



# **PSAB 3150**

## **for**

# **Ontario First Nations**

## **Tangible Capital Assets**

## **Reference Manual**



**March 2010**

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# PREFACE

This manual has been prepared as a useful and practical reference to help Ontario First Nations implement the Public Sector Accounting Board recommendations on tangible capital assets (PS 3150). This manual is published to assist you with your implementation of tangible capital asset accounting and with related matters.

**The Public Sector Accounting Handbook is the only authoritative primary source on matters relating to GAAP, and you should consult with your auditor to resolve specific issues that you may have.**

The manual is divided into 3 main sections:

## **Part 1 - PSAB Rules on Tangible Capital Assets (PS 3150)**

Section 1 provides an overview of the accounting standards or “rules” of PSAB section 3150 – Tangible Capital Assets.

## **Part 2 - Practical Considerations for Identifying Your TCA**

Before communities begin to identify their TCA, they will have to make important decisions (i.e. accounting policies) on how to practically apply the rules on tangible capital assets. Section 2 provides suggestions on how to develop your TCA listing and recommendations on asset classes, useful lives and capitalization thresholds.

## **Part 3 - Determining the Value of Your TCA**

Tangible capital assets should be recorded at historical cost. However, many assets were purchased or constructed a long time ago. Section 3 provides recommendations on how to value assets when information on historical cost is not available.

## Other Sources of Information

For those who would like to obtain additional information on how to implement PS 3150 there are some very good websites. These additional sources provide valuable recommendations on preparing an implementation plan, determining resource needs, and asset management issues:

- The PSAB Guide to Accounting for and Reporting Tangible Capital Assets  
[http://www.psab-ccsp.ca/download.cfm?ci\\_id=37536&la\\_id=1&re\\_id=0](http://www.psab-ccsp.ca/download.cfm?ci_id=37536&la_id=1&re_id=0)
- The Ontario Municipal Benchmarking Initiative (OMBI)
  1. The OMBI Municipal Guide to Accounting for Capital Assets, Version 2 - Feb 15, 2007
  2. OMBI Pilot Site Case Studies for Guide to Accounting for TCA - Feb 15, 2007
  3. OMBI Reference Manual for Accounting for Municipal Tangible Capital Assets - Apr 30, 2007  
<http://www.ombi.ca/accounting.asp>
- The Municipal Finance Officers' Association (MFOA) and the Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO)  
<http://www.amcto.com/db/assetmgmt.asp>
- The Alberta Government - Municipal Excellence Network - Tangible Capital Assets  
<http://www.municipalaffairs.gov.ab.ca/1248.cfm>
- Association of Manitoba Municipalities  
<http://www.amm.mb.ca/PSAB.html>
- Saskatchewan Tangible Capital Asset Reporting  
<http://www.sasktca.ca/>
- Aboriginal Financial Officers Association of Canada  
[http://www.foa.ca/acfme/Tangible\\_Assets.asp#Tangible](http://www.foa.ca/acfme/Tangible_Assets.asp#Tangible)



## Part 1 - PSAB Rules on Tangible Capital Assets (PS3150)

Tangible Capital Assets (TCA) are a significant economic resource of communities and a key component in the delivery of many municipal government programs. The Public Sector Accounting Board (PSAB) has issued new standards that will come into effect for fiscal years starting January 1, 2009.

### PSAB Requirements:

PSAB requires that local governments record their Tangible Capital Assets (TCA) on the Statement of Financial Position (i.e. balance sheet) and amortize them over their useful life on the Statement of Operations (i.e. income statement). The recording and amortization of TCA represented the last major difference in PSAB GAAP between local and other levels of government. Starting January 1, 2009 there will be in effect "One GAAP for all Governments".

### Current Accounting:

Communities currently account for their TCA by:

- (i) Expensing the TCA in the operating fund as contributions to the capital fund.
- (ii) Recording the TCA as fixed assets in the operating fund while not recording any amortization

Current financial statements do not provide any information about the nature and age of a community's TCA. This information is important in determining the maintenance and replacement requirements of a community.

