

3. Specific Accounting Policies for Nova Scotia Municipalities

The following sections contain accounting policies, which are specific to Nova Scotia municipalities.

3.1 Fund Accounting

This section relates to the non-consolidated schedules only.

The accounting unit shall be the Fund, which is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

3.2 Reporting on Funds

This section relates to the non-consolidated schedules only.

For the purposes of financial reporting by Nova Scotia municipalities, the following funds must be reported if applicable:

- (i) (a) General Operating Fund or (b) "specified service" Operating Fund - in the case of all operating transactions, as distinct from capital transactions.

Note: It is the intent that the designation of Funds relating to the operations side of activities (as distinct from the capital side) be standardized as the "General Operating Fund," for example, General Operating Fund, Water Operating Fund, etc., as applicable.

- (ii) (a) General Capital Fund or (b) "specified service" Capital Fund - in the case of all capital transactions, as distinct from operating transactions.

Note: The intent is to have the designation of Capital Funds parallel that of corresponding General Operating Funds where applicable, such as General Capital Fund or Water Capital Fund.

- (iii) Reserve Funds - in the case of transactions where there is a statutory requirement or a desire by municipal council that certain monies accruing to the municipality be segregated into a "Reserve" Fund for future use.

Note: Examples of monies that must be placed into a Reserve Fund are fire insurance proceeds and proceeds from the sale of property or equipment. In addition, a municipality may transfer all or any portion of its operating fund revenue in excess of operating fund expenses into a Reserve Fund.

The Reserve Funds are made up of three classifications

- 1 Capital Reserve Fund
- 2 Operating Reserve Fund
- 3 Special Purpose Tax Reserve Fund

and will be governed by the principles set out in Sections 3.14, 3.15, 3.16 and 3.17.

(iv) (a) General Trust Fund or (b) "Specific Purpose" Trust Fund - in the case of transactions that arise from a formal or informal trust agreement pursuant to which a municipality is accountable to third parties for the use and disposition of trust assets and for the funds derived from those trust activities.

Note: Trust assets are not beneficially owned by the municipality, they should be reported separately in the municipality's financial statements and they should not be consolidated.

A municipality must establish those funds as required by law and sound financial administration.

3.3 Accounting and Reporting Capabilities

The municipal accounting system must make it possible to:

- (a) determine and demonstrate compliance with legal provisions;
- (b) maintain an adequate system of internal control; and
- (c) prepare financial statements that will determine fairly and fully disclose the financial operations of the municipality in conformity with this manual and generally accepted accounting principles.

Where financial statements prepared in conformity with generally accepted accounting principles differ significantly from those required for legal compliance, the municipality must prepare such additional notes or schedules as may be necessary to report clearly its legal compliance, responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary.

Note:

- a) The aim of this principle is to emphasize that there is no acceptable substitute for "generally accepted accounting principles." However, since the application of such principles will not always produce the requirements of particular legislation, it may be necessary to meet the latter through specially designed statements and reports.*
- b) Internal control is defined as a plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise effective accounting control over assets, liabilities, revenues and expenditures. Under such a system, the work of employees is subdivided so that no single employee performs a complete cycle of operations. Thus, for example, an employee handling cash would not post the accounts receivable records. Moreover, under such a system, the procedures to be followed are definitively laid down and require proper authorizations by designated officials for all actions to be taken.*

3.4 Taxes Receivable

Taxes and Rates

Taxes and rates receivable represent that uncollected portion of taxes and levies as determined by municipal council for purposes of general operations funding or specific user-pay services. These should be recorded net of valuation allowances in the financial assets category on the Statement of Financial Position, and all adjustments and write-offs must be sanctioned by the municipal council except for assessment appeals, errors and changes in assessment that are authorized by the proper authorities.

Interest Earned

Interest accrued on past-due taxes and rates or other uncollected amounts shall be recorded by the municipality.

Grants and Other

Full accrual accounting should be applied in the determination of revenues outstanding, including cost-shared programs. These receivables must be distinguished from taxes and rates receivable and are determined as the realizable amount.

3.5 Area Rates

Area rates are levies imposed by the council of a municipality to provide for an expenditure in an area or for the benefit of an area. Council authorizes the levying and collecting by an area rate or area rates of so much on the dollar on the assessed value of one or more of the taxable commercial, residential or resource property and occupancy assessments in the area, or by levying a uniform charge on each taxable property assessment or each dwelling unit in the area.

