

Nova Scotia Implementation Guide to
Tangible Capital Assets for Municipalities

Version 5

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The Tangible Capital Asset Committee comprised of municipal staff, provincial staff, and outside consultation has developed this Guide.

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1 - Background

The Public Sector Accounting Board's PS 3150 presents Canadian municipalities with a significant change to accounting for tangible capital assets. For fiscal years beginning on or after January 1, 2009, PS3150 will require municipalities to start capitalizing their tangible capital assets and to allocate their costs to future accounting periods through an annual amortization expense. Since Nova Scotia Municipalities fiscal year runs April 1st to March 31st, this guide covers what will be required for the initial asset valuation for April 1, 2009, and then looks at the ongoing requirements to maintain tangible capital assets accounts after April 1, 2009.

Compliance with PS3150 will require municipalities to change their processes for reporting, budgeting and day-to-day accounting for tangible capital assets. Municipalities will need to carry out a fairly extensive list of tasks in order to comply with the new standards. This guide has been developed to assist municipalities to do just that. This guide is not, however, intended to be the final authoritative source for tangible capital assets. Municipalities are encouraged to become familiar with the PS 3150 recommendations and review compliance considerations with their auditors.

Inclusion of tangible capital asset information in the financial statements can assist in understanding the obligation to maintain, renew and replace assets, whether annual funding allocations are sufficient and in judging affordability and sustainability of programs and services. Accounting and reporting on the tangible capital assets will provide information but it will not do financial planning, set appropriate rates and fees, provide information on the condition of assets or do asset management. It can, however, provide a basis to carry out these activities.

PSAB Handbook Sections 1000, 1100 and 1200 have also been amended to require that municipalities change certain elements of their existing reporting approach by the year 2009. These changes are a move from the present "modified accrual" basis of accounting to "full accrual" basis.

As a result of these changes, amended Financial Information Return and Statement of Estimates forms will be made available to municipalities for 2009/10 reporting requirements. These changes deal with accounting and reporting requirements, not funding requirements. Therefore, in some instances (eg amortization expense) the changes will impact the PSAB column A of the form but not the Information used for Tax Calculation, Column B of the form.

2 - How To Plan Your Project

Even the smallest municipality will find implementing tangible capital asset accounting to be a major undertaking. While it may be assigned to someone as an “other related duty,” it would be wise to approach this as a major project, not the least of which because it will affect virtually all of your organization.

First, take the time to plan this out as a project. Considerations include:

- Where are you today and where do you need to be for April 1, 2009?
- Who will be the standard bearer for the project?
- How will the project be managed?
- What internal staff resources may be required?
- What external resources may be worth having?
- Do you have a work plan?

2.1 - Do A GAP Analysis

To get an understanding of what is required, it will be necessary to quickly determine where your municipality is today and what you need to do to get to where you have to be at the end of the project. The aim is to assess what the current environment is lacking in terms of what will be required under the new accounting environment beginning April 1, 2009, and then to assess what will be needed to remedy the deficiency.

Examples of what to look for are:

- What asset management systems exist?
- What tangible capital asset data exists?
- What back-up records exist, and for how far back?
- Can the financial system handle asset accounting?
- When is the initial valuation to be complete and used in statements?
- Who might assist or be involved with this project?
- What financial and staff resources may be available for this project?

2.2 - Assign A Project Champion

To ensure the success of the project, and to expedite things when the going gets difficult, it is important that there be a clearly identified project champion. This person must clearly take possession of the project and convey its importance.

This person probably will be the one who has gone to your municipality's senior management or Council looking for approval and the resources to carry out the work.

2.3 - Management Of The Project

The project champion should not be the project manager, as this will result in both roles being somewhat compromised. It should be someone who can have day to-day responsibility for the project and/or who has a vested personal interest in the success of your project.

While this project is to implement a major accounting change, the project manager does not have to be a professional accountant. This is a project, so project management skills are vital, along with good people skills, as the project manager will be working with many people throughout the organization to achieve your municipality's objectives. This is not to deny that business administration and accounting expertise will be an asset. In summary, the project manager should be someone who understands accounting issues and who can see the big picture.

This is not a part-time assignment that can be fit in around an individual's other responsibilities. The asset accounting project would end up taking a back seat to the much more pressing day-to-day job responsibilities. The project manager must be able to work full-time on this, at least for the specified periods of time required to implement the project.

2.4 - Staff Resources

What staff resources will be required to make this happen? The gap analysis should help to identify where and what type of assistance may be required. This may be anything from reviewing records to extensive data gathering and data analysis.

Depending on the size of your municipality and the magnitude of effort required, the resources required may be full-time for an extended or short period, or borrowed on a part-time basis. Operating staff time and input will be required, as no single individual can know everything about everything.

And whom should you try to involve? Because this is an accounting exercise, it will be helpful to have the assistance of corporate finance and budget staff.

While the initial phase will be like cataloguing all the trees in the forest, including major branches in some cases, you will appreciate the perspective of someone who is interested only in the forest. This is someone who can see and deal with a great deal of detail, but who is always focused on the overall picture. If you, as

project manager are not a designated accountant, it will be helpful to have someone who is, to cover off that area of professional expertise.

You will want to involve operating staff in your project for two reasons. First, you want to delegate data collection to the people closest to the assets, those who know them best. You may simply not have time to collect the required data yourself, though you will have to verify its completeness and accuracy. Second, you want to get each operating unit to take an interest in this exercise and to take ownership of its part of the asset inventory, so that ongoing maintenance of asset records will be carried out appropriately. This will include demonstrating the benefits of this accounting change for them, such as ongoing financing of maintenance and regular replacement of assets.

You will involve senior management, if only to get access to their data and their staff. The staff directly involved should ideally be people who know the operation and its assets well and who can make decisions about those assets and how they are captured and recorded.

2.5 - External Resources

Will you need additional outside help? If you need to inventory assets from scratch, should you bring in someone to go around and collect the information for you? Students and temporary staff can be of great assistance, but will they know what they are looking at, or what is missing? A better strategy may be to use a staff person and then fill that person's position by temporary help.

The other option is to hire a consultant or a consulting firm. It can be worthwhile to bring in a professional third party, especially to assist with developing methodologies, approaches and policies and procedures. Consultants can also be valuable in providing advice on data management issues and appropriate tools for asset accounting for your municipality, and how these tools can be linked to your General Ledger and other in-house systems.

2.6 - Talk To Your Auditors

Your auditors will be asked to sign off on your municipality's financial statements, which will include information on your tangible capital assets, starting in 2009.

It is recommended that you discuss the requirements and impact of PS 3150 with your auditor as soon as possible. Ongoing communication with your auditor will help avoid problems down the road and increase the goal of an unqualified audit opinion on information that cannot often be directly substantiated. You want the auditors to attest that the net book value presented in your financial statements for the tangible capital assets of your municipality are not materially misstated and that this year's figures are consistent with last year's figures, except where noted.

It is up to you to develop and value your initial asset inventory. It would be beneficial to both parties to involve your auditors very early on in the project; so that each of you is aware of the others' concerns and that there will be no surprises come 2009. By discussing your concerns early and throughout the initial valuation process, you can be aware of what will be required to get an unqualified audit opinion.

To be comfortable with the figures presented, your auditors will want to know that:

- You have a complete inventory of all of the municipality's tangible capital assets.
- You have valued your assets on a consistent basis, using historical cost wherever possible.
- You have used a reasonable deflation rate for valuing assets where historical cost is not available and that you are using current day replacement cost.
- You have reasonably assessed the useful life and current condition of each asset.
- You have adopted a consistent and reasonable amortization basis for each type of asset.
- You have chosen realistic capitalization thresholds.
- You have not excluded any assets that have a material value.
- You have made full disclosure of all major changes from the previous year and of any anomalies.
- You have appropriate back-up documentation to support all figures used for valuation and for amortization.

2.7 - Work Plan

Phase 1 of the work plan will be to identify and develop an inventory of what assets you currently own. For each asset classification, you will be required to determine appropriate starting costs, and an acceptable useful life in order to calculate the accumulated amortization to determine your assets net book value going forward. The useful life will also be needed going forward in order to determine the annual amortization expense each year.

Carrying out *Phase 1* – the initial identification and valuation of tangible capital assets – is a true project, with a start, a logical conclusion and a set of tasks to be carried out along the way. To ensure you do what you need to, when you need to, and to be able to monitor your progress along the way, you need to develop a work or project plan.

This plan should identify key milestones, approvals and deliverables for the project, and as many discrete tasks that are relevant and identifiable. Record the due dates for all of them, and estimate the time and resources required for each task. Also identify the earliest a task can begin.