## 1.1 What Are Tangible Capital Assets?

### Definition of TCA:

The Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook (PS 3150.05) defines **TCA as non-financial assets 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.

### TCA Includes:

TCA include such diverse items as equipment, computers, computer software, vehicles, buildings, land, roads, bridges, water and sewer systems, dams, and canals.

## **TCA Does Not Include:**

**TCA does not include intangible assets, natural resources, and Reserve lands (same accounting treatment as Crown lands) that have not been purchased by the community.**

**The following quote is taken from the 2008 Report of The Financial Reporting by First Nations Study Group, page 71,**

**“#5 – Senior governments hold assets acquired in the right of the Crown.**

**Analysis: For First Nations operating under the Indian Act, reserve land is Crown land, held in trust by the federal government. The value and use of these lands is not typically reflected in First Nation financial statements. This is the same accounting treatment for Crown land held by the provincial, territorial or federal government. As with other governments, for land to be valued and recognized in financial statements, a First Nation must acquire it in a third party transaction. Land acquired in a third party transaction may be maintained as fee simple land. Such land has a transaction value and is clearly controlled by the First Nation and can, therefore, be recorded as an asset. There may come a time when a First Nation exerts territorial claim and is recognized to have control of additional land. Depending on the circumstances, there may be a need to record this land as an asset. There will be several factors to consider and it will be necessary to review first principles before determining the appropriate accounting treatment. Of course, there are those that would argue that the relationship that First Nations have with their territorial land has a cultural value that transcends any economic value.**

**Conclusions: As with Crown assets held by other governments, there are issues regarding the measurement and valuation of First Nations lands. It is not within the scope of any of our current financial reporting models to recognize such assets in financial statements unless acquired in a third party transaction. It is possible and helpful, however, to disclose the existence of these assets as a way of assisting users in understanding the government’s total economic resources and its stewardship over traditional lands.**

**Reporting Implications: Under our current accounting framework, a transaction price is required to value tangible capital assets. Because reserve land does not usually have a modern-day transaction price, it cannot be valued and, therefore, is not recognized in First Nations financial statements. Land that is purchased by a First Nation in a third party transaction will, however, have a value based on the transaction and can be recognized as an asset in the financial statements as long as it meets the definition of an asset. Whether land is recognized in the financial statements or not, stewardship of the land will be critical to the users of the financial statements. Therefore, it is important to provide disclosure about the nature and extent of land held by a First Nation. This treatment is consistent with other governments and Crown land.”**

**TCA also does not include land held for resale. Land held for resale is to be recorded separately.**

**Works of art and historical treasures that are worth preserving perpetually would also not be recognized as TCA.**

Works of art and historical treasures would include:

- Museum collections
- Paintings, sculptures, statues, monuments and plaques
- Antiques
- Arts and craft
- Historic buildings which are not being used to provide municipal services

Many buildings owned by communities have been designated as heritage sites. These buildings are often still being used as municipal office space or for the provisions of other goods and services.

Heritage buildings that are still being used by the community to provide goods and services to the public are TCA. This includes heritage buildings that are being used as museums to display museum collections.

## **1.2 Betterment or Repairs & Maintenance (R&M)**

One of the most difficult decisions in accounting for TCA is determining whether an expenditure is a betterment or R&M. Applying the definition of a betterment is very difficult for complex and long lived assets such as buildings, roads, and water systems.

### **Definition of a Betterment:**

Betterments increase the service potential (i.e. capacity), reduce the operating cost, or extend the useful life of a TCA. The costs of betterments are considered to be capital asset additions to the related asset. Betterments are recorded as separate asset additions and amortized over their useful life.

### **Definition of Repairs and Maintenance:**

Maintenance and repairs maintain the service potential of a TCA over its given useful life. Maintenance and repairs are an expense of the period and are not capitalized.