Although each area rate is separately accounted for in the records of the municipality, for financial statement presentation purposes area rate revenues must be included with general section revenues classified by source, and area expenditures must be included with general section expenditures classified by function. The current change in the general operating fund balance will then include the excess or deficiency of funds raised through area rates to the extent that it relates to operations. This is necessary in order to recognize that the revenues and expenditures relating to such operations are those of the municipality.

In those circumstances where a municipality makes a capital loan to a registered fire or emergency service organization, where the loan is to be repaid over a specific period through an area rate charge, the capital loan is to be segregated on the appropriate Statement of Financial Position of the unit and is to be reduced by the current year's debt repayment.

The term of the loan is not to exceed the appropriate useful life guidelines set out in Section 3.19.

3.6 Special Assessments

Special assessments are charges imposed by a municipal government through a by-law levied against certain properties to defray part or all of the cost of a specific improvement or service that is presumed to be of specific benefit to such properties. The charges fixed by or determined under the by-law may be based on assessment, frontage, lot levies, or such other plan or method as the by-law may provide.

A municipality's "surplus/(deficit)"¹ will include the excess or deficiency of funds raised through special assessments to the extent that it relates to operations. This is necessary in order to recognize that the revenues and expenditures relating to such operations are those of the municipality.

Special assessments levied against certain properties related to capital improvements should be recorded as deferred revenue and taken into revenue as the capital expenditures related to the special assessment are incurred by the municipality.

Note: Special assessments would include infrastructure charges sometimes called off-site development charges.

¹ "surplus/(deficit)" means operating fund revenues in excess of operating fund expenditures/(operating fund expenditures in excess of operating fund revenues) and the net of financing and transfers to and from the operating fund

3.7 Due To/From Accounts (Inter-Fund Transfers)

This section relates to the non-consolidated schedules only.

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts.

Each fund is to be independent of every other fund, and no transfers, other than cash transfers for inter-fund services provided, shall take place unless exceptional circumstances arise.

An unauthorized due to/from transfer outstanding at year end must be either repaid in the next year or included in the next year's estimates of the general operating fund that received the benefit.

Exceptions will be permitted in two instances.

(1) To finance an approved capital project until it is completed. Having received approval from Service Nova Scotia and Municipal Relations for a temporary borrowing to finance the project during construction, a capital fund may borrow from the general operating fund if the money is available. However, upon completion of the project, the inter-fund account must be replaced with temporary borrowings or permanent funding.

(2) To finance an approved borrowing from a Reserve Fund for a capital project. Reserve funds are able to lend out their equity to finance certain capital projects of the municipality.

If the reserve fund's assets are tied up in long-term investments that could not be cashed without suffering a substantial loss, the reserve fund may borrow from a general operating fund, an amount not to exceed the lower of the cost of the project or the unallocated equity remaining in the reserve fund. As the reserve fund investments mature, they must be transferred to the general operating fund to liquidate the inter-fund account.

When the project is financed through a general operating fund, it is imperative that the principal debt and interest repayments claimed in the general operating fund be actually transferred to the reserve fund.

Capital expenditures out of operations, repayment of long-term debt and depreciation, where applicable, do not involve due to/from account transactions.

Note: Permanent funding is considered to be any properly approved borrowing with a stated period of repayment and includes debentures, term loans and borrowings from reserve funds.

3.8 Property Acquired at Tax Sale

Property acquired by the municipality at tax sale is to be reflected separately in the general capital fund at its cost to the municipality at the expiration of the redemption period.

The taxes receivable will be reduced in the general operating fund in the year of acquisition and the purchase price will be reflected in the Statement of Financial Position of the general operating fund as “Redeemable Property Acquired at Tax Sale.” The minimum purchase price to the municipality is the amount of taxes outstanding plus interest and expenses. Once the redemption period is expired, the redeemable property acquired at tax sale is eliminated with a charge to capital expenditure out of operations, and the asset is recorded in the capital fund.

The proceeds of any property disposed of during the year are to be deposited into the capital reserve fund, and they are revenue of the capital fund (i.e., they are not revenue of the general operating fund).