Phase 2 is the ongoing asset accounting and requires the initial inventory of assets and initial valuations, including amortization, as a base for recording future changes. Thresholds will also be required to be set in order to identify what you should be capitalizing and what should be expensed.

2.8 - Discussion Board

In an effort to assist municipalities when they have an issue they would like to discuss, a discussion board has been set up at <http://www.amans.ca/> on the Association of Municipal Administrators Nova Scotia website. This discussion board will allow municipal units to bounce issues they might have off each other and to obtain a solution to their problem by sharing experiences with each other.

3 - Identify Your Tangible Capital Assets

There are six questions to keep in mind when preparing your tangible capital assets listing:

1. What Tangible Capital Assets do we own and where are they located?
2. What is its useful life?
3. When did we get it?
4. What did it cost?
5. What about assets that are leased?
6. What about assets that have been donated?

Section 1 will deal with the first three questions. The fourth question will be dealt with in Section 4 and the fifth and sixth question will be dealt with in Section 5.

3.1 - What Tangible Capital Assets Do We Own and Where Are They?

The first step is to take an inventory and locate what tangible capital assets you own. Appendix A provides the template that has been designed to help you in the process of identifying and recording the relevant information that will be required in order to comply with PSAB 3150.

This form is broken down into three parts, Essential Information, Important Information, and Optional Information. The first section, Essential Information, is required in order to record the vital information:

1. such as the month and year the asset was acquired,
2. what the cost of the asset is,
3. how the cost was determined,
4. the expected useful life,
5. the method of amortization to be used,
6. whether the asset has been written off under the former Municipal Accounting and Reporting Manual.

The second section, Important Information, provides information pertaining to the more identifying features as well as the assets condition and is useful in determining the assets life cycle.

It should also be noted that the form is broken down into 18 classes as determined by the Tangible Capital Asset Committee in developing this guide.

It should be noted that municipalities will need to decide whether to account for infrastructure assets as a single asset or use the component approach, as they are made up of many components. For example a sewer system is made up of a network of underground sewer lines, but it is also made up of tanks, pumps, generators, and treatment systems.

The decision to account for each component as a separate asset should be determined by the usefulness of the resulting information to the municipality, versus the benefit of collecting and maintaining the information.

It is easier to do the accounting of Tangible Capital Assets under the single asset method. The component approach provides better information for the management of Tangible Capital Assets.

Effects of Single Asset vs. the Component Approach:

How a municipality accounts for its infrastructure assets will affect the following:

- I. What it considers to be a capital replacement versus maintenance and repairs, and
- II. The municipality's future amortization expense.

What Approach Should Municipalities Use?

The single asset and component approach are both acceptable under PSAB. The PSAB prefers the component approach but municipalities may choose what is most appropriate for them.

3.2 - What is its useful life?

When determining the assets useful life, it is recommended that municipalities not use a useful life greater than the maximum in Appendix B. You will see in some cases the maximum useful life is set at one number while in other cases, a range has been provided. In the case of a range, it is recommended that the municipality chose a number within the range.

The estimate of the useful life of the remaining un-amortized 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. The useful lives of assets are normally adjusted downward, but they can be increased. The following conditions indicate that a decrease in the useful life of an asset is warranted include:

- physical damage
- technological developments
- change in the extent that an asset is to be used

A change in the useful life of an asset is a change in an estimate and not a change in an accounting policy. The financial statements of previous years do not have to be restated for a change in an estimate.

Example:

A municipality purchased a used fire truck at a very good price. The used fire truck is 13 years old. The useful life of a new fire truck is 10 years. The pumps and valves on the used truck were replaced and the suspension was given a major overhaul.

While the useful life of the truck has been extended, senior staff feels that the truck will have to be replaced in 7 years. The purchase of a new truck will be financially attractive in comparison to the repairs and maintenance required to keep operating a 20 year old truck.

Senior staff correctly determines that the refurbished fire truck should be amortized over 7 years.

3.3 - When did we get it?

It may not always be possible to remember the year of acquisition. However, the acquisition date can be done through a search of the general ledger detail. It is also important to remember that if an asset is well beyond its useful life, it is not necessary to determine its acquisition date.

3.4 - Capitalization Thresholds And Materiality

A capitalization threshold is the minimum dollar amount that a government will use to determine whether an expenditure should be capitalized as a Tangible Capital Asset addition or expensed in the current year.

Materiality is a concept frequently used by auditors. A misstatement is considered “material” if a user of the financial statements would likely make a different decision based on the incorrect information than if it were based on the correct information. If a misstatement has significant consequences then the materiality level should be set low. However, it may be impractical and prohibitively expensive to set too low a materiality level.

There are generally two methods that are used to set thresholds: revenues or population. Generally thresholds for municipalities are normally based as a percentage of total revenues. The Tangible Capital Assets Committee recommends that capitalization thresholds be based on revenue (details are provided in Appendix C). It should be mentioned that these are the minimum thresholds and if a municipality decides to use a higher number that is their choice.

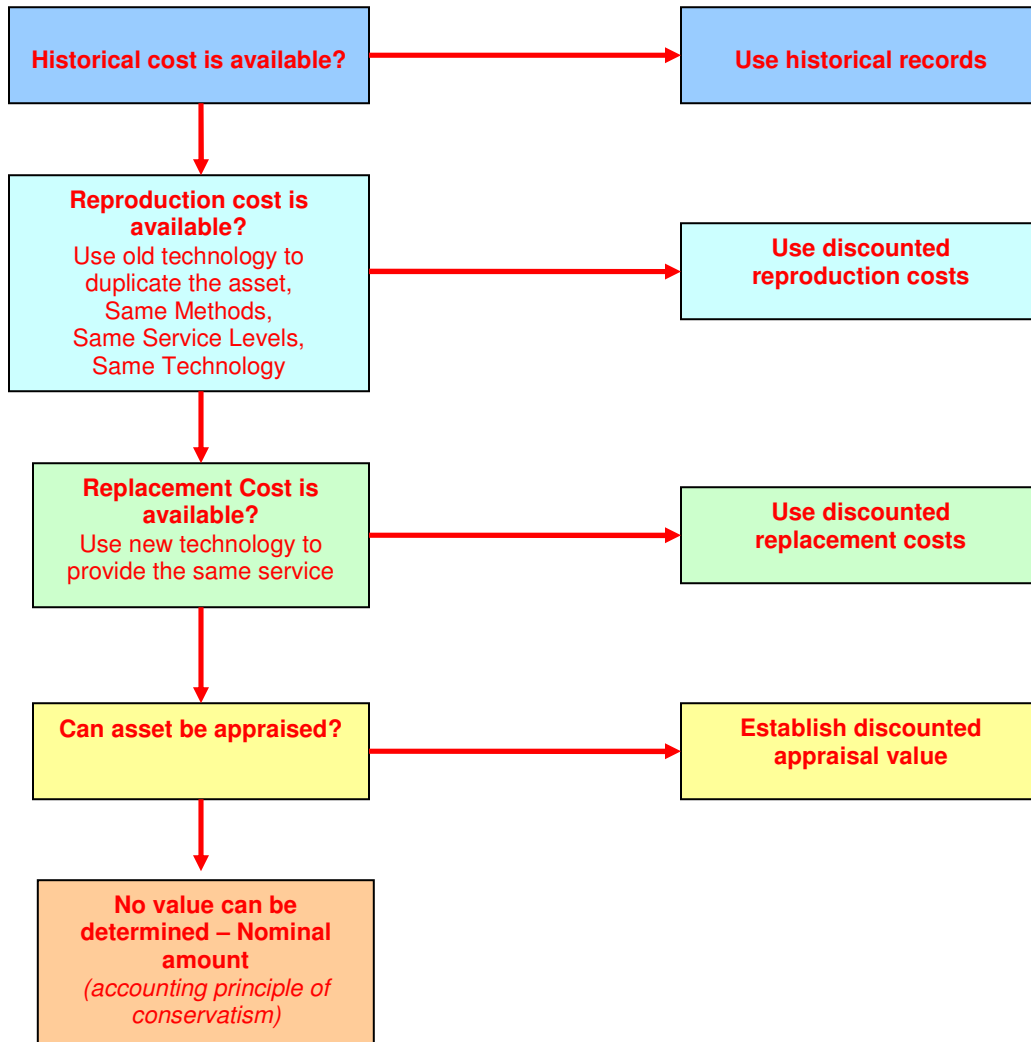
Adopting a minimum threshold will save you time and effort when the assets values are obtained. If the asset is clearly under the threshold do not include it on your list.