### **How to Decide:**

Most building components/systems have an accepted useful life cycle. The replacement of a component which does not extend the useful life of the building would normally be considered R&M. If the replacement of a component/system occurs towards the end of the useful life cycle of the building and extends the useful life of the building, then the cost may be classified as a betterment. For example, a roof replacement in year 20 of a building with a useful life of 40 years would clearly be R&M. However if the roof was replaced near the end of the useful life of the building, and extended the life of the building for another 20 years, then the cost of the roof replacement would be a betterment.

**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 (**R&M**)
- Paved a gravel road (**betterment** – service capacity)
- Put new gravel on a gravel road (**R&M**)
- Extended the water main system to a new subdivision (**betterment** – service capacity)
- Replaced a broken water main (**R&M**)
- Replaced a broken water main but with a new material which is more durable **betterment** – extend useful life)

Some communities have decided to separate significant buildings into components in order to record each component as a separate TCA. This will be discussed later in the Single Asset vs. the Component Approach section.

### 1.3 TCA Should Be Recorded at Cost

**Definition of Cost:**

The cost of a TCA 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
- 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.

**TCA Partially Funded by Another Level of Governments:**

**Capital grants received from another level of government cannot be netted against the cost of the asset.** The cost of the asset must be shown at the gross amount.

Communities may receive grants from another level of government to assist in financing the reconstruction of a road. Communities must record the cost of construction at the gross amount (i.e. 100%). The portion paid by the other level of government must be recorded as a government capital transfer.

**Example:**

A community reconstructs a road at a total cost of \$100,000. The federal government grants the community \$60,000 to finance the road.

The entry into the general ledger would be:

Dr. Cash (grant proceeds)	\$ 60,000	
Dr. Tangible Capital Assets – Roads	\$100,000	
Cr. Accounts Payable		\$100,000
Cr. Revenue – Federal Government Grant		\$ 60,000

**Donated TCA:**

Donated or contributed TCA should be recorded at its fair value at the date of contribution. **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. Fair value may be estimated using market or appraisal values. The donation of TCA occurs on a regular basis. Property development companies often build the streets and parks for new subdivisions and then donate the assets to the local government.

**Dealing With Interest Charges:**

The cost of a TCA can include interest costs directly attributable to the acquisition, construction or development activity. Only interest owed to external parties, such as banks or debenture holders, can be capitalized. **Internal finance charges cannot be capitalized as part of the costs of an asset.**

Capitalization of interest costs must end when there is no construction or when the TCA is put into use. A TCA would be considered to be put into use when the asset is being used by the government to provide goods and services to the public, or the public has access to the asset such as a new bridge or road.

**Multi Asset Purchases:**

Often several TCA are acquired together at a single purchase price. The most common example is the purchase of a building and land for a single amount. The total purchase price should be allocated to each asset based on the relative fair value of each asset at the date of acquisition.

**1.4 Accounting For TCA:**

**1.4.1 Amortization**

All TCA, except land, have limited useful lives. TCA are used to provide services to the public. The cost of these assets has to be allocated in a rational method over the useful life of the asset. Where a government expects a residual (i.e. scrap) value to be significant, it should be factored into the calculation of amortization.

The cost, less any material or significant 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.

Amortization costs should be accounted for as an expense in the statement of operations.

The difference between the initial cost of a TCA and its accumulated amortization to date is its unamortized balance or net book value (NBV).

### **Straight Line Method:**

The straight line method is the most common and easiest method of amortization. This method assumes that the use of the asset is constant over its useful life. Straight line amortization is calculated by dividing an asset's original cost, less its residual value if any, by its estimated useful life in years.