The cost of the property in the general capital fund is to be written off in the year of disposition by a charge against the investment in capital assets.

3.9 Long-Term Commitments

A municipality may enter into a lease, lease-purchase or other commitment to pay money over a period extending beyond the end of the current fiscal year. In accordance with section 88(4) of the *Municipal Government Act*, where the total cumulative commitment exceeds \$100,000, the proposed commitment must be approved by the Minister of Service Nova Scotia and Municipal Relations in advance.

Commitments approved by the Minister are required to be disclosed in the notes to the financial statements.

Note: Where the actual dollars to be expended, including carrying costs, exceed \$100,000, approval must be obtained from the Minister (e.g., six-year commitment at \$17,000/year would require Ministerial approval).

Note: A commitment is defined by regulation as “a commitment with respect to the possession, use or control of physical or intellectual property.”

3.10 Asset Valuation Allowance

(1) Taxes and Rates

Each municipal council is required to carry out a tax sale to collect outstanding taxes due to the municipality. This can be accomplished by a tax sale policy adopted by council and by following the minimum tax sale procedures in Section 134 of the *Municipal Government Act*. The legislation requires municipalities to put properties up for sale if taxes are in arrears for the preceding three fiscal years, with the exceptions noted in Section 134 of the *Municipal Government Act*.

A valuation allowance shall include an estimate of future losses on taxes, rates and interest outstanding at year end. In most cases, taxes on real property are recoverable through the tax sale process.

The allowance required is an estimate and the actual loss eventually sustained may be more or less than the estimate. The variation will depend not only on the pessimism or optimism of the estimator but also on events that have yet to occur and that cannot be foretold. The impossibility of making an exact forecast does not, however, relieve management of the responsibility of making a careful estimate of the allowance required.

No formula can be set out that, by itself, provides a means by which the amount of an allowance can be determined. The nature of the outstanding accounts, collection policies, the efficiency of the collection department and the general business conditions at the time are all factors which must be taken into account.

The amount of the allowance at the end of a financial period should be calculated by reference to the accounts outstanding at the end of the financial period, after taking into consideration all circumstances known at the date of review. Any amount required to increase or decrease the valuation allowance should be included in the statement of operations for the year then ending. Therefore, an estimate of the amount required at year end should be included in the municipality's budget at the start of the year.

The actual calculation may be based on a formula that ages the balance outstanding and applies various percentages based on past collection experience, in addition to a review of large individual accounts to determine the total valuation allowance.

(2) Grants and Other Receivables

A valuation allowance shall be provided for all other receivables that are outstanding at year end. The amount of the valuation for other outstanding receivables shall be management's best estimate based on facts.

(3) Unresolved Assessment Appeals

A valuation allowance shall be provided for unresolved assessment appeals in an amount as estimated based on experience and current facts, to reflect the probable result of such appeals to the extent not provided elsewhere. The estimate should include an amount for interest that will be payable on successful assessment appeals. (Section 114 of the *Municipal Government Act* deals with interest payable.)

A valuation allowance shall be calculated based on outstanding receivables at March 31 each year. Any additional amount required to fully fund the allowance or the amount the allowance is to be reduced shall be included in the statement of operations for the year then ending.

Write-Off of Taxes and Rates

When taxes and rates are determined to be uncollectible, after considering all avenues of collection, and by resolution, council approves the write-off, the amounts to be written off are to be charged directly against the valuation allowance.

Statement of Financial Position

The amount of the valuation is to be included on the asset side of the Statement of Financial Position as a deduction from appropriate receivables. Full disclosure of the effect of this accounting change is required in the notes to the financial statements.

3.11 Temporary Borrowings - Capital Projects

Temporary borrowings to finance a capital project during construction are to be authorized by the Minister of Service Nova Scotia and Municipal Relations and are to be repaid when the project is completed and permanent funding is put in place.

If permanent funding is not in place within one year after the capital project is completed, a one-year renewal of approval for the borrowing must be received from Service Nova Scotia and Municipal Relations for a maximum of 90% of the outstanding borrowings. The minimum of 10% is to be included in the estimates and shown as a principal repayment in the year.

A project is completed at the point of takeover by the municipality.

Interest incurred during construction on significant identifiable capital projects may be capitalized in the year incurred.

