

# REGIONAL DISTRICT OF NANAIMO

## POLICY

SUBJECT: <i>Capital Asset Accounting and Budgeting Policy</i>	POLICY NO: A2.5 CROSS REF.: A2.22
EFFECTIVE DATE: March 15, 2021	APPROVED BY: CAO
REVISION DATE:	PAGE: 1 of 6

### PURPOSE

To provide tangible capital asset budgeting and accounting guidelines to staff which comply with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150 on Tangible Capital Assets (TCAs). All tangible capital assets acquired by the Regional District, whether by way of a transfer, exchange, lease, donation or purchase, are subject to this policy. This policy is effective immediately.

The policies to define what an asset is for the purposes of financial reporting and what an asset is for the purposes of asset management planning.

### POLICY

#### DEFINITION

1. In accordance with PSAB 3150, tangible capital assets (TCA), are non-financial assets having physical substance that have all of the following four characteristics:
  - a. are held for use in the production or 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;
  - b. have useful economic lives extending beyond an accounting period;
  - c. are to be used on a continuing basis and;
  - d. are not for sale in the ordinary course of operations.
2. Betterments are costs incurred to enhance the service potential of a TCA. 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. Costs of betterments are considered to be part of the cost of the TCA and would be added to the recorded cost of the related asset.
3. Tangible capital asset expenditures are defined as expenditures to acquire physical assets or betterments to physical assets which:
  - a. meet the criteria as outlined above;
  - b. meet the minimum dollar threshold criteria by asset class as set out in Appendix 'A'.

4. The cost of a TCA 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 of use. Costs include but are not limited to freight, engineering fees, installation and legal costs. Capital grants are not netted against the cost of the related TCA.
5. TCA which individually do not meet the thresholds in this policy may be considered capital expenditures where they are purchased as part of a construction project or are purchased in a large volume over a year, such as computer equipment.

## **THRESHOLDS**

6. Capitalization and budgeting thresholds have been established for both minimum materiality dollar values by asset class and the number of years of useful life for asset types. Thresholds help to determine whether expenditures are to be capitalized as assets and depreciated or treated as a current year expense. 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. The materiality thresholds are listed in Appendix 'A'. The useful life guidelines estimate the expected useful life by asset type are listed in Appendix 'C'.

## **PURCHASING**

7. Capital expenditures must be made in accordance with the procedures outlined in Policy A2.22, Purchasing Policy.
8. A "Capital Expenditure Information Form" in the form of Appendix 'B' must be submitted to the Finance Department when an invoice is submitted for payment. Where there is no outright purchase a department must complete the form as soon as it has knowledge of an asset being acquired, constructed, or developed. The Finance Department shall provide a copy of the completed form to the employee responsible for the Asset Management Program.

## **BUDGETING**

9. Tangible capital assets with a value equal to or greater than the thresholds specified in Appendix 'A' will be identified separately in the budget as instructed from time to time and will be subject to amortization.

## **AMORTIZATION**

10. PSAB 3150 requires that qualifying tangible capital assets be amortized over the useful life of the asset. For the purposes of compliance with PSAB 3150, the Regional District will use the "Straight Line" method of amortization for all asset classes except Land, which is not amortized.
11. The following information must be reported on the "Capital Expenditure Information Form in order to calculate amortization:
  - a. Original Cost of the Asset – includes amounts to acquire or repair.  
RDN paid amounts – includes design/engineering fees, permit fees, legal fees and freight where applicable.

Developer built/supplied – estimated market value of the asset at the time of acquisition - examples include water or sewer infrastructure, parkland in lieu of cash or donated assets (land, equipment, buildings, etc).

Where no acquisition cost is available at the time this policy comes into effect, the Finance Department will assist to establish a value. Where appropriate this policy permits the use of an estimated cost based on the "current replacement cost of the asset discounted by the age of the asset using an appropriate inflationary index".

- b. Estimated Useful Life - The acquiring department shall estimate a useful life for the asset. A table of "General Guidelines for Estimating the Useful Life of Capital Assets" is attached as Appendix 'C' for reference when completing the "Capital Expenditure Information Form".
- c. Salvage Value - The acquiring department shall estimate a salvage value for the asset. The salvage value should be a conservative estimate of the resale or disposal value of the asset after its useful life has been completed.