#### **Example:**

A community 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:

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

The entry into the general ledger would be:

Dr. Amortization expense	\$3,800	
Cr. Accumulated Amortization – Vehicles		\$3,800

There are TCA where the straight line method may not be the most appropriate amortization method. There are other amortization methods that are acceptable under PSAB. Please use caution when deciding on an alternative amortization method as the complexity and additional time requirements to employ the alternative are generally not considered to be worth the benefits.

### **Alternate Amortization Methods**

Straight line amortization may not always be the most appropriate amortization method for some TCA. The amortization method used should be based on the nature and use of the asset. On rare occasions the unit of output and declining balance methods may be more appropriate.

#### **Unit of Output Method:**

Some assets deteriorate based on their usage. The unit of output method is determined by dividing the actual production for the year by the total expected production of the asset over its life, times the cost of the asset. The unit-of-output method provides per unit cost. The unit-of-output method is often used for equipment that requires a complete overhaul after a prescribed amount of hours in use.

**Example:**

A community purchases a grader for \$200,000. The grader has a useful life of 15 years but the engine must be completely overhauled after every 10,000 hours of use. A replacement engine costs \$50,000. The community has decided to amortize the cost of the engine as a separate component using the unit of output method. Because of several severe blizzards, the grader was used extensively (1,500 hours) in its first year. The amortization charge for the first year is:  $(1,500 \text{ hrs}/10,000 \text{ hrs}) \times \$50,000 = \$7,500$  in amortization.

The entry into the general ledger would be:

Dr. Amortization expense	\$7,500	
Cr. Accumulated Amortization – Machinery		\$7,500

**Declining Balance Method:**

Some assets are more efficient in the early years of their useful life. The declining balance method applies a constant percentage to the unamortized value of the asset each year. The declining balance is commonly used for vehicles and computer equipment. The declining balance method results in higher amortization in the early years of an asset's life.

**Example:**

A community added 3 new work stations to its local access network. Each work station cost \$2,500 or \$7,500 in total. Because of the rapid obsolescence of computer technology, the administrator felt that computer work stations should be amortized on a declining balance at 33.3%. What would be the amortization charge in years 1, 2 and 3?

Year 1:  $\$7,500 \times 33.3\% = \$2,498$

Year 2:  $(\$7,500 - \$2,498) \times 33.3\% = \$1,666$

Year 3:  $(\$7,500 - (\$2,498 + \$1,666)) \times 33.3\% = \$1,111$

After 3 years the accumulated amortization for the work stations would be \$5,275 or 70% amortized. The amortization charges are highest in the first years and decline each year to reflect the increasing obsolescence of the asset.

**Estimated Useful Life**

As a general rule, estimated useful life is normally the shortest of the asset's physical, technological, commercial and legal life. An asset's useful life is based on its use by the community. PS 3150 does not provide specific guidance in this regard as it is not possible to authoritatively predetermine the useful lives of assets. In determining an asset's estimated useful life, a community should consider its present condition, intended use, construction type and maintenance policy. It should also consider how long the asset is expected to meet service and technology demands. Useful lives should be based on the community's own experience and plans for the assets.

Useful life in the context of the delivery of a PSAB financial statement should not be confused with service life from an engineering perspective. It is reasonable to assume that many assets will operate satisfactorily for a period in excess of their prescribed useful life.

For example, a local government may pave a vacant property to provide surface parking to the downtown core. The parking lot and equipment may physically be capable of providing service for 10 years but the local government expects to redevelop the property in five years to provide affordable housing to citizens. In this case, the expected future usage of the parking lot is five years. Therefore the cost, less any residual value, should be amortized over the five years.

Other factors to be considered in estimating the useful life of a tangible capital asset include:

- expected future usage;
- effects of technological obsolescence;
- expected wear and tear from use or the passage of time;
- the maintenance program;
- geological conditions;
- capacity versus actual usage;
- studies of similar items retired;
- changes in demand for services; and
- condition of existing comparable items.