Note: A significant identifiable capital project is a project for which the municipality has received a temporary borrowing resolution approved by the Minister of Service Nova Scotia and Municipal Relations.

3.12 Tax Sale Surplus

Tax sale surplus represents excess funds at tax sales over and above the original amounts that were owing to the municipality at the time a particular property was sold.

This surplus is to be held for twenty years, and if the excess proceeds are not claimed at the end of that time, they are to be transferred to the Capital Reserve Fund.

Tax sale surplus is to be shown as a non-current liability on the consolidated financial statements.

The amount of tax sale surplus that will be transferred to the Capital Reserve Fund in the next year is to be disclosed in the notes to the financial statements.

Supplementary disclosure of the breakdown of the tax sale surplus may be desirable.

3.13 Long-Term Debt

This section relates to the non-consolidated schedules only.

The cash that is received on the issuance of debt will be recognized in the capital fund where it is to be spent. Long-term debt is to be set up in the capital fund, with a corresponding recognition of an amount due from the operating fund to finance the future repayment of the debt. In the operating fund there will be an amount due to the capital fund, with a corresponding amount recorded as amounts to be recovered from future revenues.

Example:

A municipality borrows \$1,000,000 to finance a capital project that has been completed.

Capital Fund			
Cash	1,000,000		
Proceeds on Issuance of Debt		1,000,000	
Due from operating fund	1,000,000		
Long-term debt			1,000,000
Operating Fund			
Amounts to be Recovered from Future Revenues	1,000,000		
Due to capital fund			1,000,000

A municipality makes a principal debt payment.

Operating Fund			
Debenture and term loan principal installments	100,000		
Cash		100,000	
Due to capital fund	100,000		
Amounts to be recovered from future revenues			100,000
Capital Fund			
Long-term debt	100,000		
Due from operating fund			100,000

Any amounts received on a debenture borrowing in excess of the cost of the capital project are to be transferred to the Capital Reserve Fund.

The term of the debt put in place for specific capital acquisitions is never to exceed the useful life guidelines for those assets as set out in Section 3.19.

The debt is to include permanent debt financing put in place by the municipality, debt assumed from other committees, boards, authorities or other such entities, and capital lease debt.

A note to the financial statements is to disclose the next five years' debt repayment and the extent to which another municipal government or the provincial government will assume responsibility for, or pay grants equivalent to, the debt service of such debt.

Note: It is important that it not be assumed that the useful economic life of an asset bears any direct relationship to the terms of the long-term debt put in place to finance those assets. Long-term debt issued by a municipality beyond a period of ten years is a function of the market place.

3.14 Capital Reserve Fund

This section relates to the non-consolidated schedules only.

There must be a separate accounting of assets in the capital reserve fund from the general operating funds and capital funds. The capital reserve fund is one of the three separate types of reserve funds, the other two being the special purpose tax reserve fund and the operating reserve fund. (See Sections 3.15 and 3.16).

A municipality is required to have a capital reserve fund. Section 99 of the *Municipal Government Act* requires the following to be placed in the capital reserve fund:

- (a) funds received from the sale of property;
- (b) the proceeds from insurance resulting from loss or damage of property that is not used for replacement, repair or reconstruction of the property;
- (c) any surplus remaining from the sale of debentures that is not used for the purpose for which the debentures were issued;
- (d) proceeds received from the winding up of a municipal enterprise as defined in the Municipal Finance Corporation Act;
- (e) the current fiscal year's accrual for landfill closure and post-closure expenses;
- (f) amounts transferred to the fund by the council; and
- (g) balance in tax sale surplus account twenty years after the tax sale.

Landfill closure and post-closure cost reserve funds must be separated from the balance of the capital reserve funds on the financial statements of the municipality. Interest earned by the "capital reserve fund - landfill closure/post closure costs" must remain in that fund.

Interest earned by the capital reserve fund (other than the portion relating to landfill closure and post-closure costs) must also remain in that fund unless there is a special resolution of council which allows the interest to be taken into the general operating fund.

Appropriations from the general operating fund that are transferred to the capital reserve fund by the council are to be shown in the general operating fund as financing and transfers in arriving at

current “surplus/(deficit)”² for the year end, and the amount of the appropriation is to be transferred to the separate capital reserve fund.

