs directly attributable (e.g., construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized. General administrative overhead is not capitalized.

Capitalization of carrying costs ceases when no construction or development is taking place or when the tangible capital asset is available for use.

Shared Ownership

When the Municipality does not wholly own a tangible capital asset, but has fractional or joint ownership, the proportionate consolidation method will be used to record the asset in the financial statements. The value recorded will be calculated by pro-rating the Municipalities percent of ownership to the total cost of the asset.

Capitalization of Interest Costs

Borrowing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use may be capitalized as part of the cost of that asset.

Capitalization of interest costs should commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization should be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset of its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

Donated or Contributed Assets

The cost of donated or contributed assets that meet the criteria for recognition is equal to the fair value at the date of construction or contribution. 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. Some other reasonable basis may also be used to determine cost of donated or contributed assets including estimates by the Municipality.

Land acquired from developers will be recorded at the time the land title is registered in the Municipality's name, at the value supplied by the developer's appraiser. If a developer's appraisal is not available, the cost will be determined by using BC Assessment's value of the property in the year of acquisition. Some other reasonable basis may also be used to determine cost of donated or contributed assets including estimates by the Municipality.

Purchased natural resources and Crown lands are recognized in government financial statements. However, when natural resources and Crown lands have been inherited by the government in right of the Crown and have not been purchased, they are not given accounting recognition as assets in government financial statements. These items are not recognized as assets because the costs, benefits and economic value of such items cannot be reasonably and verifiably quantified using existing methods. Similarly, art and historic treasures are not recognized as assets.

Thresholds

The capitalization threshold is the minimum dollar value that will be considered a TCA. Thresholds help to determine whether expenditures are to be capitalized as assets and depreciated or treated as a current year expense. Expenditures that are above the threshold amount and otherwise meet all criteria of a TCA are capitalized. Expenditures that fall below the threshold amount are expensed, even if they meet all criteria of a TCA. Thresholds should strike a balance between the risk of a material misstatement and the cost of excessive record keeping. Threshold levels will be reviewed periodically to determine if adjustment is necessary due to changes in materiality or inflation. Appendix A lists the threshold levels for each class of assets.

Where a tangible capital asset is purchased or constructed as part of readying a new facility for use, the threshold is $1. Example: the purchase of furniture for a new recreation facility would be considered capital additions if they are part of readying a larger asset for use. These assets must be purchased prior to the facility opening to use the $1 threshold. Purchase of low dollar value assets after the opening of the facility will use the higher threshold value for that category of assets.

Group assets (furniture and fixtures, fire hydrants etc.) are assets that when purchased in a group or large volume over a year meet the criteria of a TCA but individually fall below the threshold. Group assets are subject to a group asset threshold. Group assets can be grouped together and capitalized as a single asset with a combined value. While individually the assets would not normally be material, collectively they could be.

Classification, Aggregation & Segmentation

The level of detail required in the capital asset inventory is a balance between cost of data collection, tracking and analysis and the beneficial use of the information gathered. The Municipality has a wide range of assets, which require varying levels of detail for maintaining inventory records, calculating amortization, and reporting. The full cost of preparing a TCA for its intended use is considered the aggregate cost of the capital asset. The aggregate cost is further segmented into elemental components based on useful life. Classification is at the categories shown in Appendix A.

Land

Land owned by the Municipality includes parkland, land for Municipality owned facilities and land under roads, but not land held for resale. All land owned by the Municipality is segmented by each parcel held. Municipal parkland and the land for Municipal facilities is quantified and included in the Municipality's land database. When the cost of a parcel of land is not available, an estimated historical fair value may be used.

Land Improvements

Land improvements consist of betterments of a permanent nature to land such as parking lots, lighting, fencing, pathways, landscaping and artificial fields. When capitalized each asset is separately recorded with its specific useful life. Right of ways and easements are intangible capital assets and should not be capitalized.

Buildings

Buildings consist of permanent, temporary or portable building structures, such as offices, garages, warehouses, and recreation facilities intended to shelter persons and/or goods, machinery, equipment and working space. When possible and practical, a building is segmented into its component parts with different useful lives. Amortization is calculated on each component type. This treatment provides for capital replacement of each component over the years of ownership.

Engineering Structures

Engineering structures includes permanent structural works such as roads, bridges, canals, dams, water and sewer, and utility distribution and transmission systems, including plants and substations.

Transportation assets include and are segmented by roads, sidewalks, street lights, and structures. Structures include bridges, tunnels and retaining walls. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

The sewer, water, and wastewater system components include and are segmented by mains, pump stations, manholes etc. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

Machinery and Equipment

Machinery and equipment is comprised of equipment that is heavy equipment for constructing infrastructure, waste and water treatment plants, EMS, police, fire, and ice making equipment. It also includes computer hardware and software, office equipment and furnishings, and mobile equipment.