The deferral of maintenance can shorten an asset's estimated useful life. For example, deferral of annual pavement crack filling programs could allow water to infiltrate the road bed, causing deterioration and shortening of the life of the road. Many long-lived assets, such as water mains and pipes, often need replacing well within their physical life due to road repairs, corrosion and basic weather conditions. All of these factors need to be considered when determining the estimated useful life of infrastructure. Some organizations have published useful life tables and Appendix C is a copy of the Alberta Toolkit table.

### **Regular Review of Remaining Useful Life:**

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. 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.

### 1.4.2 Write-downs

When conditions indicate that a TCA:

- No longer contributes to a government's ability to provide goods and services, or
- the future value of the TCA is less than its NBV

The cost of the TCA should be written down to its appropriate value.

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

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

If the value of an asset is impaired, the cost of the asset should be written down to reflect the decline in the asset's value and its shorter useful life. This write down is considered a loss (expense) on the statement of operations.

A write-down should never be reversed.

**Example:**

A community 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 was 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 community could not obtain flood insurance.

The NBV 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. Accm Amortization – Land improvements	\$18,000	
Dr. Loss on write down	\$42,000	
Cr. Land Improvements		\$60,000

### 1.4.3 Disposals

On the disposal of a TCA, the difference between the net proceeds and the NBV should be accounted for as a revenue or expense in the statement of operations.

**Example 1:**

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

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

The NBV of the vehicle at June 30, 2007 was \$22,000 ( $\$31,000 - ((\$31,000 - \$1,000)/10 \times 3 \text{ yrs})$ ).

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

Dr. Cash (proceeds on sale of vehicle)	\$20,000	
Dr. Accumulated Amortization – Vehicle	\$9,000	
Dr. Loss on sale of vehicle	\$2,000	
Cr. Vehicle		\$31,000

**Example 2:**

A community built its community 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, 2008 the community office building burnt down. Replacement cost for a similar building at December 31, 2009 was \$200,000.

The NBV of the building at December 31, 2008 was \$36,000 ( $\$120,000 - (\$120,000/40 \times 28 \text{ yrs})$ ). The gain after the insurance proceeds was \$164,000. The entry to record the gain would be:

Dr. Cash (insurance proceeds)	\$200,000	
Dr. Accumulated Amortization – Building	\$ 84,000	
Cr. Building		\$120,000
Cr. Gain on insurance proceeds		\$164,000

**1.4.4 Treatment of Leased Tangible Capital Assets**

Communities often lease assets to provide services to the public. The terms of a lease determines if the lease should be treated as an operating lease or a capital lease.

**Capital Lease vs. Operating Lease:**

PSAB uses a “benefits and risks” approach to assessing if a leased asset should be treated as a capital lease. If the “benefits and risks” of the asset are essentially transferred to the community (the lessee) then the lease is a capital lease and the leased asset is a TCA.

If the “benefits and risks” of the asset remain with the lessor, then the lease is simply an operating lease. The community is simply renting the asset and would not include the asset as part of their TCA.

#### **Indication of the Transfer of Benefits and Risks:**

From the point of view of the community, the benefits and risks of ownership would be transferred to the government when, at the inception of the lease, one or more of the following conditions would be present:

- a) There is reasonable assurance that the community will obtain ownership of the leased asset by the end of the lease term. For example, at the end of the lease the community can obtain ownership of the asset for \$1. This is known as a bargain purchase option.
- b) The lease term is of such duration that the community will receive all of the economic benefits of the asset over its useful life. The lease term would normally need to be 75% or more of the useful life of the asset.
- c) The lessor would be assured of recovering substantially all their investment in the leased asset. This condition would exist if the present value of the minimum lease payments would be equal to about 90% or more of the fair market value of the investment.

The above conditions are only guidelines. A lease agreement may not meet any of the above conditions but would still be a TCA under a capital lease if the benefits of risk and ownership were transferred to the community.