A withdrawal from the capital reserve fund may be used only for:

- (a) capital expenditures for which the municipality may borrow;
- (b) repayment of the principal portion of capital debt; and
- (c) landfill closure and post-closure costs that have been approved as conforming to the “Nova Scotia Standards and Guidelines Manual for Landfill” issued by the Department of the Environment.

The council may borrow from a capital reserve fund, by resolution, if the resolution prescribes the terms of repayment, including interest, at a rate not less than the interest rate that the municipality would pay to borrow the funds for a similar term from another source. Funds borrowed from the capital reserve fund can only be used to acquire physical assets for the municipality.

Funds authorized to be withdrawn and used to acquire physical assets are to be transferred directly to the capital fund into which the purchased assets are to be placed. Funds relating to landfill closure and post-closure costs are to be disbursed directly from the landfill reserve.

The monies received as part of the Gas Tax Rebate Program are to be recorded in the Capital Reserve Fund. As the monies are spent, they are to be transferred to the Capital Fund. Any unspent monies are to remain in the Capital Reserve Fund.

Reserve Funds are to be shown as part of municipal equity on the consolidated Statement of Financial Position.

² “surplus/(deficit)” means operating fund revenues in excess of operating fund expenditures/(operating fund expenditures in excess of operating fund revenues) and the net of financing and transfers to and from the operating fund

3.15 Special Purpose Tax Reserve Fund

This section relates to the non-consolidated schedules only.

There must be a separate accounting of reserve fund assets from the general operating funds and capital funds. The special purpose tax reserve fund is one of the three separate types of reserve funds, the other two being the capital reserve fund and the operating reserve fund. (See Sections 3.14 and 3.16).

The special purpose tax reserve fund is restricted as to the source of its funds to special purpose tax revenue raised by council for a specific purpose.

The council may withdraw money from the special purpose tax reserve fund for an expenditure on a purpose for which the account was established.

Where the council has raised revenue through more than one special purpose tax, the accounts are to be segregated from each other on the books of the municipality. This can be done either by establishing a separate fund for each special purpose tax or by establishing separate accounts for each special purpose tax within the overall special purpose tax reserve fund.

Council may, if the balance in a specific special purpose tax reserve account exceeds the funds required for the purpose for which the special purpose tax reserve account was established, return the surplus to the contributors, or may withdraw the funds from the special purpose tax reserve account for any purpose for which the municipality may expend funds if the council complies with the requirements of Section 83 (4) of the *Municipal Government Act*.

The Council may borrow from the special purpose tax reserve fund by resolution if the resolution prescribes the terms of repayment, including interest, at a rate not less than the interest rate that the municipality would pay to borrow the funds for a similar term from another source. The borrowing from the special purpose tax reserve fund must be repaid by the time that the special purpose tax reserve fund will require the funds.

3.16 Operating Reserve Fund

This section relates to the non-consolidated schedules only.

There must be a separate accounting of reserve fund assets from the general operating funds and capital funds. The operating reserve fund is one of the three types of reserve funds, the other two being the capital reserve fund and the special purpose tax reserve fund. (See Section 3.14 and 3.15).

The operating reserve fund is restricted as to the source of its funds to appropriations from the general operating fund.

Appropriations from the general operating fund are to be shown in that fund as financing and transfers in arriving at current “surplus/(deficit)”³ for the year, and the amount of the appropriation is to be transferred to a separate operating reserve fund.

A resolution of council is required before any money may be withdrawn from the operating reserve fund. The resolution of council approving a budget that includes a withdrawal from the operating reserve fund is sufficient. Sums withdrawn may be used for any purpose for which council has authority to expend money.

Transfers from this section to the general operating fund are to be shown as financing and transfers in the general operating fund in arriving at current “surplus/(deficit)”³ for the year.

Interest earned by the operating reserve fund must remain in that fund unless there is a special resolution of council that allows the interest to be taken into the general operating fund.

If the municipality’s operating fund statement of operations results in a surplus, the surplus must be transferred to the operating reserve.

For consolidation purposes, the operating reserve fund is to be shown as part of municipal equity on the consolidated Statement of Financial Position.