4 - Determining Tangible Capital Assets Value

This will be the most challenging and time consuming part of the implementation process of PSAB 3150. There are five methods that can be used in determining assets values:

1. historical costs
2. deflated reproduction costs
3. deflated replacement costs
4. deflated appraisal costs
5. deflated insurance costs

Ontario Municipal Benchmarking Initiative (OMBI) has created a valuation decision tree to guide municipalities in the process of completing the initial valuation of their capital assets.



4.1 - Historic Costs

Historical cost is the most appropriate method to value Tangible Capital Assets because it is the most objective. Historical cost evaluation requires municipalities to examine past financial records; to the extent they exist, in an attempt to match the financial records with their Tangible Capital Asset listing.

With your linear assets such as roads and sewer lines, a good source, would be your Statement of Capital Financing. This report under the old method of filing your financial statements will tell you how much you spent by category. If you have the records going back as far as you need, historic cost for these types of assets can be identified.

4.2 - Deflated Reproduction Costs

Reproduction cost is today's cost to reproduce the asset in the same form with the same materials; design and technology then deflate it back to the year of acquisition.

4.3 - Deflated Replacement Costs

Replacement cost is today's cost to replace the asset, but in a different physical form but same production capacity / same or similar level of service then deflated back to the year of acquisition. The odds are these assets are quite a bit older and this is the most commonly used method if historic costs are not available due to the changes in technology.

4.4 - Deflated Appraisal Costs

This method can be used to determine a value for land and buildings if historic costs are not known, then deflated back to the year of acquisition.

4.5 - Deflated Insurance Costs

An alternative to using an appraiser would be to use your insurance replacement values for today's values, depending on when you had your insurance values reviewed, and deflate back to year of acquisition. It should be noted that you should talk to your auditors before using your insurance values.

5 - Deflation Rates

There are various sources that can be used to deflate costs back to the year of acquisition. Listed here are three that can be used, (although a municipality can use any index it chooses):

1. Consumer Price Index
2. Southam Construction Price Index
3. Federal Aid Highway Construction Index

It should be noted that municipalities must keep copies of all their supporting documentation and calculations for the costing of their Tangible Capital Assets, as the auditors will need this information to verify the opening Tangible Capital Asset balances.

5.1 - Consumer Price Index

The Consumer Price Index is readily available and easily understood. An inflation calculator can be found at http://www.bankofcanada.ca/en/rates/inflation_calc.html and can be used to deflate a cost as well. You cannot go wrong using CPI for deflating present day values back to the year of acquisition.

5.2 - Southam Construction Price Index

The SCPI can be used to discount the cost of construction of buildings for any one-year to arrive at a reasonable estimate of the construction costs for any given year before that. The SCPI can be used to discount the cost of buildings. The SCPI is found on Appendix D.

Please note that this is a sample index that can be used and is by no means meant to be the only index that can be used.

Example:

A municipality built a civic center for one of its wards/districts in 1975. The historical cost records are no longer available. The municipality built another civic center in another ward/district with the same square footage in 2005 for \$125,000. Using the SCPI, what is the estimated discounted reproduction cost?

SCPI for 2005:	396.4
SCPI for 1975:	157.0
Estimated reproduction costs for 1975:	$(157.0/396.4 \times 125,000) = \$49,508$

5.3 - Federal Aid Highway Construction Index

The Federal Highway Administration in the U.S. Department of Transportation puts out the FAHCI. The FAHCI can be used to discount all heavy construction (roads, streets, bridges and underground utilities). There are separate indices for the road grade and road surface. There is a third index called “structures”, which should be used for bridges. The composite index can be used to discount the cost of water and sewer construction. The FAHCI is found on Appendix E.

Please note that this is a sample index that can be used and is by no means meant to be the only index that can be used.

Example:

A municipality built an unpaved service road in 1985. The historical cost records are no longer available. The municipality did build a similar service road in 1999 for \$225,000. Using the FAHCI, what is the estimated discounted reproduction cost?

FAHCI (grade) for 1999:	120.9
FAHCI (grade) for 1985:	92.4
Estimated reproduction costs for 1985:	$(92.4/120.9 \times 225,000) = \$171,960$

6 - Other Assets Issues

There are several other assets and asset costs that require special consideration under the new PS 3150 requirements:

1. Capital Lease Assets
2. Donated or Contributed Assets
3. Government Partnerships
4. Overhead Costs
5. Interest Costs
6. Betterment Charges
7. Disposals
8. Water Utility Assets

6.1 - Capital Lease Assets

Under PSAB 3150, capital leases are included as a Tangible Capital Assets. Further guidance on Leased Tangible Capital assets is included in the Public sector Handbook Guidelines PSG-2.

The value of the leased Tangible Capital Asset and the amount of the lease liability, recorded at the beginning of the lease term, is the present value of the minimum lease payments (PVMLP) excluding executory costs. Executory costs are operating costs related to the operation of the leased asset such as insurance, maintenance, and property taxes. The amount relating to executory costs should be estimated if not known by the municipality.

The maximum value recorded for the asset may not exceed the fair market value (FMV) of the leased property. The value recorded for the asset is also the value of the lease obligation less any down payments or trade-ins.

The rate used to discount lease payments to the fair market value of the asset is the interest rate implicit in the lease. The fair market value of the asset and the interest rate implicit in the lease are often disclosed together in the lease contract.

6.2 - Donated Assets

PS 3150 requires that any asset donated, contributed or transferred to a municipality is to be valued at its fair value at the time of transfer, where that value can be determined using market or appraisal values. If a fair value cannot be determined, the asset is to be recognized as having a nominal value (\$1.00). A common example of this would be developer-constructed services in new subdivisions, which are then turned over to the municipality to operate, maintain and replace. If done in lieu of development charges, the value of the assets will be the development charges foregone. If done in lieu of non-financial considerations, such as increased densities, the value of the assets will be whatever the cost to the developer was, if known, or the estimated cost to the municipality had it built the services itself.

Capital grants received from senior governments cannot be netted against the cost of the asset. The cost of the asset must be shown at the gross amount.

Example 1:

A developer has constructed and completed a new subdivision and has turned it over to the local municipality. In developing this new subdivision, the developer has put in sewer lines valued at \$350,000 and paved streets valued at \$150,000. The entry to set up the asset on the municipality's books would be as follows:

Dr Sewer Lines	\$350,000	
Dr Paved Roads	\$150,000	
		Cr Contributed Assets Revenue Surplus
		\$500,000

Example 2:

A municipality has received infrastructure funding to separate its sewer and storm sewer lines in order to reduce the strain on its sewage treatment plant. The total cost of the project was \$3,000,000 with \$1,000,000 coming from both the Federal and Provincial governments. The remaining \$1,000,000 was funded with debentures. The entry would be as follows:

Dr Sewer Lines	\$3,000,000	
		Cr Debentures
		\$1,000,000
		Cr Government Grants – Capital Surplus
		\$2,000,000

Example 3:

A municipality buys a new \$200,000 bio-diesel bus as part of its sustainability plan. \$50,000 of the funding of this purchase came from the

gas tax reserve funds while the remaining \$150,000 was funded with debentures. The entry would be as follows in the capital fund:

Dr Capital Fund Vehicles	\$200,000	
Cr Capital Fund Capital Bank		\$200,000
Dr Due from Reserve Funds	\$ 50,000	
Dr Capital Fund Bank	\$150,000	
Cr MFC Debenture		\$150,000
Cr Government Grants – Capital Surplus		\$ 50,000

The entry on the reserve fund would be:

Dr Gas Tax Reserve	\$50,000	
Cr Due to Capital Fund		\$50,000

Example 4:

A municipality buys a new \$200,000 bio-diesel bus as part of its sustainability plan. Funding of this purchase came from the current year’s Gas Tax funds. The entry would be as follows in the capital fund:

Dr Capital Fund Vehicles	\$200,000	
Cr Capital Fund Capital Bank		\$200,000
Dr Due from Reserve Funds	\$ 200,000	
Cr Government Grants – Capital Surplus		\$200,000

The entry on the reserve fund would be:

Dr Gas Tax Reserve	\$200,000	
Cr Due to Capital Fund		\$200,000

6.3 - School Assets

Many municipalities currently have a school capital fund on their books relating to school buildings and land they owned on December 31, 1981. In January, 1982, municipal units joined with their neighboring municipal units to form regional school boards. Under these agreements, all school buildings on hand at December 31, 1981, remained assets of the municipal units but are under the operational control of the regional area school boards until such time the board no longer requires the assets for school purposes. At that time, control will revert back to the municipal units.