#### **Some Capital Leases are Treated as Operating Leases Anyway:**

The effect of a leased TCA on the statement of operations should also be considered when determining whether or not the asset is the property of the community. There would substantially be no effect on the operations, if a 4 year lease for a computer with a useful life of 4 years, was treated as a lease TCA or as an operating lease. Even if the lease agreement qualifies as a capital lease, most organizations would simply record the transaction as an operating lease because it does not materially affect the financial statements.

In contrast, consider a lease agreement of 5 years for a road grader which would be amortized over 15 years as a leased TCA. The choice of accounting treatment would materially affect the operations of the community. In such a situation, the lease terms should be closely examined to determine whether to capitalize and amortize the asset, or expense the lease payments.

#### **1.4.5 Presentation & Disclosure**

Financial statement presentation and disclosure requirements for TCA are briefly discussed here for information purposes only.

**Disclosure of TCA Balances:**

The financial statements should disclose, for each major category of TCA 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 costs of TCA for the period;
- (f) Accumulated amortization at the beginning and end of the period; and
- (g) Net carrying amount at the beginning and end of the period.

The information above is normally disclosed in a TCA note to the financial statements or as a supporting schedule.

	March 31, 2009		March 31, 2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	Land	\$ xx	\$ -	\$ xx
Buildings	xxx	xxx	xxx	xxx
Furniture & Fixtures	xxx	xxx	xxx	xxx
Machinery & Equipment	xxx	xxx	xxx	xxx
Computer Equipment	xxx	xxx	xxx	xxx
	xxx	xxx	xxx	Xxx
Net Book Value	\$ xxx		\$ xxx	

**Significant Accounting Policies Note:**

Financial statements should also disclose the following information about TCA:

- (a) The amortization method used, including the amortization period or rate for each major category of TCA;
- (b) The net book value of TCA not being amortized because they are under construction or development or have been removed from service;
- (c) The nature and amount of contributed TCA received in the period and recognized in the financial statements;
- (d) The nature and use of TCA recognized at nominal value;
- (e) The nature of works of art and historical treasures held by the government; and
- (f) The amount of interest capitalized in the period.

This information is normally disclosed as part of the significant accounting policies note to the financial statements.

**Example:**

**Tangible capital assets**

Tangible capital assets are recorded at cost. Amortization is recorded over the estimated useful lives of the assets on a straight-line basis at the following rates:

Buildings	x%
Furniture and fixtures	x%
Machinery and equipment	x%
Computer equipment	x%

#### **1.4.6 Tangible Capital Asset Policy**

The purpose of a TCA policy is to provide overall direction for the capitalization of assets, provide technical guidance in the creation of a capital asset accounting system and address areas of PSAB 3150 that may require professional judgment. A TCA Accounting Policy will help you make consistent and sound decisions, plan ahead for future needs and provide public confidence in your accounting and financial reporting processes. As internal processes and corporate decisions vary between communities so to will certain sections of the policy such as thresholds, segmentation, useful life and amortization. In addition, refinements to the policy are to be expected throughout the implementation phase which will tailor the policy to your local needs. Appendix B is an example of a TCA Policy.

## Part 2 - Practical Considerations for Identifying Your TCA

There are 6 critical questions that you should keep in mind when preparing your TCA listing:

1. What TCA do we own?
2. Where is it located?
3. What is its useful life?
4. What is its condition?
5. When did we get it?
6. What did it cost?

This section deals with the first 5 questions. The 6<sup>th</sup> question is dealt with in Section 3: "Determining the Value of Your TCA". This section will provide guidance on what you need to consider when preparing your TCA listing at March 31, 2009. This section also suggests sources of information to complete your TCA listing.

In order to disclose two year comparative financial information, every community needs to make a listing of the TCA that it owns as of March 31, 2009.

### 2.1 What is a TCA Listing

The first step is to recognize and locate the TCA that your community owns. The process is similar to "taking inventory".