³ “surplus/(deficit)” means operating fund revenues in excess of operating fund expenditures/(operating fund expenditures in excess of operating fund revenues) and the net of financing and transfers to and from the operating fund

3.17 Inclusion of “Deficit” in the Municipality’s Estimated Requirements

This section relates to the non-consolidated schedules only.

Section 72 (4) of the *Municipal Government Act* notes that “council shall include in its estimates the deficit from the preceding year.” “Deficit” is intended to mean operating fund expenditures in excess of operating fund revenues and the net of financing and transfers to and from the operating fund.

If the municipality has a surplus from a prior year, Council may budget for a deficit in a subsequent year if they intend to utilize the surplus of a prior year.

3.18 Reduction of Taxation Revenue

Taxation revenue that is reduced or written off due to changes in the assessment base should be reported under one of the following methods:

- (a) Where the amount reduced or written off has been levied in the current reporting year and would normally be included as part of the total taxation revenue of the year, the amount reduced or written off should be subtracted from the total taxation revenue for the year.
- (b) Where the amount reduced or written off has been levied in a prior period or periods, the reduction or write-off should be subtracted from the valuation allowance for taxes and rates or unresolved assessment appeals.

All other taxation revenue that is reduced or written off as a result of a decision of council should be subtracted from the valuation allowance for taxes and rates.

3.19 Fixed Assets

Local governments acquire physical assets that have economic lives extending beyond the accounting period. Such assets are available for use, may require operating and maintenance expenditures and may need to be replaced in the future. They include assets such as inventories of supplies, equipment, buildings, land, roads, sewage collection systems and water distribution systems.

In accordance with PSAB, acquisition of physical assets must be expensed at the time of acquisition. However, there is an exposure draft that will require municipalities to record their physical assets in the Statement of Financial Position and amortize them on a rational and systematic basis. That exposure draft is scheduled to be implemented for fiscal periods beginning on or after January 1, 2009, with earlier adoption encouraged.

In the meantime, a municipality may choose to record physical assets on the Statement of Financial Position, but if a municipality chooses to do so, the physical assets must be properly valued. The basis upon which various types of assets are recorded shall be reported in notes to the financial statements. PSAB provides guidance in PSG-7 (Public Sector Guidelines).

If a municipality chooses to record physical assets on the Statement of Financial Position, the municipality is to use the following useful life **maximum** guidelines, at the end of which it is to write off the physical assets, unless disposed of earlier:

Office Equipment	5 years
Motor vehicles (other than heavy equipment, fire trucks and transit buses)	5 years
Fixed and moveable equipment, fire trucks and transit buses	10 years
Compost bins	10 years
Sidewalks	20 years
Operating plants (e.g., sewage treatment)	25 years
Wharves	25 years
Ferry boats	30 years
Municipal buildings	40 years
Other infrastructure (e.g., roads, sewer lines, lagoons)	50 years
Landfill capital	
<ul style="list-style-type: none"> • single cell operation 	at time when capacity of landfill to accept garbage is reached
<ul style="list-style-type: none"> • multi-cell operation 	at time when capacity of each cell to accept garbage is reached

Note: It is important not to assume that the useful economic life of an asset bears any direct relationship to the terms of the long-term debt put in place to finance those assets, except that the term of the debt is not to exceed the useful life of the asset. Long-term debt issued by a municipality beyond a period of ten years is a function of the marketplace.

The cost of a physical asset includes not only its purchase price or construction cost but also related charges necessary to place the asset in its intended location and condition for use. Such related charges may include freight and transportation charges, engineering costs, site preparation expenditures, professional fees and interest costs incurred during construction.

Where municipalities are faced with establishing physical asset accounting records and valuations after many years of operation without such records, it may be necessary to estimate the cost at the time of acquisition from such documentary evidence as may be available.

Municipal governments may acquire assets by gift. Donated physical assets or assets acquired at nominal values should be recorded at fair market value at the time of acquisition.

3.20 Physical Assets

Where practical, the individual physical assets of a municipality are to be maintained in a plant ledger that will describe:

- Capital item
- Cost
- Year acquired
- Method of financing

and as a minimum, all vehicle and equipment capital acquisitions subsequent to December 31, 1982 are to be maintained in a detailed plant ledger.

Only items that will provide a benefit to the municipality in excess of one year are to be capitalized.