There are several areas in PSAB that suggest these are not assets of the municipal units. PS 1000.35 states assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits may be obtained. PS 1000.36 identifies three essential characteristics:

- they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
- the government can control access to the benefit; and
- the transaction or event giving rise to the government's control of the benefit has already occurred.

PS 1000.37 goes on to state an item does not qualify as an asset of a government if it lacks one or more of the characteristics noted in PS 1000.36, for example:

- it has no future economic benefit;
- it has future economic benefit, but the government cannot obtain it; or
- it has future economic benefit that the government can obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.

PSAB 3150.05 defines tangible capital assets as non-financial assets having a physical substance that:

- are held for use in the production or supply of goods and services;
- have useful economic lives extending beyond an accounting period; and
- have been acquired to be used on a continuing basis.

The underlying factor revolves around control of the asset and in these cases, the control rests with the regional school boards. Because municipal units who presently have school capital funds on their books do not have this control, these assets should not be included in their tangible capital assets listings.

However, when the Province has declared the school assets to be surplus and have no further use of the building as a school, the building and land would be considered a donated asset and treated as a tangible capital asset when it reverts back to the municipality, as long as the municipality plans to use the building on a continuous basis for other municipal purposes.

If it is the intent of the municipality to sell the school property, it would not be treated as a tangible capital asset. PS 1200.051 states asset held for resale should be recognized as a financial asset when all of the following criteria are met:

- prior to the date of the financial statements, the government body, management board, or an individual with the appropriate level of authority commits the government to selling the asset;
- the asset is in a condition to be sold;
- the asset is publicly seen to be for sale;
- there is an active market for the asset;
- there is a plan in place for selling the asset; and
- it is reasonably anticipated that the sale to a purchaser external to the government reporting entity will be completed within one year of the reporting date.

6.4 - Acquired, Constructed or Developed Assets

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

6.5 - Interest Costs

PS 3150 allows you to include carrying costs directly attributable to an asset's acquisition, construction or development, including interest costs if it is your municipality's policy to capitalize interest costs. If you float a loan to finance the up-front costs of a tangible capital asset being acquired over a period of time, the costs involved with that financing and directly attributed to it can be capitalized.

But only up to the day the asset is capitalized. Once the asset is put into use, capitalization of carrying costs ceases and such costs become a financing charge, in the operating budget for the year they are incurred.

6.6 - Betterment Charges

During the lifetime of an asset, some major work may be carried out on the asset that will involve a significant expense. Currently, there seems to be some latitude as to whether this type of work is recorded as a capital expense or an operating expense. Ultimately, the deciding factor is where is this item budgeted and financed? In the Operating Fund? Or the Capital Fund?

PS 3150 does not discuss which funds to record assets, and is it much more prescriptive. If the work carried out on the Tangible Capital Asset only maintains its predetermined service potential and its given useful life, whatever is done is in the nature of maintenance or repairs is to be charged in full in the accounting period that the expense is incurred.

Work is deemed to be a betterment or an enhancement and can be capitalized if it results in one of the following:

- Increase in physical output
- Increase in service capacity
- Associated operating costs are lowered
- Quality of output is improved
- Useful life is extended

Examples:

- Replaced a building's old windows with energy efficient windows (betterment – lower operating costs)
- Replaced the old air conditioning unit with a similar one (repairs and maintenance)
- Paved a gravel road (betterment – service capacity)
- Put new gravel on a gravel road (repairs and maintenance)
- Extended the sewer lateral to a new subdivision (betterment – service capacity)
- Replaced a broken sewer lateral (repairs and maintenance)
- Replaced a broken sewer lateral but with a new material which is more durable (betterment – extend useful life)

6.7 – Disposals

The disposal of an asset removes the historical cost from the total gross cost of tangible assets, along with the asset's accumulated amortization, from the total accumulated amortization recorded. The amount required to balance the entry should be accounted for as a revenue or expense in the statement of operations. The asset record should be removed from your active asset inventory and archived, noting the date and manner of disposal.

Example 1:

A municipality purchased a vehicle on June 30, 2004 for \$31,000. The municipality determined that the vehicle had a useful life of 10 years with a residual value of \$1,000.

On June 30, 2007 the municipality decided to sell the vehicle to another municipality for \$20,000.

The Net Book Value of the vehicle at June 30, 2007 was \$22,000
(\$31,000 – ((\$31,000 - \$1,000)/10 x 3 yrs).

The loss on the sale of the vehicle would be \$2,000. The entry to record the disposal would be:

Dr. General Capital Cash (proceeds on sale of vehicle)	\$20,000	
Dr. General Capital Accumulated Amortization – Vehicle	\$ 9,000	
Dr. Investment in Capital Assets	\$ 2,000	
Cr. General Capital Vehicle		\$31,000
Dr. General Operating Loss on sale of vehicle	\$ 2,000	
Cr. Operating Fund Accumulated Surplus/Deficit		\$2,000

Example 2:

A municipality built its municipal office building for \$120,000. The building was put into use on January 1, 1980. The building has a useful life of 40 years with no residual value. The building was insured at replacement value.

On December 31, 2007 the municipal office building burnt down. Replacement cost for a similar building at December 31, 2007 was \$200,000.

The Net Book Value of the building at December 31, 2007 was \$36,000 (\$120,000 – (\$120,000/40 x 28 yrs)). The gain after the insurance proceeds was \$164,000. The entry to record the gain would be:

Dr. General Capital Cash (insurance proceeds)	\$200,000	
Dr. General Capital Acc Amortization – Building	\$ 84,000	
Cr. General Capital Building		\$120,000
Cr. Investment in Capital Assets		\$164,000
Dr. Operating Fund Accumulated Surplus/Deficit	164,000	
Cr. General Operating Gain on insurance proceeds		\$164,000

6.8 – Water Utility Tangible Capital Assets

For those municipalities that include a water utility in their consolidated financial statements on a line-by-line consolidation basis, they should be aware and, adjust where necessary, for potential differences in TCA accounting policies due to the following:

Effective April 1, 2007 a new Water Utility Accounting and Reporting Handbook was released by the Utility and Review Board requiring all financial statements for water utilities in Nova Scotia to be in accordance with the requirements of this handbook and the Canadian Institute of Chartered Accountants (“CICA”) Standards as outlined in the Public Sector Accounting (“PSA”) Handbook. The UARB, when updating this handbook, reviewed the useful lives of the asset categories, and they were deemed to be acceptable. However, it should be noted that any water utilities wishing to use a different depreciation rate should determine the useful life of capital assets using supplier specifications, technical studies and their own experience. The data should be presented in advance to the UARB for approval of depreciation rates to be used.

For assets constructed or acquired by water utilities that are partially or totally funded by federal, provincial, capital grants, or donations, it is suggested by the Water Utility Accounting and Reporting Handbook that these capital assets may be recorded at the gross cost. Under PSAB 3150, they must be valued at their fair value. This also applies to any assets that have been donated. Please refer to Section 6.2 of this TCA Implementation Guide.

7 - Amortization

Tangible Capital Assets are used to provide services to the public. *Amortization of capital assets treats as an expense the effective utilization and reduction in value of a capital asset during the course of a year's operations.* This indicates writing off the cost of the capital asset over its expected life span. Municipalities will be required to record this as an expense starting in 2009 (PS 3150.22 and .23). This will also have to be calculated for existing assets to obtain a net book value that takes into account usage to date.

Sample journal entries are shown for each method below on how to record the amortization expense in your General Journal. As noted in the background section of this guide, amended Financial Information Return and Statement of Estimates forms will be made available to municipalities for 2009/10 reporting requirements. These amendments will include a format to recognize a surplus/deficit prior to the amortization expense to determine whether there is a requirement to include an operating deficit for the year in the "information used for tax calculation.

7.1 Amortization Methods

This section examines the three recommended methods and three related issues:

1. Straight-line amortization.
2. Usage based amortization.
3. Declining-balance amortization.
4. Will it have any residual value?
5. How do you handle write-downs?
6. How do I set up opening balances?

The amortization of the remaining un-amortized 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. The useful lives of assets are normally adjusted downward, but they can be increased. Conditions that indicate that a decrease in the useful life of an asset is warranted include:

- physical damage
- technological developments

- change in the extent that an asset is to be used

A change in the useful life of an asset is a change in an estimate and not a change in an accounting policy. The financial statements of previous years do not have to be restated for a change in an estimate.