A TCA listing should include:

- A description of the asset
- Year of acquisition or reconstruction
- Expected useful life at the time of acquisition
- Significant improvements made to the TCA since acquisition and the useful life of the improvement
- Estimated residual value, if any, on disposal

### 2.2 Asset Classes

The following lists the various asset classes that a community may have and need to record.

#### Land

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 price, 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).

## **Land Improvements**

Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use, which generally decay or break down 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. Land improvement examples include but are not limited to: landfill site development, drop off locations, construction of driveways, parking lots, retaining walls, bike paths in parks, sidewalks, fencing, patios, water fountains, outdoor swimming or wading pools, ball diamonds, soccer fields, irrigation systems, tennis courts and the like.

## **Buildings**

Buildings include all structures that provide shelter from the elements. Includes capital and betterments to buildings that are owned by the community. Examples include but are not limited to: EMS stations, bus transit facilities, sport and recreation facilities, office buildings, fire/police stations, libraries, pavilions, change rooms, park washrooms & concession buildings, band shells, ticket kiosks, crematoriums, chapels, mausoleums, waste depots, recycling facilities.

## **Machinery & Equipment**

An apparatus, tool, device, implement or instrument that likely uses energy (for ex. human, electrical, hydraulic fuel, or thermal) to facilitate a process, function or completion of a task. Machinery and equipment may also include furniture and fixtures. It may be installed within a building, but is generally capable of being moved and reinstalled at a different location, if need be (that is, it is not permanently affixed to or integrated into the building or structure in which it resides).

## **Vehicles**

A means of transportation, usually having wheels, for transporting persons or things or designed to be towed behind such an apparatus. Includes automobiles, trucks, trailers, motorcycle, boats, etc.

## **Linear Assets**

Linear assets are assets generally constructed or arranged in a continuous and connected network. "Infrastructure – Linear assets" includes connected surface systems such as roads, sidewalks, bridges, drainage ditches, street lights, and transit rail lines; and underground systems such as water distribution pipe systems, wastewater collection pipe systems, manholes, catch basins, and storm drainage collection systems and tunnels.

## **Capital Work In Progress**

The cost of tangible capital assets under construction, constructed or in an uncompleted process of acquisition by the community, and that are not yet in service.

## 2.3 Assessment of Useful Life

The length of the useful life for an asset will depend on the asset quality and its intended use.

### Example:

A community 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 15 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, the administrator feels that the truck will have to be replaced in 10 years. The purchase of a new truck will be financially attractive in comparison to the repairs and maintenance required to keep operating a 23 year old truck.

The administrator correctly determines that the refurbished fire truck should be amortized over 10 years.

## 2.4 Amortization

The cost of an asset is essentially a long term prepayment of an expense in advance of the use of the asset. A community consumes an asset's economic benefit or service potential through the use of the asset in delivering services. Amortization is the accounting process of allocating the cost, less the estimated residual value, of a TCA over the useful life in a systematic manner that reflects the pattern in which the community consumes the TCA's economic benefits to provide services.

Amortization is recorded as an expense on the Statement of Operations.

### **When Should Amortization Start:**

For the TCA that comprise your opening balances at March 31, 2009 PSAB indicates that amortization should begin on the date the asset is purchased or put into use. Most communities are finding it impossible to accurately identify this date. A common approach is to record amortization for a full year in the year after acquisition and each year thereafter until March 31, 2009.

On a go-forward basis (i.e. starting April 1, 2011) amortization should begin on the first day of the month following the date the asset was purchased or put into use. For example, if an asset was put into use on June 11, 2010 then the asset should be amortized starting July 1, 2010.

Recognizing that a more practical approach to the commencement of amortization may be necessary, some communities are using the following approach.