Repairs to existing capital items are not to be capitalized unless the change is so significant as to enhance the service potential of the asset. Service potential is enhanced when the output capacity is significantly increased, the useful life of the asset is extended or the quality of the output is significantly improved.

When an asset is replaced or disposed of, the original cost is to come out of the physical asset account with a corresponding decrease in the investment in capital assets account.

When an asset has reached the end of its useful life for accounting purposes, as outlined in section 3.19, the original cost is to come out of the physical asset account, with a corresponding decrease in the investment in capital assets account.

The proceeds on disposal of any physical asset other than the trade-in of one asset for another are to be transferred to the Capital Reserve Fund (3.14).

3.21 Capital Contributions to Non-Municipal Physical Assets

Situations arise when a municipality agrees to cost share in a capital project in which it does not acquire title (e.g., capital cost of paving streets or roads in a rural municipality, contribution to a hospital). These cost-sharing amounts are not to be set up as physical assets of the municipality. These costs may be treated in one of two ways:

- (a) If the costs are paid for out of operations in the current year, they are to be written off against the appropriate expenditure account by fund and function.
- (b) If the costs are to be funded out of the issuance of long-term debt in the capital fund, they are to be expensed and the amount is to be included in “Amounts to be recovered from future revenues” or “Amounts to be recovered from reserves and reserve funds on hand.”

3.22 Long-term Deferred Charges

There are certain circumstances wherein a municipality must incur significant costs in the short term for which a physical asset has not been acquired and for which long-term borrowings must be obtained. Two specific examples provided for in the *Municipal Government Act* are costs incurred for tree removal (Section 63) and contributions to hospitals (Section 65(at)). Significant costs for tree removal and contributions to hospitals that are to be funded by long-term borrowings are to be expensed, and the amount is to be included in “Amounts to be recovered from future revenues” or “Amounts to be recovered from reserves and reserve funds on hand.”

3.23 Regional School Boards

School physical assets that are owned by the municipality, but that are being used by and under the control of the regional school board for such period as they are required by that board for school purposes, will form part of the municipality's school capital fund.

At the time a school physical asset is no longer required by the regional school board, it will revert back to the municipality to be disposed of as the municipality sees fit. The municipality's portion of the proceeds on the disposal of the school physical assets will go into the Capital Reserve Fund.

The status of these school physical assets should be reported on the Financial Information Return (FIR) in accordance with Schedule V.

3.24 Transitional Provisions for Certain Accruals as a Result of the Change in Accounting Policy

The adoption of PSAB as the basis for accounting will result in changes to the composition of certain amounts on the financial statements of the municipality. Specifically, PSAB requires that municipalities recognize costs related to *post-employment benefits, retirement benefits and pension valuation liabilities* earlier than they would have recognized these costs on a cash-basis.

In the year in which the municipality makes the change in accounting policy from MARM-basis to PSAB-basis, the municipality may recognize a significant expense related to accruals for these three items. However, the municipality may not want to include the full amount of this expense when calculating tax rates for the year in which the accruals are initially recognized.

The municipality may incorporate the additional expense resulting from the initial accruals in the calculation of its tax rates over a reasonable period of time. The municipality will have the option to include a portion of the initial accrued costs related to these three items only in its tax calculations over a transitional period, ending March 31, 2012.

That is, in the year in which the municipality makes the change in its accounting policy from MARM to PSAB, PSAB standards require that the municipality expense the accrued costs related to *post-employment benefits, retirement benefits and pension valuation liabilities* in their financial statements.

However, for the purposes of calculating its tax rates, a municipality may:

- Include all of these initial accrued costs related to the change in accounting policy for *post-employment benefits, retirement benefits and pension valuation liabilities* in its calculation of tax rates in the year in which the accounting policy is changed; or
- Include a minimum rate of 20% of these initial accrued costs related to the change in accounting policy for *post-employment benefits, retirement benefits and pension valuation liabilities* in calculation of tax rates in each fiscal year over a period that does not extend beyond March 31, 2012.

If a municipality elects to include the accrued costs of these items in its tax calculation over a period greater than one year, the municipality must accrue the difference between the amount recognized (expensed) in the financial statements and the amount included in the tax rate calculation as “Amounts to be recovered from future revenues” or “Amounts to be recovered from reserves and reserve funds on hand.”