7.2 - Straight-line Amortization

Straight-line amortization assumes an asset deteriorates at a constant rate over its useful life. It is the easiest method to understand and apply. It will also result in a constant amortization expense over time, leveling the amortization expense over the expected useful life of the asset.

Example:

A municipality purchases a brand new truck for \$40,000. The truck is estimated to have a useful life of 10 years. After 10 years, the truck is estimated to have a residual value of \$2,000. The annual amortization charge is:

$(\$40,000 - \$2,000)/10 \text{ yrs} = \$3,800$ annual amortization charge.

The entry into the general ledger would be:

Dr. Operating Fund Amortization expense	\$3,800	
Cr. Operating Fund Accumulated Surplus/Deficit		\$3,800
Dr. Capital Fund Investment in Capital Assets	\$3,800	
Cr. Accumulated Amortization – Vehicles		\$3,800

7.3 - Usage Based Amortization

There are Tangible Capital Assets where the straight-line method is not the most appropriate amortization method. Some assets are guaranteed or warranted for so many hours of service, or to handle a specific volume of units. This method assumes that an asset deteriorates on the basis of usage or of hours of service. This method requires that the upset limit be specified up front, and that the monthly or annual usage be accurately measured and logged.

7.4 - Declining Balance Amortization

Some assets deteriorate or lose value rapidly at first, and then the rate of deterioration slows down such as, automobiles and other vehicles. While this method does reflect

book values fairly closely over a car's lifespan, one could argue that. For example, if a municipality plans to keep a vehicle for five years as a matter of policy, the straight-line method is still a reasonable approach, the effective annual cost to the municipality will be one-fifth of the purchase price less potential trade-in/auction value when the car is disposed.

7.5 - Residual Value

A key question in calculating amortization is whether an asset will have a residual value when it is disposed. If it can be sold, the amortization expense should theoretically cover only the buy/sell price spread rather than the total cost.

The reality is that municipalities typically use up their assets during their useful lives. Roads are torn up and repaved; sewer and water pipes are dug up and replaced; and vehicles and movable equipment are worn out and then go to auction.

For simplicity, it is suggested that residual value be deemed to be zero when calculating the amortization expense for any asset. Although the PSAB guidelines talk about allowing for residual values, deeming them to be zero is less likely to result in asset values being overstated and annual amortization expense being understated than the other way around.

7.6 - Write Downs

Sometimes things do not work out as planned. You may have an asset that has become redundant or is unable to contribute to provide goods and services. Or, perhaps, the future economic benefits associated with the Tangible Capital Asset are substantially less than its net book value.

In such cases, the cost of the asset should be reduced or written down to reflect the decline in the asset's value. This net write-down is to be accounted for as an expense in the statement of operations. In the case of a redundant asset, the write-down will be to its anticipated residual or resale value, if any.

Write-downs should be taken only when the reduction in an asset's future economic benefits is expected to be permanent. PS 3150.34 gives conditions that indicate where a write-down is appropriate, as follows:

1. a change in the extent that the Tangible Capital Asset is used;
2. a change in the manner in which the Tangible Capital Asset is used;
3. significant technological developments;
4. physical damage;

5. removal of the Tangible Capital Asset from service;
6. a decline in, or cessation of, the need for the services provided by the Tangible Capital Asset;
7. a decision to halt construction of the Tangible Capital Asset before it is complete or in usable or saleable condition; and
8. a change in the law or environment affecting the extent that the Tangible Capital Asset can be used.

The persistence of such conditions over several successive years increases the probability that a write-down is required. **Note that a write-down is never reversed.**

Example:

A municipality developed overnight camp sites in its local park along the river. The cost of the development was \$60,000 and the camp sites were put into use on May 1, 1998. The useful life of the camp sites were determined to be 30 years, with no residual value. In the spring of 2007, severe flooding occurred and damaged the campsites beyond further use. The municipality could not obtain flood insurance. The Net Book Value of the camp sites at May 1, 2007 would be \$42,000 ($60,000 - (60,000/30 \times 9 \text{ yrs})$). The entry to record the write-down would be:

Dr. Capital Fund Acc Amortization – Land improvements	\$18,000	
Dr. Capital Fund Investment in Capital Assets	\$42,000	
Cr. Capital Fund Land Improvements		\$60,000
Dr. Loss on write down	\$42,000	
Cr. Operating Fund Accumulated Surplus/Deficit		\$42,000

7.7 - Setting Up Opening Balances

After you have listed and valued all your Tangible Capital Assets, you must:

- I. Calculate the accumulated amortization to March 31, 2009, for each asset category
- II. Track additions and disposals for the year ended March 31, 2009
- III. Calculate the amortization expense for the year ended March 31, 2009, for each asset category

- IV. Enter the opening Tangible Capital Assets balances into your accounting records as of April 1, 2010
- V. Calculate the amortization expense for the year ended March 31, 2010 into your GL accounts.

Calculating the Accumulated Amortization to March 31, 2009:

For each asset category, you must calculate the accumulated amortization to March 31, 2009.

Example:

A municipality's office building was put into use on January 1, 1980. The municipality calculated the discounted reproduction cost to be \$250,000. It was determined that the building had a useful life of 40 years and is going to be amortized on a straight line basis.

The annual amortization charge would be \$6,250 ($\$250,000/40$ years) and the accumulated amortization at March 31, 2009 would be \$175,000 ($\$6,250 \times 28$ yrs).

A Continuity Schedule has been designed and will be made available for your use once finalized. You are only required to input the asset description, date of acquisition or put into use, and the cost of the asset.

The Continuity Schedule will calculate the accumulated amortization for each Tangible Capital Assets to March 31, 2009. The Continuity Schedule will also provide the Net Book Value of each asset and asset class at March 31, 2009.

Track Additions & Disposals for the Year Ending March 31, 2009:

You will need to track your Tangible Capital Assets additions and disposals during 2009 just as if PSAB was already implemented. Do not record your 2009 Tangible Capital Assets additions and disposals into you GL. You should continue to use the current accounting practices during 2009.

The Continuity Schedule can be used to track your 2009 additions and disposals. For additions, simply input the description of the asset and the date acquired or put into use during the year. The Continuity Schedule will include the asset as an addition of 2009.

For disposals, simply input the disposal date and the Continuity Schedule will show the asset as being a disposal of 2009. The Continuity Schedule will also reverse the accumulated amortization to date for the asset.

The Continuity Schedule will provide a total of the additions and disposals for each class.

Calculate the Amortization Expense for the Year Ending March 31, 2009:

For each asset category, you must calculate the amortization expense for the year ended March 31, 2009. Do not record the 2009 amortization expense into your 2009 GL.

The Continuity Schedule can be used to calculate the 2009 amortization expense for all your asset categories at March 31, 2009 and all your additions and disposals during 2009. The Continuity Schedule will total the 2009 amortization expense for each class.

The Continuity Schedule will provide the cost, accumulated amortization and NBV at March 31, 2009 for each individual asset and asset class.

The March 31, 2009 cost and accumulated balances by class are very important. These are the numbers that you will enter into your GL records at April 1, 2009

Example (cont'd):

The amortization expense for the building in 2009 was \$6,250 ($\$250,000/40$).

The accumulated amortization for the building at March 31, 2009 would be \$175,000 ($\$168,750$ at March 31/08 + \$6,250 for 2009).

The Net Book Value of the building at March 31, 2009 would be \$75,000 ($\$250,000 - \$175,000$).

Enter Tangible Capital Assets Balances at April 1, 2009 into GL:

Before you can enter the Tangible Capital Assets balances at April 1, 2009 into your GL, you must first:

1. Reverse or in effect eliminate your current "Fixed Asset" balances in your GL
2. Create a "cost" account for each Tangible Capital Assets asset class that your municipality owns
3. Except for land, create an "accumulated amortization" account for each "cost" account or asset class

4. Create an “amortization expense” account for each capital fund (general and utility) that your municipality uses

Example (cont’d):

The municipality’s GL showed a “Fixed Asset” balance of \$157,000 at April 1, 2009.

The first entry is to reverse the “Fixed Asset” balances in the GL:

Dr. Capital Fund – Investment in Capital Assets	\$157,000	
Cr. Capital Fund – Fixed Assets – Bldgs		\$157,000

The next step is to create a cost account “Buildings”, and an accumulated amortization account “Accm Amort – Buildings”.

The entry to record the opening Tangible Capital Assets at April 1, 2009 would be:

Dr. Capital Fund - Buildings	\$250,000	
Cr. Capital Fund - Accm Amort – Buildings		\$175,000
Cr. Capital Fund - Investment in Capital Assets		\$75,000

In the above example, the municipality owned only one building. You would not enter your opening Tangible Capital Assets balances at April 1, 2009 on an asset by asset basis. In situations where you have more than one Tangible Capital Assets in the class, you would simply enter the class total.

