COUNCIL POLICIES AND PROCEDURES

SECTION - H

MISCELLANEOUS

SUBJECT: Tangible Capital Assets Policy Number H-21

APPROVAL DATE: March 10, 2010

1.0 PREAMBLE

It is the Policy of the Municipality of the District of Guysborough to record, in the accounts of the Municipality, the tangible capital assets controlled by the Municipality with appropriate assets classes and threshold amounts for each class and capitalize these tangible capital assets and allocate their costs to future accounting periods through an annual amortization expense in accordance and in compliance with The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA) - section PS 3150. See attached section PS3150-Tangible Capital Assets. In the event of a discrepancies or disagreement between this policy and CICA Standards Section PS3150-Tangible Capital Assets, the CICA Standards Section PS3150-Tangible Capital Assets shall prevail.

2.0 TERMS

This policy outlines the accounting for tangible capital assets in the accounts of the Municipality of the District of Guysborough. The objective of this policy is to ensure that tangible capital assets are recorded appropriately and accurately. All municipal departments, corporations, agencies and utilities deemed to be part of the Municipality of the District of Guysborough will be required to adopt this tangible asset policy. All entities to which this policy is applicable are responsible for implementation and operation of an internal control system that ensures that tangible capital assets are accounted for in accordance with this policy. This policy will apply to the following entities:

1. The Municipality of the District of Guysborough
2. Milford Haven Corporation
3. Hazel Hill Water Utility

3.0 ASSETS

Assets, in general, must have three characteristics:

1. They embody a future benefit that involves a capacity singly or in combination with other assets to provide services.
2. The Municipality can control access to the benefits.
3. The transaction or event giving rise to the entity's right to or control of the benefit has already occurred.

3.1 POLICY DIRECTIVES

3.1.1 INCLUSIONS

Land	Streets, roads and curbs
Land Improvements	Signs
Municipal Buildings	Traffic and street lights
Electronic Data Equipment	Sidewalks
Small Equipment (>$5,000 and <$10,000,)	Sewer lines
Pool Assets (Electronic data equipment)	Pool Assets (Office Furnishings)
Pool Assets (Tools)	Other Pool Assets (Benches, street furniture and playground equipment)
Machinery and Equipment (>$10,000)	Lagoons
Vehicles	Solid waste facilities and cells
Buses and vans	Utilities
Wharves	
Capital Leases	Computer software programs

3.1.2 EXCLUSIONS

Intangibles	Works of art and historical treasures
Land & other assets acquired by right	Natural resources such as forest, water and mineral resources.

3.2 COMPONENT APPROACH

It will be the policy of the Municipality of the District of Guysborough to use the COMPONENT APPROACH when recording the infrastructure assets of the municipality. Infrastructure assets are tangible capital assets that are normally comprised of a number of components to form complex network system.

4.0 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. The following table shall be used when determining the useful life of the assets of the Municipality:

ASSET TYPE	**USEFUL LIFE RANGES**
Land (Class I,II,III,IV,V VI & VII)	Indefinite
Land improvements	20 years
Municipal Buildings	40 years
Building plants	20 years
Operating plants	20 years
Electronic Data Equipment	3 years
Office Furnishings	3-5 years
Small Equipment	3-5 years
Pool Assets	3-5 years
Machinery and Equipment	5-10 years
Vehicles	5 years
Computer Software Programs	1-5 years
Wharves	25 years
Street, roads and curbs	25 years
Traffic and Street Lights	25 years
Signs	10 years
Sidewalks	20 years
Sewer Lines	50 years
Lagoons	50 years
Solid waste cells	See PSAB 3270 – based on volume. Useful life at time when capacity of each cell to accept solid waste is reached.
Work in Progress (see note 1)	Not Applicable
Utilities	Set Range
Capital leases	Depends on Asset Type

Note 1: Some assets go through a period of construction before they are ready to be put in use. Costs related to assets under construction are accumulated in the assets under construction class and transferred to a regular asset class when the asset is ready for use. Assets under construction are not amortized. Separate asset under construction classes will be established as needed to correspond to the related asset class.