## **LEASES**

- 12. A leased TCA 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 risk of ownership are, in substance, transferred to the Regional District without necessarily transferring legal ownership. The following conditions would normally indicate a capital lease:
  - a. There is reasonable assurance that the Regional District will obtain ownership of the leased property by the end of the lease term.
  - b. The lease term is of such duration that the Regional District will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its lifespan.
  - c. 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.

The Finance Department should be consulted for assistance on the budgeting for leases.

## **OTHER**

- 13. Disposals of Tangible Capital Assets - All disposals of capital assets must be in accordance with Policy A2.22, Purchasing Policy. The asset ID# must be included in the Description field on the Asset Disposal Approval form.
- 14. Notwithstanding the limits outlined in this policy, the budgeting and accounting treatment of expenditures will be finally determined by the Manager, Capital Accounting and Financial Reporting giving due regard to professional accounting standards and industry practice in effect from time to time.

**BUDGETING THRESHOLDS**

<b>Asset Class</b>	<b>Minimum Threshold</b>
Land	Record all as capital
Land Improvements / Parks Infrastructure	\$35,000
Buildings	\$70,000
Building External Improvements (ex: roofing; expansion; siding; HVAC; electrical; plumbing; fire)	\$70,000
Machinery and Equipment	\$10,000
Vehicles	\$10,000
IT Infrastructure, equipment and software	\$10,000
Other Infrastructure (e.g. water, sewer, wastewater, solid waste, etc.)	\$70,000

Construction projects in progress will be budgeted and recorded as amortizable capital only if final costs will exceed the threshold for the asset class. Amortization will not begin until the project is complete and put into service.



**REGIONAL  
DISTRICT  
OF NANAIMO**

**CAPITAL EXPENDITURE INFORMATION FORM**

ACQUISITION DATE \_\_\_\_\_ ASSET ID# (assigned by Finance) : \_\_\_\_\_

INVOICE NUMBER: \_\_\_\_\_

VENDOR/OTHER : \_\_\_\_\_

ASSET CLASS/TYPE: \_\_\_\_\_ (see over)

# OF UNITS (ea, km, etc): \_\_\_\_\_

MODEL/SERIAL # \_\_\_\_\_

COST (net of GST): \_\_\_\_\_

Is this part of a capital project (Multiple Invoices) – Y/N \_\_\_\_\_

LOCATION: \_\_\_\_\_ DEPT CODE (4 digits): \_\_\_\_\_

ESTIMATED USEFUL LIFE IN YEARS (see over) \_\_\_\_\_

ESTIMATED SALVAGE VALUE AFTER USEFUL LIFE: \_\_\_\_\_

ASSET OR CAPITAL REPAIR DESCRIPTION:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

CONTACT PERSON: \_\_\_\_\_

TELEPHONE EXTENSION: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(Signature)

(Name)

## GENERAL GUIDELINES FOR ESTIMATING THE USEFUL LIFE OF CAPITAL ASSETS

<u>ASSET CLASS/TYPE</u>	<u>ESTIMATED USEFUL LIFE IN YEARS</u>
Parks Infrastructure	
Playground Equipment	15
Athletic field, running track, sprinkler systems	20
Washrooms, Concessions, Picnic Shelters	20 - 40
Bridges	Engineer estimate
Buildings & Above-Ground Major Infrastructure buildings (EX: Wastewater Treatment Plants, Arenas, Aquatic Centers)	20 - 50
Building Improvements	
Exterior Envelope	20 - 50
HVAC Systems	20
Roofs	20 - 40
Electrical/Plumbing/Fire	20
Parking Lots	15 - 50
Fencing	15
Machinery & Equipment	
General Equipment	7 - 15
Office furniture & equipment	10
Generator	20
Heavy Construction Equipment	15
Scales - Landfill	15
Vehicles	
Cars and Light Trucks	6 - 8
Fire Trucks & Other Heavy Vehicles (ex: loader/compactor)	10 - 15
IT Infrastructure	
Hardware	5
Software	5
Wastewater filtration treatment and discharge systems (aggregated approach)	30
In Ground Infrastructure (dependent upon component and material)	
Aggregated approach (waterworks distribution & sewer collection)	50
Water	20 - 100
Sewer	20 - 100
Drainage	20 - 100