8 - Note Disclosure Requirement

Beginning on or after January 1, 2007, municipalities are required to follow the Public Sector Guideline 7 pertaining to Tangible Capital Assets. Effective the year end March 31, 2008, municipalities in Nova Scotia are required to disclose information on the tangible capital assets by major category including:

1. Cost at beginning and end of the period;
2. Additions, disposals, and write downs;
3. Accumulated amortization at the beginning and end of the period; and
4. Amortization for the period.

Example:

THE WORDING CONTAINED IN THE FOLLOWING NOTE IN *ITALICS* SHOULD BE TAILORED TO THE INDIVIDUAL MUNICIPALITY DEPENDING ON ITS PARTICULAR CIRCUMSTANCES. IN SOME CASES IT SHOULD BE OMITTED ENTIRELY IF NOT APPLICABLE.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of [*Insert name*](“The Municipality”) are prepared by management in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board (“PSAB”) of the Canadian Institute of Chartered Accountants (“CICA”).

x) Physical Assets

i) Tangible Capital Assets

Effective April 1, 2007, The Municipality adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants (“CICA”) with respect to the disclosure of Tangible Capital Assets of local governments. PSG-7 provides transitional guidance on presenting information related to Tangible Capital Assets until Section 3150 - Tangible Capital Assets of the Public Sector Accounting Handbook comes into effect on January 1, 2009.

[Prior to April 1, 2007, The Municipality previously recorded Tangible Capital Assets including assets held under capital leases at cost in the period they were acquired on the statement of financial position and as an expenditure within the capital fund. Certain capital assets in the [...list names of business units or entities...] were amortized on a [identify basis – i.e. straight-line basis] over their estimated useful lives... [or indicate that assets were not previously amortized].]

During the current fiscal year, The Municipality continued to work towards compliance with the new recommendations for accounting for Tangible Capital Assets. As of March 31, 2008, The Municipality... *[provide a status update][.....had obtained a complete listing and values for [...identify asset classes i.e. all land, buildings, engineered structures, machinery and equipment and vehicles...]. A complete listing of assets and values for the [...identify asset classes for which listing are not yet completed...] is currently underway and expected to be completed by March 31, 2009].*

As of April 1, 2007, capital assets including assets held under capital leases are recorded at cost in the period they are acquired and recorded as an expenditure within the capital fund. Donated assets related to wastewater distribution and collection systems are capitalized and are recorded at their estimated fair value upon acquisition. Works of art for display in municipal property are not included as capital assets. Certain capital assets for which historical cost information is not available has been recorded at current fair market value discounted by a relevant inflation factor.

The Municipality does (or does not) capitalize interest as part of the costs of its capital assets. Certain assets such as *[...list assets...]* are disclosed at a nominal value as the determination of a fair market value for these types of assets is not appropriate.

As of April 1, 2007, amortization for *[...identify asset classes...]* is presented in the notes to the financial statements. Amortization is not recorded as an expense. Amortization for the *[...identify asset classes...]* classes are expected to be presented in the *[...identify year...]* financial statements and is calculated on a *[...identify basis – i.e. straight-line basis...]* over an asset’s estimated useful lives as follows

	YEARS
Land Improvements	
Buildings	XX-XX
Engineered structures	
Roadway system	XX-XX
Light rail transit system	XX-XX
Wastewater system	XX-XX

Storm system	XX-XX
Fibre optics lines	XX-XX
Electricity system	XX-XX
Gas Distribution system	XX-XX
Machinery & Equipment	
Vehicles	X-X

XX. TANGIBLE CAPITAL ASSETS

	2008							
	Cost - Beg.		Disposals	Write-downs	Cost - End of Year	Amortization		NBV
	of Year	Additions				in Year	Acc. Amort	
Land	465,000	500,000	25,000	(10,000)	980,000	-	-	980,000
Buildings	1,000,000	1,000,000	-	-	2,000,000	(75,000)	(125,000)	1,875,000
Engineered Structures	1,250,000	1,250,000	-	(15,000)	2,485,000	(50,000)	(75,000)	2,410,000
Machinery & Equipment	1,250,000	1,250,000	60,000	-	2,560,000	(45,000)	(80,000)	2,480,000
Vehicles	250,000	-	-	-	250,000	(15,000)	(25,000)	225,000
	4,215,000	4,000,000	85,000	(25,000)	8,275,000	(185,000)	(305,000)	7,970,000
Work in Progress								
Land	50,000	50,000	-	-	100,000	-	-	100,000
Construction	75,000	75,000	-	-	150,000	-	-	150,000
	4,340,000	4,125,000	85,000	(25,000)	8,525,000	(185,000)	(305,000)	8,220,000

A Municipality would use the 2007 table below if they had any values recorded for Tangible Capital Assets in their financial statements in prior years. If not, they would just show the 2008 table above with an opening cost at the beginning of the year of nil for each of the asset classes.

	2007							
	Cost - Beg.		Disposals	Write-downs	Cost - End of Year	Amortization		NBV
	of Year	Additions				in Year	Acc. Amort	
Land	-	500,000	(25,000)	(10,000)	465,000	-	-	465,000
Buildings	-	1,000,000	-	-	1,000,000	(50,000)	(50,000)	950,000
Engineered structures	-	1,250,000	-	-	1,250,000	(25,000)	(25,000)	1,225,000
Machinery & Equipmen	-	1,250,000	-	-	1,250,000	(35,000)	(35,000)	1,215,000
Vehicles	-	250,000	-	-	250,000	(10,000)	(10,000)	240,000
	-	4,250,000	(25,000)	(10,000)	4,215,000	(120,000)	(120,000)	4,095,000
Work in Progress								
Land	-	50,000	-	-	50,000	-	-	50,000
Construction	-	75,000	-	-	75,000	-	-	75,000
	-	4,375,000	(25,000)	(10,000)	4,340,000	(120,000)	(120,000)	4,220,000

Amortization of assets in the amount of \$185,000 (2007 – \$120,000) has been recorded [*indicate how recorded in the Municipality's financial statements*], and amortization related to total donated assets of \$xxx,xxx (2007 - \$xx,xxx) in the

amount of \$xx,xxx (2007 - \$xx,xxx) has been recorded as a reduction to equity in physical assets. Capital assets included in work in progress are not amortized. The Municipality's assets include \$xx,xxx (2007 – \$xx,xxx) in assets which are not being amortized as they have been removed from service.

Appendix A Inventory Forms

Classification of Capital Assets

Land	<p>Real property in the form of a plot, lot or area. Includes all expenditures made to acquire land and to ready it 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 have an indefinite life. The costs associated with improvements to land are added to the cost of the land if those improvements can be considered permanent (such as re-grading or filling of the land),</p> <p>Excludes forests, 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 spaces, treatment plants.</p> <p>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.</p>
Land Improvements	<p>Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use, which generally decay or breakdown over time. Land improvements that are removable 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.</p> <p>Examples are: landfill site development, retaining walls, soccer fields, parking lots, grading at works yards whose purpose is to serve as a base for maintaining infrastructure.</p>
Municipal Buildings	<p>Structures that provide shelter from the elements. Includes capital and betterments to buildings owned by the municipality. Includes equipment that is not capable of being moved. Examples are: sport facilities, office buildings, and libraries.</p>
Buildings - Plants	<p>Structures that provide shelter from the elements and</p>

are used to provide sewer or water treatment. Includes capital and betterments to buildings owned by the municipality. Includes equipment that is not capable of being moved.

Electronic Data Equipment	Major IT equipment and computer programs.
Small Equipment	Major office equipment items such as photocopiers, desks, furniture.
Machinery & Equipment	An apparatus, tool, device, implement or instrument that likely uses energy (human, electrical, hydroelectric fuel, or thermal) to facilitate 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.
Ferries	Self-explanatory
Wharves	Self-explanatory
Streets, Roads & Curbs	Cost of materials and labour used to construct roads and curbs.
Traffic and Street Lights	Traffic lights and Crosswalk lights
Sidewalks	Cost of materials and labour used to construct sidewalks.
Sewer Lines	Cost of materials and labour used to construct sewer lines.
Lagoons	Cost of materials and labour used to construct lagoons.
Fibre Optic Lines	Cost of materials and labour used to construct fibre optic lines.
Landfills	Cost of materials and labour, other than those cost

associated with land, used to construct landfills.