5.0 THRESHOLDS

Generally, the threshold amount for each category represents the minimum cost an individual asset must have before it is to be treated as a tangible capital asset and added to the proper asset class balance. The threshold amount is to be used as a guide in addition to professional judgment. The following thresholds in the chart below are the minimum values that the Municipality of the District of Guysborough should use when determining whether or not to capitalize a tangible capital asset. The Municipality can decide to use a larger threshold if they so choose.

Effective April 1, 2009 the minimum threshold of the Municipality of the District of Guysborough shall be $5,000. Items whose value is below $5,000 shall be expensed.

Revenue <$5,000,000.	Revenue .$5,000,000 and <$15,000,000	Revenue >$15,000,000
Minimum Threshold $2,500.	**Minimum Threshold $5,000**	Minimum Threshold $10,000

5.1 ASSETS POOLS

Where there are a large number of assets that fall below the $5,000 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, the following shall apply. On a continuous basis, recorded annually and taken individually, the following assets shall be taken together to form the following assets pools:

A. ELECTRONIC DATA EQUIPMENT:

1. Computer desktops (>$1,000 and <$5,000).
2. Laptop computers (>$1,000 and <$5,000).
3. Printers (>$1,000 and <$5,000).
4. Computer screens. (>$1,000 and <$5,000).
5. Plotters. (>$1,000 and <$5,000).
6. Other electronic data components. (>$1,000 and <$5,000).
7. Audio Visual equipment. (>$1,000 and <$5,000).

B. OFFICE FURNISHINGS:

1. Desks. (>$1,000 and <$5,000).
2. Chairs. (>$1,000 and <$5,000).
3. Filing cabinets. (>$1,000 and <$5,000).
4. Photo copiers. (>$1,000 and <$5,000).
5. Shredders. (>$1,000 and <$5,000).

C. TOOLS:

1. All power tools, manual tools or other maintenance apparatus individually acquired which are greater than $1,000 and less than $5,000 for the operations of the Solid Waste Facility and Public Works Department.

D. OTHER:

1. Benches
2. Park furniture
3. Playground equipment
4. Fitness equipment
5. Other Recreation equipment
6. Street furniture

5.2 EXCEPTIONS

At the expiration of the redemption period or if no redemption period exists property acquired (vested) at a tax sale shall be recorded at the price paid at the time of the Tax Sale including outstanding taxes, plus interest and expenses. **The cost of a contributed asset is equal to its fair value at date of contribution**. For those properties acquired at a tax sale or obtained through other means in which no historical value or purchase price is available, the value of the property will be recorded at nominal fee of $1.00.

On January 1, 1982 the Municipality of the District of Guysborough joined with the other municipalities of Guysborough to form the Guysborough District School Board and subsequently the Strait Regional School Board involving the municipalities of Richmond, Inverness, Antigonish, Guysborough and the Towns of Antigonish, Canso, Mulgrave and Port Hawkesbury. Under the agreement, all school buildings on hand at December 31, 1981 will remain assets of the municipality but will be under the operational control of the Strait Regional School Board (SRSB)until such time as the board no longer requires the asset for school purposes. At that time control will revert back to the municipality. As of December 31, 1981 the following school buildings were under the control of the SRSB.

1. Fanning Memorial
2. Chedabucto Elementary
3. School Bus Garage

6.0 AMORTIZATION METHOD

6.1 STRAIGHT LINE METHOD

Straight 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.

The amortization method for the Municipality of the District of Guysborough shall be the **Straight Line Method**, with the exception of the solid waste cells at the Solid Waste Management Facility.

6.2 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.

For most of the tangible capital assets acquired or constructed during a fiscal year, the amortization shall begin in the next fiscal year in which the asset is available for use. The exception is solid waste cells located at the Solid Waste Management Facility **where amortization shall begin at the time of usage.**

7.0 HAZEL HILL WATER UTILITY – TANGIBLE CAPITAL ASSETS

Effective April 1, 2007 a new Water Utility Accounting and Reporting Handbook was released by the Nova Scotia Utility and Review Board requiring all financial statements for water utilities in Nova Scotia to be in accordance with the requirements of the handbook and the Canadian Institute of Chartered Accountants ("CIAC") Standards as outlined in the Public Sector Accounting ("PSA") Handbook. It shall be the policy of the Municipality of the District of Guysborough to follow the reporting requirements of the Water Utility Accounting and Reporting Handbook.