Works-In-Progress

Works-in-progress represents the costs incurred to date on a project, which is not substantially complete or when a system is not in production at the end of the fiscal year. For example, a road under construction that is not ready for use. All costs incurred for works-in-progress must be recorded on the Balance Sheet for the accounting period, but are never amortized. If a project is terminated or deferred indefinitely before it is complete, any costs recorded as work-in-progress must be written off in the period the decision to terminate the project is made. Work-in-progress should be reconciled and the appropriate transfers made to fixed assets or written off to ensure that only active, incomplete projects or assets are carried forward to the next period. These assets are individually segmented into their respective categories and must exceed their respective thresholds before they can be capitalized.

Componentization / Segmentation

Tangible capital assets may be accounted for using either the single asset or component approach. Whether the component approach is to be used will be determined by the usefulness of the information versus the cost of collecting and maintaining information at the component level. Major components may be grouped when the assets have similar characteristics and estimated useful lives or consumption rates. Factors to consider when determining whether to use a component approach include:

i. Major components have significant different useful lives and consumption patterns than the related tangible capital asset.
ii. Value of components in relation to the related tangible capital asset.

TCA Inventory – Ownership

Ownership of assets requires safeguarding, maintenance, and amortization for replacement and possibly write-downs. It is the responsibility of the director, area manager and staff member to ensure capital assets assigned to his or her custody are maintained and safeguarded. The director of each department should periodically review their asset listing to ensure the asset inventory is complete and accurate to the best of their knowledge.

Amortization

Amortization is the accounting process of allocating the cost less the residual value of a tangible capital asset to operating periods as an expense over its useful life in a rational and systematic manner appropriate to its nature and use. The amortization of the costs of tangible capital assets should be accounted for as expenses in the Statement of Operations. The Municipality uses the straight-line basis to account for amortization. Amortization is calculated on a monthly basis and commences on the first day of the month of the acquisition of an asset or putting an asset into service and discontinues to the last day of the month before an asset is disposed of. Economic useful life is used for amortization rather than physical useful life. For example: a manufacturer may state that a water valve will last 40 years, which is the physical life, but it will be replaced at 30 years, which is the economic life. Land normally has an unlimited life and as such will not be amortized (unless the land will be permanently impaired such as use as a landfill). The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and evaluated when the appropriateness of a change can be clearly demonstrated. Significant events that may indicate a need to revise the amortization method or the estimate of the remaining useful life of a tangible capital asset include:

i. A change in the extent to which the tangible capital asset is used;
ii. A change in the manner in which the tangible capital asset is used;
iii. Removal of the tangible capital asset from service for an extended period of time;
iv. Physical damage;
v. Significant technological developments;
vi. A change in the demand for the services provided through use of the tangible capital asset; and
vii. A change in the law or environment affecting the period of time over which the tangible capital asset can be used.

The Director of Financial Services should be notified once it has been determined that the amortization of a TCA needs to be revised. Appendix A provides a general guide for the estimated useful life of TCA. In some circumstances it may be more appropriate to use a different estimated useful life. Useful life estimates for TCA can be established by the Director of Public Works and the Director of Financial Services.

TCA Inventory – Betterments

Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. In general, service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, when the useful life of the asset is extended or where the quality of the output is improved. For complex networks, such as road and water systems, an example of betterment is adding to the number of lanes to expand the capacity of the road system. Expenditures incurred to maintain the originally anticipated service potential of a road, or its estimated useful life, are more in the nature of maintenance. Maintenance and repairs to maintain the predetermined service potential of a tangible capital asset for a given useful life are charged in the accounting period in which they are made. Betterments will increase the service potential, even though they may or may not increase the remaining useful life of the TCA and will be included in the cost of the related asset.

TCA Inventory – Write Downs

When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. A government would write down the cost of a tangible capital asset when it can demonstrate that the reduction in future economic benefits is expected to be permanent. The net write-downs should be accounted for as expenses in the Statement of Operations. A write down is permanent and should not be reversed.

TCA Inventory - Disposal / Retirements

All disposals or retirements of TCA are recorded in the Municipality's financial statements in accordance with PSAB PS 3150. The difference between the net proceeds on disposal of a TCA and the net book value of the asset should be accounted for as revenue or expense in the Statement of Operations. Disposals may occur by sale, destruction, trade-in, loss or abandonment etc. For each disposal of a TCA, an asset disposal report will be created and a copy forwarded to the Director of Financial Services.

TCA Inventory – Surplus Assets

At times, tangible capital assets will become surplus to the Municipalities needs. An asset will be considered surplus if it is no longer economically employed in its current location and is not expected to be of any future economic benefit. When it is not physically possible or financially viable to remove the asset, an asset disposal report will be created, with a copy forwarded to the Director of Financial Services, and any remaining net book value will be written off.

