

## **Tangible Capital Asset Policy Template Municipality of Belledune**

Name: Tangible Capital Assets Accounting

Policy: # TCA 05-2012

Applies to: All Departments

Responsibility: Treasurer

Approved by Council:           Date: May 28, 2012

### **Purpose**

The purpose of the policy is to provide direction for recognizing and recording Tangible Capital Assets (TCA) on a consistent basis and in accordance with Public Sector Accounting Board (PSAB) PS 3150.

### **Tangible Capital Asset**

*Tangible Capital Assets (TCA) are non-financial assets having physical substance that:*

- a) 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;*
- b) have useful economic lives extending beyond one year;*
- c) are used on a continuing basis; and*
- d) are not for resale in the ordinary course of operations. (PS 3150.05)*

The objective of the TCA Policy is to prescribe the accounting treatment for tangible capital assets so that users of the financial report can discern information about the investment in Tangible Capital Assets and the changes in such investment.

The principal issues in accounting for TCA are the recognition of the assets, the determination of their carrying amounts, and the amortization charges and the recognition of any related impairment or disposal losses.

### **Recognition of Tangible Capital Assets**

Tangible capital assets (TCA) are assets having physical substance that are used on a continuing basis in the municipality's operations, have useful lives extending beyond one year and are not held for resale in the ordinary course of operations.

TCA are acquired, constructed, or developed assets and have the following characteristics:

- ownership and control clearly rest with the municipality; and
- the asset is used to achieve government objectives.

The following will help determine whether an asset is a TCA:

- Include land, buildings, infrastructure assets (roads and water network), vehicles, purchased computer software, in-house developed computer software, computer hardware, tools, furniture, equipment, leasehold improvements, and assets acquired by capital leases or by donations;
- Do not include non-operational heritage assets such as museum and gallery collections, other works of art, archives, archaeological sites, ruins, burial sites, monuments, and statues;
- Do not include intangible assets such as copyrights, trademarks, patents, easements and rights-of-way.

### **Recognition of Tangible Capital Assets Carrying Amounts (Cost)**

The cost of TCA includes the cost of any asset that has been acquired, constructed, or developed with the intention of being used and normally consumed in operations which achieve government objectives.

TCA also include betterments. Betterments are expenditures relating to the alteration or modernization of an asset that appreciably prolong the asset's period of usefulness or improve its functionality.

### **Threshold**

Only TCA that exceed the asset class threshold will be capitalized. The following are the thresholds and are being used going forward.

- Any individual item that meets the definition of a Tangible Capital Asset with a cost of \$5,000 or greater
- A pool of assets that meets the definition of a Tangible Capital Asset, that was purchased in bulk and has a cost of \$25,000 or greater in any given year
- Due to the nature of some assets, the threshold will be \$0. Examples are all land, all vehicles, all roads, all water pipe segments, etc. would be recorded.

Once the initial TCA listing has been prepared and in subsequent years, it will be reviewed to determine whether or not the threshold should be raised.

### **Capitalization of Interest Costs**

The municipality does not capitalize interest costs incurred during the construction or development of TCA.

### **Estimated Useful Life**

Expected useful life is normally the shortest of the asset's physical, technological, commercial and legal life and is based on its use by the municipality. In determining an asset's useful life the present condition, intended use, construction type and maintenance policy will be considered, including how long the asset is expected to meet service demands and the municipality's experience with similar assets.

### **Amortization**

The cost, less any residual value of a TCA with a limited life will be amortized over its useful life using the straight line method. The amortization method and estimate of useful life of the remaining unamortized portion will be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

Useful life is normally the shortest of the asset's physical, technological, commercial or legal life. Amortization shall begin in the month in which the asset was purchased or became available for use. Amortization will continue to be recorded until the month the asset is disposed of or removed from service. No amortization shall be recorded on a capital asset in progress or one that has been removed from service but not yet disposed of.

The Municipality shall use a straight-line method for calculating the annual amortization.

### **Transfers of Assets**

Transfers of TCA between departments will be recorded at the net book value of the asset. The receiving department will record both the asset at its original historical cost and the accumulated amortization.

Transfer of assets from outside the municipality to the municipality will only be capitalized as a TCA when the agreement provides for the transfer of ownership.

### **Disposal of Assets**

When TCA are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the Operating Department must notify the Finance Department of the asset description and effective date of the disposal.

Assets will be retired from the accounts of the municipality when the asset is disposed of. The gain or loss on disposal will be calculated as the difference between the proceeds received and the net book value of the TCA. The gain or loss on disposal will be recorded in the accounts of the Operating Department.

## **Capital Leases**

A lease will be recorded as a TCA and an offsetting liability when it meets the test for a capital lease as defined by PSAB. PSAB uses a “benefits and risks” approach to assessing if a leased asset should be treated as a capital lease. If the “benefits and risks” of the asset are essentially transferred to the municipality (the lessee) then the lease is a capital lease and the leased asset is a TCA if it exceeds the municipality’s threshold.

## **Donated or Contributed Assets**

The cost of donated or contributed assets that meet the criteria for recognition shall be valued equal to their fair market value at the date of construction or contribution. Fair market value for land will be based on land assessment value or appraised value; all other items shall be based on fair market value.

## **Write Downs**

A write down is used to reflect a permanent partial impairment in the value of an asset. This impairment may be as a result of:

- Removal of the asset from service
- Physical damage
- Significant technological developments
- A decline in or cessation of the need for the service provided by the asset
- A change in the law or environment affecting the asset usage

If the value of an asset is impaired, the cost of the asset will be written down to reflect the decline in the asset’s value and its shorter useful life. This write down is considered a loss (expense) in the accounts of the Operating Department.

## **Transition**

All TCA in the municipality will be inventoried and valued as of December 31, 2009.

## **Estimated Useful Life**

The following Table of Useful Life Estimates (Appendix A) will be the guidelines for determining TCA - Asset Class and Useful Life

---

Brenda Cormier, Clerk/Treasurer

---

Emmie Flanagan, Acting Mayor

Adopted: May 28, 2012

Appendix A

**Tangible Capital Assets  
Guidelines for Asset Class and Useful Life**

<b><u>Asset Classes</u></b>	<b><u>Maximum Useful Life</u></b>
Land All land owned by the Village, including land under buildings	N/A
Cultural & Historical Assets Public art, historical and heritage site	N/A
Land Improvements Includes major landscaping projects, sports fields, courts, trail culverts, paved trails, parking lots, play ground and similar assets	15 - 25 years
Buildings All buildings owned by the Village, with the exception of treatment plants, as single assets or broken into components: structural, interior, exterior, mechanical, electrical, specialty items, equipment and site work	20 – 70 years
Machinery & Equipment Includes information technology assets, large signage, transit fare boxes, motorized fleet equipment, parking meters, leasehold improvements and similar assets	5 – 20 years
Linear Assets All public works infrastructure including roads, sidewalks, street lights, traffic signals, storm sewers, water and sewer main	5 – 65 years
Road Surfaces	5 - 30 years
Road Grade	10 - 40 years
Spur Line	5 - 65 years
Traffic Lights	10 - 30 years
Vehicles All vehicles including cars, trucks, buses and similar assets	5 – 25 years
Water & Wastewater Facilities Includes water and wastewater treatment plants broken into components: process piping and equipment, electrical and instrumentation, structural, architectural, mechanical and site work	10 –100 years