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 non-financial 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 Class Types:

Class I	Land vested at Tax Sales on or before March 31, 1980.
Class II	Land vested at Tax Sale after March 31, 1980.
Class III	Land acquired prior to January 1st 1980.
Class IV	Land purchased for Future Economic development
Class V	Land purchased for Municipal Industrial or Commercial purpose including Industrial parks.
Class VI	Land purchases or acquired through land trades with the Province
Class VII	Land donated to the Municipality to be recorded at fair market value at the time of acquisition if acquired a nominal value.
Class VIII	Land acquired by other means and for other purpose other than those listed above.

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 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 use 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 facilate 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 item, 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 $5,000 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 may be appropriated are:

1. Computers
2. Benches and street furniture
3. Playground equipment
4. Office furniture & equipment
5. and 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, etc. 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 need 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. The following table shall be used when determining the useful life of the assets of 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.

SECTION PS 3150
tangible capital assets

Additional Resources

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PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report tangible capital assets in government financial statements. 1(1)

.02 Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges.

.03 This Section does not apply to intangible assets, natural resources, and Crown lands that have not been purchased by the government.

.04 Government capital grants and government transfers of tangible capital assets would be accounted for in accordance with GOVERNMENT TRANSFERS, Section PS 3410.

DEFINITIONS

.05 The following definitions have been adopted for the purposes of this Section:

(a) **Tangible capital assets** are non-financial assets 2(2) having physical substance that:

(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.

(b) **Cost** is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset. The cost of a leased tangible capital asset is determined in accordance with LEASED TANGIBLE CAPITAL ASSETS, PSG-2.

(c) **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.

(d) **Net book value** of a tangible capital asset is its cost, less both accumulated amortization and the amount of any write-downs.

(e) **Residual value** is the estimated net realizable value of a tangible capital asset at the end of its useful life to a government.

(f) **Service potential** is the output or service capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.

(g) **Useful life** is the estimate of either the period over which a tangible capital asset is expected to be used by a government, or the number of production or similar units that can be obtained from the tangible capital asset by a government. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a government. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life.

ACCOUNTING

.06 Governments need to present information about the complete stock of their tangible capital assets and amortization in the financial statements to demonstrate stewardship and the cost of using those assets to deliver programs and provide services.

.07 • *Tangible capital assets should be accounted for and reported as assets on the statement of financial position.* [APRIL 2005]

.08 Works of art and historical treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually. Works of art and historical treasures would not be recognized as tangible capital assets in government financial statements because a reasonable estimate of the future benefits associated with such property cannot be made. Nevertheless, the existence of such property should be disclosed (see paragraph PS 3150.42(e)).

Measurement

Cost

.09 • *Tangible capital assets should be recorded at cost.* [SEPT. 1997]

.10 The cost of a tangible capital asset includes the purchase price of the asset and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties. The cost of a 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. The activities necessary to prepare a tangible capital asset for its intended use encompass more than the physical construction of the tangible capital asset. They include the technical and administrative work prior to the commencement of and during construction.

.11 The cost of each tangible capital asset acquired as part of a single purchase (for example, the purchase of a building and land for a single amount) is determined by allocating the total price paid for all of the tangible capital assets acquired to each one on the basis of its relative fair value at the time of acquisition.

.12 Many tangible capital assets, particularly complex network systems such as those for water and sewage treatment, consist of a number of components. Whether a government decides to record and account for each component as a separate asset will be determined by the usefulness of the resulting information to the government and the cost versus the benefit of collecting and maintaining it.

.13 When, at the time of acquisition, a portion of the acquired tangible capital asset is not intended for use, its costs and any costs of disposal, net of any estimated proceeds, are attributed to that portion of the acquired tangible capital asset that is intended for use. For example, the cost of acquired land that includes a building that will be demolished

includes the cost of the acquired property and the cost of demolishing the building.