Work in Progress

Cost of assets under construction or in an uncompleted process of acquisition and are not yet in service.

Appendix A - Inventory Forms

Summary of Data Fields

Tangible Capital Assets
Summary of Data Fields

Schedule A

Data Fields	Land	Land Improvements	Municipal Buildings	Buildings - Plants	Electronic Data Equipment	Small Equipment	Machinery & Equipment	Vehicles	Ferries	Wharves	Streets, Roads & Curbs	Traffic & Street Lights
Essential Data Fields												
Asset Name & #												
Asset Name	x	x	x	x	x	x	x	x	x	x	x	x
Asset Number	x	x	x	x	x	x	x	x	x	x	x	x
Asset Class												
Major Class	x	x	x	x	x	x	x	x	x	x	x	x
Minor Class	x	x	x	x	x	x	x	x	x	x	x	x
Sub Class	x	x	x	x	x	x	x	x	x	x	x	x
Function												
Department	x	x	x	x	x	x	x	x	x	x	x	x
Division	x	x	x	x	x	x	x	x	x	x	x	x
Physical Description												
Description #1	x	x	x	x	x	x	x	x	x	x	x	x
Description #2	x	x	x	x	x	x	x	x	x	x	x	x
Acquisition												
Acquisition Month	x	x	x	x	x	x	x	x	x	x	x	x
Acquisition Year	x	x	x	x	x	x	x	x	x	x	x	x
Cost												
Cost	x	x	x	x	x	x	x	x	x	x	x	x
Cost Basis	x	x	x	x	x	x	x	x	x	x	x	x
Amortization												
Expected Useful Life		x	x	x	x	x	x	x	x	x	x	x
Residual Value		x	x	x	x	x	x	x	x	x	x	x
Method		x	x	x	x	x	x	x	x	x	x	x
Rate		x	x	x	x	x	x	x	x	x	x	x
Important Data Fields												
Legal Description	x	x	x	x						x	x	x
Municipal Address	x	x	x	x						x	x	x
Supplier		x	x	x	x	x	x	x	x	x	x	x
Manufacturer		x	x	x	x	x	x	x	x	x	x	x
Model					x	x	x	x	x			x
Serial Number					x	x	x	x	x			x
Location		x	x	x	x	x	x	x	x	x	x	x
Condition Assessment												
Date Reviewed		x	x	x	x	x	x	x	x	x	x	x
Condition Code		x	x	x	x	x	x	x	x	x	x	x
Replacement Due Date		x	x	x	x	x	x	x	x	x	x	x
Disposal												
Disposal Date	x	x	x	x	x	x	x	x	x	x	x	x
Disposal Proceeds	x	x	x	x	x	x	x	x	x	x	x	x
Disposal Method	x	x	x	x	x	x	x	x	x	x	x	x
Optional Data Fields												
Inventory #	x	x	x	x	x	x	x	x	x	x	x	x
Land Titles Link #	x											
Tax Roll #	x	x	x	x						x		
Assessed Value	x	x	x	x						x		
Size	x	x	x	x						x	x	x
Colour					x	x	x	x	x			
Other Information or links												
Risk management		x	x	x	x	x	x	x	x	x	x	x
Security and safety					x		x		x	x	x	x
Maintenance		x	x	x	x	x	x	x	x	x	x	x

Appendix A - Inventory Forms (Continued)

Summary of Data Fields

Tangible Capital Assets Summary of Data Fields

<i>Data Fields</i>	<i>Sidewalks</i>	<i>Sewer Lines</i>	<i>Lagoons</i>	<i>Fibre Optic Lines</i>	<i>Landfills</i>	<i>Work In Progress</i>
Essential Data Fields						
Asset Name & #						
Asset Name	x	x	x	x	x	x
Asset Number	x	x	x	x	x	x
Asset Class						
Major Class	x	x	x	x	x	x
Minor Class	x	x	x	x	x	x
Sub Class	x	x	x	x	x	x
Function						
Department	x	x	x	x	x	x
Division	x	x	x	x	x	x
Physical Description						
Description #1	x	x	x	x	x	x
Description #2	x	x	x	x	x	x
Acquisition						
Acquisition Month	x	x	x	x	x	x
Acquisition Year	x	x	x	x	x	x
Cost						
Cost	x	x	x	x	x	x
Cost Basis	x	x	x	x	x	x
Amortization						
Expected Useful Life	x	x	x	x	x	x
Residual Value	x	x	x	x	x	x
Method	x	x	x	x	x	x
Rate	x	x	x	x	x	x
Important Data Fields						
Legal Description	x	x	x	x	x	x
Municipal Address	x	x	x	x	x	x
Supplier	x	x	x	x	x	x
Manufacturer	x	x	x	x	x	x
Model						x
Serial Number						x
Location	x	x	x	x	x	x
Condition Assessment						
Date Reviewed	x	x	x	x	x	
Condition Code	x	x	x	x	x	
Replacement Due Date	x	x	x	x	x	
Disposal						
Disposal Date	x	x	x	x	x	
Disposal Proceeds	x	x	x	x	x	
Disposal Method	x	x	x	x	x	
Optional Data Fields						
Inventory #	x	x	x	x	x	
Land Titles Link #					x	
Tax Roll #					x	
Assessed Value						
Size	x	x	x	x	x	
Colour						
Other Information or links						
Risk management	x	x	x	x	x	
Security and safety	x	x	x	x	x	
Maintenance	x	x	x	x	x	

Appendix A - Inventory Forms

Field Descriptions

FIELD DESCRIPTORS		Schedule B		
	Heading	Field Name	Description	Example
ESSENTIAL INFORMATION	Asset Name & #	Asset Name	Common name of asset .	Town Office; Gravel Truck; Swimming Pool
		Asset #	Unique identifier number for the asset.	Could be generated by the software being used; could be an inventory sticker.
	Asset Class	Major Class	Numerical code for the major class of asset.	Land=##, Land Improvements=##, Buildings=## etc.
		Minor Class	Numerical code for the minor class of asset if required.	Minor asset classes included in the Engineered Structures category.
		Sub Class	Numerical code for the sub class of asset if required.	
	Function	Department	Name of responsible department. This will link to the appropriate GL accounts for asset values and amortization.	Administration; Recreation; Public Works; or use numeric description for department
		Division	Name of responsible sub department.	Arena # 1; Lions Park; Memorial Park
	Physical Description	Description #1	Meaningful description of the asset .	
		Description #2	Additional description of the asset if required.	
	Acquisition	Acquisition Month	Month asset was acquired and placed into service.	
		Acquisition Year	Year asset was acquired and placed into service.	
	Cost	Cost	Historical cost of asset.	A \$ value.
	Cost Basis	Method of costing used.	Actual; Estimate; Donated;	
Amortization	Expted Useful Life	The estimated life the asset will be used by the municipality.		
	Residual Value	The estimated remaining value the asset will retain when the useful life has expired. (Salvage value)	A truck is purchased for \$30,000 with an expected sale value at the end of it's useful life of \$5,000. The \$5,000 is the residual or salvage value.	
	Method	The method used to amortize the asset.	Straight line; unit of use; decling balance (straight line is recommended for most asset types)	
	Rate	The rate of amortization to be applied based on the useful life of the asset.	If using straight line and the expected life is 5 years, the amortization rate is 20%/year	
	Write Off	Under MARM, assets were to be written off after their useful life.	Under MARM, sidewalks had a usefull life of 20 years, so a sidewalk built in 1986 should have been written off in March 2006.	
IMPORTANT INFORMATION		Legal Desc.	The legal description of the land or the land the asset is affixed to.	Lot 1, Block 1, Plan 902 3262
		Municipal Address	The municipal address associated with the legal description.	123 Main Street
		Supplier	The supplier of the asset or the contractor providing the asset.	Main Street Ford Sales; ABC Contracting Ltd.
		Manufacturer	The manufacturer of the asset.	Ford
		Model	The model of the asset.	F250
		Serial #	The serial number or the VIN affixed to the asset.	PBC23489PUYRT547689
		Location	The usual location of the asset.	PW Shop; Room 2A of Admin Building;
	Condition Assessment	Date Reviewed	The date the asset was last reviewed for impairment.	
		Condition Code	The condition code of the asset. Note that a municipality will need to establish it's own standards to rate the condition of an asset.	Good/Fair/Poor/Bad; Yes/No; Numerical Rating
		Replacement Due Date	The anticipated replacement date of the asset. This date should relate to the acquisition date and the expected useful life date.	A truck is purchased on January 1, 2007. The estimated useful life is determined to be 5 years. Therefore, the replacement due date should be January 1, 2012.
Disposal	Disposal Date	The date the asset is sold, discarded or otherwise taken out of service.		
	Disposal Proceeds	The amount realized from the disposal of the asset.	A \$ value.	
	Disposal Method	The method used to dispose of the asset.	Sold; Discarded; etc.	
OPTIONAL INFORMATION		Inventory #	Can be different from the asset # if required.	
		Land Titles Link #	The # provided on the land title documentation.	
		Tax Roll #	The tax roll # in the tax system.	
		Assessed Value	The value the assessor has determined for the asset.	
		Size	The size of the asset described in units of measure such as volume, length, width, area.	1000 lineal meters of 8" PVC piping.
		Colour	The colour or primary colour of the asset.	Blue with white trim
		Risk Management		Link to information required for insurance purposes.
		Security & Safety		Link to information on firearms, etc.
	Maintenance		Link to fleet management system.	