3.25 Transitional Provisions Related to Landfill Closure and Post-Closure Costs for the Municipality's Estimated Requirements

The PSA Handbook requires municipalities to accrue costs related to unfunded liabilities for landfill closure/post-closure costs. In the year in which the municipality first accrues this cost, the municipality may recognize a significant expense related to the accrual. However, the municipality may not want to include the full amount of this expense when calculating tax rates for the year in which the accrual is initially recognized.

In the year in which the municipality begins to accrue costs related to unfunded liabilities for landfill closure/post-closure costs, the municipality may recognize a significant expense. However, the municipality may not want to include the full amount of this expense when calculating tax rates for the year in which the accrual is initially recognized.

The municipality may incorporate the additional expense resulting from the initial accrual in the calculation of its tax rates over a reasonable period of time. The municipality will have the option to include a portion of the initial accrued costs related to this item in its tax calculations over a transitional period, ending March 31, 2012.

That is, for the purposes of calculating its tax rates, a municipality may:

- Include all of these initial accrued costs related to landfill closure/post-closure costs in its calculation of tax rates in the year in which these costs are initially accrued; or
- Include a minimum rate of 20% of these initial accrued costs related to landfill closure/post-closure costs in each fiscal year over a period that does not extend beyond March 31, 2012.

If a municipality elects to include the accrued costs of unfunded liabilities for landfill closure/post-closure costs in its tax calculation over a period greater than one year, the municipality must accrue the difference between the amount recognized (expensed) in the financial statements and the amount included in the tax rate calculation as “Amounts to be recovered from future revenues” or “Amounts to be recovered from reserves and reserve funds on hand.”

3.26 Inclusion of Interest in the Municipality's Estimated Requirements

The PSA Handbook indicates that all amounts owing at the end of a fiscal period be recorded. Therefore, interest costs should be accrued, rather than recognized on a cash basis.

It is recommended that municipalities budget for interest on an accrual basis.

Because recognizing interest on an accrual basis rather than a cash basis would represent a significant change in the policy intent of the "municipality's requirements" for the purposes of tax calculations, municipalities may continue to budget for interest on either a cash basis or accrual basis in its estimated requirements for the purposes of tax calculations. If in any year a municipality elects to recognize interest on an accrual basis in its estimated requirements for the purposes of tax calculations, the municipality must continue to recognize interest on an accrual basis in its estimated requirements for the purposes of tax calculations from that point forward.

If a municipality elects to recognize the interest costs on a cash basis in its estimated requirements for the purposes of tax calculations, the municipality must accrue the difference between the accrued amount recognized (expensed) in the financial statements and the cash amount included in the tax rate calculation as "Amounts to be recovered from future revenues" or "Amounts to be recovered from reserves and reserve funds on hand."

3.27 Amounts to be Recovered

The PSA Handbook indicates that all amounts owing at the end of a fiscal period be recorded.

Accruals related to the Change in Accounting Policy

Municipalities will therefore be required to recognize costs earlier than they might have done so otherwise for:

- accruals related to the change in accounting policy for post-employment benefits, retirement benefits and/or pension valuation liabilities; and/or
- accruals related to landfill closure/post-closure costs.

While these amounts must be included in the financial statements of the municipality, the municipality may recognize these costs in the calculation of tax rates over a period of time at a minimum rate of 20% annually, over a period that does not extend beyond March 31, 2012.

The difference between the amount recorded in the financial statements and the amount included in the calculation of tax rates must be recorded in the estimated requirements as “Amounts to be recovered from future revenues” or “Amounts to be recovered from reserves and reserve funds on hand.”

Interest Accruals

The PSA Handbook indicates that interest costs should be accrued, rather than be recognized on a cash basis.

While accrued interest amounts must be expensed in the financial statements of the municipality, the municipality has the option of including interest on a cash basis for the purposes of calculating tax rates.

The difference between the amount of accrued interest recorded in the financial statements and the cash-based interest included in the calculation of tax rates must be recorded “Amounts to be recovered from future revenues” or “Amounts to be recovered from reserves and reserve funds on hand.”

Details of the amounts to be recovered are to be reported on the Financial Information Return (FIR) in accordance with Schedule V.