.14 Governments may receive contributions of tangible capital assets. The cost of a contributed asset is considered equal to its fair value at the date of contribution. Fair value of a contributed tangible capital asset may be estimated using market or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset would be recognized at nominal value.

.15 The cost of a tangible capital asset that is acquired, constructed or developed over time includes carrying costs directly attributable to the acquisition, construction or development activity, such as interest costs when the government's policy is to capitalize interest costs.

.16 Carrying costs incurred while land acquired for building purposes is held without any associated construction or development activity do not qualify for capitalization.

.17 Capitalization of carrying costs ceases when no construction or development is taking place or when a tangible capital asset is ready for use in producing goods or services. A tangible capital asset is normally ready for productive use when the acquisition, construction or development is substantially complete.

.18 Determining when a tangible capital asset, or a portion thereof, is ready for productive use requires consideration of the circumstances in which it is to be operated. Normally it would be predetermined by a government by reference to factors such as productive capacity, occupancy level, or the passage of time.

.19 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, for tangible capital assets other than complex network systems, 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, the useful life of the property is extended or the quality of the output is improved.

.20 This definition of a betterment is more difficult to apply to tangible capital assets that are complex network systems and are very long-lived, such as highway and water systems, because identifying expenditures that would extend their lives may not be practicable. For example, expenditures on road systems to widen the roads or add to the number of lanes expand the capacity of the road system to provide services and are clearly betterments. On the other hand, expenditures incurred to maintain the originally anticipated service potential of a road, or its estimated useful life, are more in the nature of maintenance.

.21 For complex network systems, therefore, the following basic distinctions can be used to identify maintenance and betterments:

(a) Maintenance and repairs maintain the predetermined service potential of a tangible

capital asset for a given useful life. Such expenditures are charged in the accounting period in which they are made.

(b) Betterments increase service potential (and may or may not increase the remaining useful life of the tangible capital asset). Such expenditures would be included in the cost of the related asset.

Amortization

.22 • *The cost, less any residual value, of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the government.* [SEPT. 1997]

.23 • *The amortization of the costs of tangible capital assets should be accounted for as expenses in the statement of operations.* [SEPT. 1997 *(3)]

.24 Land normally has an unlimited life and would not be amortized.

.25 Most tangible capital assets, however, have limited useful lives. This fact is recognized by amortizing the cost of tangible capital assets in a rational and systematic manner over their useful lives. Amortization expense is an important part of the cost associated with providing government services, regardless of how the acquisition of tangible capital assets is funded. Information about a program or activity's total costs is relevant to any assessment of the benefits the program or activity provides.

.26 Different methods of amortizing a tangible capital asset result in different patterns of cost recognition. The objective is to provide a systematic and rational basis for allocating the cost of a tangible capital asset, less any residual value, over its useful life. A straight-line method reflects a constant charge for the service as a function of time. A variable charge method reflects service as a function of usage. Other methods may be appropriate in certain situations.

.27 Where a government expects the residual value of a tangible capital asset to be significant, it would be factored into the calculation of amortization.

.28 The useful life of a tangible capital asset depends on its expected use by the government. Factors to be considered in estimating the useful life of a tangible capital asset include:

(a) expected future usage;

(b) effects of technological obsolescence;

(c) expected wear and tear from use or the passage of time;

(d) the maintenance program;

(e) studies of similar items retired; and

(f) the condition of existing comparable items.

.29 • *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 revised when the appropriateness of a change can be clearly demonstrated.* [SEPT. 1997]

.30 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:

(a) a change in the extent to which the tangible capital asset is used;

(b) a change in the manner in which the tangible capital asset is used;

(c) removal of the tangible capital asset from service for an extended period of time;

(d) physical damage;

(e) significant technological developments;

(f) a change in the demand for the services provided through use of the tangible capital asset; and

(g) a change in the law or environment affecting the period of time over which the tangible capital asset can be used.