Appendix B - Amortization Method And Useful Life

The Tangible Capital Asset Committee reviewed amortization methods and useful life ranges currently being used across Canada, both Provincially and Municipally. Based on this review, the most predominant amortization method being used is straight-line (See Section 7 re: discussion of amortization methods).

The straight-line method is the simplest method for municipal accounting purpose and should be applicable to most Tangible Capital Asset categories. Alternative approaches can be applied to individual assets categories if necessary, but should be evaluated on a case-by-case basis.

With regard to useful lives, the following table by class was developed on the review across Canada. Where a range is listed, it is recommended that a useful life range be selected for the useful life of that asset type. It should be mentioned that you should be consulting with your auditors as they will have to sign off on your financial statements and will have to agree with your methodology in determining your useful life for your assets.

Asset Type	Useful Life Ranges
Land	Indefinite
Land Improvements	20 - 25 Years
Municipal Buildings	40 Years
Buildings - Plants	20 - 25 Years
Electronic Data Equipment	3 - 5 Years
Small Equipment	5 years
Machinery and Equipment	10 - 15 Years
Vehicles	5 Years
Ferries	30 Years
Wharves	25 Years
Streets, Roads & Curbs	25 - 30 Years
Traffic & Street Lights	25 - 30 Years
Sidewalks	20 - 25 Years
Sewer Lines	50 Years
Lagoons	50 Years
Fibre Optic Lines	5 - 10 Years
Landfill *	See PSAB 3270
Work in Progress**	Not Applicable

* Landfills should be amortized as per PS 3270, which recommends the operating life of the site be based on volume.

** Work in Progress is not amortized until the asset is complete at which time it will move into a category listed above.

Appendix C - Thresholds

The Tangible Capital Asset Committee identified the common thresholds currently being used across Canada, both Provincially and Municipally. Generally, thresholds are set by either population or revenue. The most common method used is based on revenues. The suggested thresholds in the chart below are the minimum values municipalities should use when determining whether or not to capitalize a Tangible Capital Asset. As these are suggested as minimum thresholds, each municipality can decide to use a larger threshold if they so choose.

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

Appendix D - Southam Construction Price Index

The SCPI is to be used only for discounting the cost of buildings.

YEAR	INDEX		YEAR	INDEX		YEAR	INDEX
1930	19.0		1966	69.0		2002	364.6
1931	17.7		1967	73.8		2003	370.8
1932	16.3		1968	78.8		2004	387.4
1933	15.8		1969	84.2		2005	396.4
1934	16.1		1970	91.8			
1935	16.1		1971	100.0			
1936	16.7		1972	106.5			
1937	18.0		1973	121.3			
1938	17.6		1974	142.2			
1939	17.6		1975	157.0			
1940	18.7		1976	168.7			
1941	20.6		1977	176.7			
1942	22.1		1978	183.8			
1943	23.3		1979	194.9			
1944	24.2		1980	203.0			
1945	24.3		1981	221.6			
1946	25.2		1982	242.9			
1947	27.8		1983	255.6			
1948	31.2		1984	260.3			
1949	33.1		1985	262.3			
1950	35.4		1986	265.5			
1951	39.6		1987	270.8			
1952	41.8		1988	276.7			
1953	42.8		1989	285.6			
1954	43.4		1990	290.9			
1955	44.6		1991	296.8			
1956	46.3		1992	303.6			
1957	48.3		1993	313.9			
1958	49.6		1994	314.0			
1959	51.8		1995	316.2			
1960	53.5		1996	323.2			
1961	54.9		1997	327.6			
1962	57.0		1998	343.9			
1963	60.6		1999	348.0			
1964	63.4		2000	356.0			
1965	65.8		2001	363.5			

Appendix E - The Federal Aid Highway Construction Index

The FAHCI should only be used for discounting roads and bridges. The Composite Index should be used to discount the construction costs for water and sewer networks.

Year	Excavation (grade)	Resurfacing	Structures (bridges/dams)	Composite
1970	27.2	34.0	38.2	34.8
1971	27.6	36.8	40.0	36.8
1972	29.7	39.5	40.7	38.6
1973	33.0	42.9	45.4	42.5
1974	41.2	60.0	61.7	57.9
1975	42.5	61.0	60.6	58.1
1976	42.5	60.3	57.2	56.3
1977	47.8	64.3	59.7	59.8
1978	63.5	73.3	70.7	70.7
1979	66.8	89.0	88.6	85.5
1980	75.5	102.2	100.0	97.2
1981	72.6	101.4	94.9	94.2
1982	65.6	95.3	90.0	88.5
1983	71.8	94.4	86.7	87.6
1984	78.4	102.7	88.2	92.6
1985	92.4	109.6	98.1	102.0
1986	94.0	107.0	98.0	101.1
1987	100.0	100.0	100.0	100.0
1988	112.2	99.8	111.0	106.6
1989	99.0	99.4	118.4	107.7
1990	98.1	102.3	117.8	108.5
1991	95.5	106.5	112.5	107.5
1992	90.8	106.9	108.4	105.1
1993	103.2	113.5	105.3	108.3
1994	113.2	122.3	109.0	115.1
1995	112.8	127.9	119.5	121.9
1996	120.6	118.7	121.6	120.2
1997	117.6	133.0	132.7	130.6
1998	124.3	120.8	133.4	126.9
1999	120.9	140.3	138.3	136.5
2000	124.1	152.2	146.9	145.6
2001	125.9	158.1	138.8	144.8
2002	121.2	150.7	154.5	147.9
2003	142.3	142.1	159.5	149.8
2004	135.7	160.8	154.7	154.4
2005	164.6	198.6	176.0	183.6

Section PS 3150 – Tangible Capital Assets

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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.

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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

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- .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

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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

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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.

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- .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

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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*

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(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

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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.

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 as “depreciation”.

Asset Class:

An asset class is a grouping of Tangible Capital Assets that are 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.

Betterment:

A betterment is a cost incurred that either increases the capacity, extends the useful life, or reduces the operating costs of a tangible capital asset.

Capital Lease:

A capital lease is a lease with terms and conditions that substantially transfers all the “benefits and risks” of ownership to the lessee (i.e. the municipality), without necessarily transferring legal ownership.

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 government will use in determining whether an expenditure should be capitalized as a Tangible Capital Asset 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 into 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 surface 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.

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 of 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 government normally restricts public access to general capital assets. General capital assets are used by the government 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 a Tangible Capital Asset 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 risks incident 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 realizable value of a Tangible Capital Asset at the end of its useful life. The colloquial term for residual value is “scrap” value.

Segmentation:

Segmentation is the process of breaking down network systems into homogenous groups that are similar in terms of age, material or geography. Segmentation reduces the number of possible identifiable individual assets into a manageable number for valuation. For example, the road system within a large town could literally be a patchwork of segments of various lengths and age. The streets in the town could be segmented into various pools and amortized using an average age. Newly constructed streets and resurfacing would be recorded on an asset-by-asset basis.

Tangible Capital Assets:

Tangible Capital Assets are non-financial assets having physical substance that:

- i) are used to provide goods and services;
- ii) have an economic life beyond one year;
- iii) are used on a continuous basis; and
- iv) are not for sale in the ordinary course of operations.

Useful Life:

Useful life is the estimate of the period over which a tangible capital asset is expected to be used by the government. The life of a Tangible Capital Asset may extend beyond the useful life of tangible capital asset to a government. 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 government.

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.

Other References Sources

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www.cica.ca

Government Accounting Standard Board, Washington, USA:

www.gasb.org - GSAB (Statement) 34

Website resources

www.psab-ccsp.ca

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<http://www.caobenchmarking.ca/accounting.asp>

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