Capital Leases

A 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 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 the Municipality without necessarily transferring legal ownership. The following conditions would normally indicate a capital lease:

i. There is reasonable assurance that the Municipality will obtain ownership of the leased property by the end of the lease term
ii. The lease term is of such duration that the Municipality will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its lifespan
iii. The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.

APPENDIX A

TANGIBLE CAPITAL ASSETS DISTRICT OF LANTZVILLE POLICY NO. 6000-2				
Primary Class	Secondary Class	Estimated Useful Life (Years)	Capital Threshold	Grouped Capital Threshold
100 Land				
	101 Other Land	-	zero	-
	102 Parkland	-	zero	-
	103 Land Under Roads	-	zero	-
	104 Land Under Walkways	-	zero	-
	199 Other Land	-	zero	-
200 Land Improvements				
	201 Parking Lots - Gravel	15	10,000	-
	202 Parking Lots - Asphalt	20	10,000	
	203 Sports Fields	20	10,000	-
	204 Playing Fields	20	10,000	-
	205 Playing Courts	35	10,000	-
	206 Retaining Walls	30	10,000	-
	207 Playground Equipment	25	10,000	25,000
	208 Fencing	15	10,000	-
	209 Irrigation	15	10,000	-
	210 Lighting	20	10,000	-
	211 Landscaping	25	10,000	-
	212 Trailways	15	10,000	-
	299 Other Land Improvements	-	10,000	
300 Buildings				
	301 Buildings	60	10,000	-
	302 Minor Buildings (washrooms, picnic shelters, etc.)	25	10,000	-
	303 Portable Buildings	15	10,000	-
	304 Building Roof	20	10,000	-
	305 HVAC	15	10,000	-
	306 Electrical, Mechanical, Plumbing	25	10,000	-
	307 Improvements	20	10,000	-
	308 Leasehold Improvements	-	10,000	-
	399 Other Buildings			
400 Vehicles				
	401 Light Duty (less than one ton)	10	10,000	-
	402 Heavy Duty (one ton or greater)	10	10,000	-
	403 Fire Trucks	25	10,000	-
	404 Heavy Duty Equipment	10	10,000	-
	499 Other Vehicles	-	10,000	-
500 Machinery and Equipment				
	501 Office Furniture and Equipment	5	10,000	25,000
	502 Shop Tools and Equipment	5	10,000	25,000
	503 Fire Fighting Equipment	5	10,000	25,000
	504 Computer Hardware	5	10,000	25,000
	505 Computer Software	5	10,000	25,000
	506 Communication Equipment	5	10,000	25,000
	507 Generators	10	10,000	-
	508 Mobile Equipment (non-vehicle)	7	10,000	-
	599 Other Equipment	-	10,000	25,000

600 Road Infrastructure				
	601 Bridge	40	10,000	-
	602 Road Surface - Asphalt	25	10,000	-
	603 Road Surface - Chip Seal	15	10,000	-
	604 Road Surface - Gravel	10	10,000	-
	605 Road Base	65	10,000	-
	606 Curb and Gutter	25	10,000	-
	607 Culverts	50	10,000	-
	608 Storm Drainage	50	10,000	-
	609 Storm Manholes	50	10,000	-
	610 Catch Basins	50	10,000	-
	611 Sidewalks	30	10,000	-
	612 Bike Lanes	25	10,000	-
	613 Street Lighting	30	10,000	25,000
	614 Traffic Lights	30	10,000	25,000
	615 Signs	10	10,000	25,000
	699 Other Road Infrastructure	-	10,000	-
700 Sewer Infrastructure				
	701 Sewer Main	100	10,000	-
	702 Force Main	100	10,000	-
	703 Sewer Sani-Service	100	10,000	-
	704 Sewer Manholes	50	10,000	25,000
	705 Lift Station	50	10,000	-
	706 Pump	15	10,000	-
	707 SCADA	10	10,000	-
	799 Other Sewer Infrastructure	-	10,000	-
800 Water Infrastructure				
	801 Water Main	80	10,000	-
	802 Water-Service	50	10,000	-
	803 Water Valve	50	10,000	-
	804 Water Manholes	80	10,000	25,000
	805 Fire Hydrant	50	10,000	25,000
	806 Water Meter	10	10,000	25,000
	807 Reservoir	50	10,000	-
	808 Pump House	50	10,000	-
	809 Pump	15	10,000	-
	810 Well	60	10,000	-
	811 Pressure Reducing Station	25	10,000	-
	812 SCADA	10	10,000	-
	899 Other Water Infrastructure			
900 Work in Progress		-	-	-