Write-downs

.31 • *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.* [SEPT. 1997]

.32 • *The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations.* [SEPT. 1997 *(4)]

.33 • *A write-down should not be reversed.* [SEPT. 1997]

.34 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. Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:

(a) a change in the extent to which the tangible capital asset is used;

(b) a change in the manner in which the tangible capital asset is used;

(c) significant technological developments;

(d) physical damage;

(e) removal of the tangible capital asset from service;

(f) a decline in, or cessation of, the need for the services provided by the tangible capital

asset;

(g) a decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition; and

(h) a change in the law or environment affecting the extent to which the tangible capital asset can be used.

.35 The persistence of such conditions over several successive years increases the probability that a write-down is required unless there is persuasive evidence to the contrary.

.36 When the tangible capital asset no longer contributes to the government's ability to provide goods and services, it would be written down to residual value, if any. This would be appropriate when the government has no intention of continuing to use the asset in its current capacity, and there is no alternative use for the asset.

.37 In other circumstances, it will be necessary to estimate the value of expected remaining future economic benefits. Where a government can objectively estimate a reduction in the value of the asset's service potential to the government, and has persuasive evidence that the reduction is expected to be permanent in nature, the tangible capital asset would be written down to the revised estimate of the value of the asset's remaining service potential to the government.

Disposals

.38 • *The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations.* [SEPT. 1997 *(5)]

.39 Disposals of government tangible capital assets in the accounting period may occur by sale, destruction, loss or abandonment. Such disposals represent a reduction in a government's investment in tangible capital assets, regardless of how that investment is reported.

PRESENTATION AND DISCLOSURE

.40 • *The financial statements should disclose, for each major category of tangible capital assets and in total:*

(a) cost at the beginning and end of the period;

(b) additions in the period;

(c) disposals in the period;

(d) the amount of any write-downs in the period;

(e) the amount of amortization of the costs of tangible capital assets for the period;

(f) accumulated amortization at the beginning and end of the period; and

(g) net carrying amount at the beginning and end of the period. [APRIL 2005]

.41 Major categories of tangible capital assets would be determined by type of asset, such as land, buildings, equipment, roads, water and other utility systems, and bridges.

.42 • *Financial statements should also disclose the following information about tangible capital assets:*

(a) the amortization method used, including the amortization period or rate for each major category of tangible capital asset;

(b) the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;

(c) the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements;

(d) the nature and use of tangible capital assets recognized at nominal value;

(e) the nature of the works of art and historical treasures held by the government; and

(f) the amount of interest capitalized in the period. [SEPT. 1997]

TRANSITIONAL PROVISIONS FOR LOCAL GOVERNMENTS

.43 This Section applies to local governments for fiscal years beginning on or after January 1, 2009. Earlier adoption is encouraged.

.44 This Section applies to all tangible capital assets.

.45 When, during the period of transition, a local government has information on some but not all categories of its tangible capital assets, the local government would disclose information in accordance with TANGIBLE CAPITAL ASSETS OF LOCAL GOVERNMENTS, PSG-7.

.46 All government tangible capital assets would be recorded in a government's accounting system according to this Section. The information recorded would include the actual or estimated original cost of the tangible capital assets, their estimated useful lives and the related estimated accumulated amortization. When recording the initial value of a tangible capital asset for the purposes of applying this Section, consideration would be given to whether the net book value of the tangible capital asset is in excess of the future economic benefits expected from its use and, therefore, whether a write-down is required to establish more appropriate cost and accumulated amortization amounts for the asset.

.47 When a government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets. It may be possible to derive information for recording tangible capital assets from records of government departments that manage those assets. A government would apply a consistent method of estimating the cost of the tangible capital

assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset.

.48 Some government tangible capital assets that are still in use by the government may not have any unamortized cost remaining because of their age and the amortization period set for that type of tangible capital asset. A record of such tangible capital assets would, however, need to be set up for asset control purposes. If a government has the information to estimate the historical cost and accumulated amortization of such fully amortized assets, then that information would be recorded in the accounting records. If a local government does not have this detailed information on its fully amortized assets, it would disclose them at an initial value equal to their residual value, where material and previously known. Otherwise it would disclose them at a nominal value.