***Amortization begins in the year after acquisition as it will be after year end that the full cost of putting the asset into service will be known. This also aids in a more accurate budget process as the true cost of all assets will be known to departments budgets where amortization will be charged.***

### **When Should Amortization End:**

The amortization of a TCA should end when:

1. The TCA is fully amortized, or
2. When it is disposed

## **2.5 Capitalization Thresholds & Materiality**

### **Definition of a Capitalization Threshold:**

A capitalization threshold is the minimum dollar amount that a government will use in determining whether an expenditure should be capitalized as a TCA addition or expensed in the current year.

Theoretically, any item that meets the definition and recognition criteria would be accounted for as a tangible capital asset. In practical terms, most communities will establish capitalization thresholds or minimum amounts that expenditures must exceed before they are capitalized as tangible capital assets. Items not meeting that threshold would be recorded as expenses in the period.

### **Definition of Materiality:**

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.

### **What is an Appropriate Capitalization Threshold?**

An appropriate capitalization threshold is a balance between the accurate presentation of the financial statements and the cost of acquiring and maintaining the TCA accounting records. If a community sets their capitalization thresholds too high the financial statements will be materially misstated. If the threshold is set too low, the effort to record and maintain the TCA accounting records could be too costly. For example it would be impractical for a community to record and depreciate every stapler that it owns, though by definition a stapler is a TCA.

### **Recommended Thresholds For Communities in Ontario First Nations:**

It is beneficial to have your auditor agree with the threshold before you commence to gather your inventory. This will eliminate the need to redo your inventory should your auditor require a lower threshold.

The following are suggested thresholds:

- o Any **individual** item that meets the definition of a Tangible Capital Asset with a cost of \$5,000 or greater

- A **pool of assets** that meets the definition of a Tangible Capital Asset, that was purchased in bulk and has a replacement cost of \$25,000 or greater in any given year (for example, a computer does not usually cost more than \$25,000 individually, however, when grouped together, the annual purchase is greater than \$25,000, therefore we would group computers as one asset on the inventory listing broken down by year)
- Due to the nature of some assets, the threshold will be \$0. Examples are all land, all vehicles, all roads, all water pipe segments, etc. would be recorded.

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

### **Capitalization Thresholds Will Reduce the Amount of Work Required:**

When preparing the TCA listing consider the likely value of the asset in comparison to the capitalization threshold. If the asset is clearly under the threshold do not include it on your list. Removing immaterial TCA from your listing will save you time and effort when you obtain the values.

## **2.6 Pooling**

An asset pool is a grouping of identical, similar, or related TCA that are treated as though they are a single asset. You may wish to pool groups of smaller assets that are below your capitalization threshold but are collectively significant, for example, computers. It involves identifying, treating, accounting for and reporting on an entire set of individual assets as a collective group, as though they were a single asset. This is, of course, only for the purposes of accounting for tangible capital assets, and definitely not for the purposes of asset management. This is not to say that the asset listing cannot support both activities or proposed uses.

Assets that have a lower value, per unit, than the capitalization threshold, may be material when grouped. Such assets are generally recorded as a single asset, with one combined value. Generally all things that have the same useful life and are acquired together can be considered for pooling.

The ability to control an asset, in many cases, provides much more benefit than the cost of maintaining an additional record. The major cost is in ensuring the record is maintained. However, we should not spend money to keep records that would not alter decisions.

## **2.7 Deemed Disposition**

Some communities have adopted a deemed disposition policy for certain capital assets, where asset replacement may occur on a regular basis but the administrative costs to separately track and account for each acquisition and disposal transaction would be prohibitive. In these situations, the total additions are recorded and amortized over the applicable estimated useful life. The asset is assumed or deemed to have been disposed of in the last year of its estimated useful life. At the deemed disposition, the full cost of the addition and the related accumulated amortization is removed from the accounting records.

## 2.8 Single Asset vs. the Component Approach

In some circumstances, there is an opportunity to break assets down into components. It is beneficial to use a component approach when it comes to certain assets due to the fact that the different components have different life cycles. For example, the roof of a building will likely have a different life than the interior walls, or the base of a street will last longer than the asphalt on top. It is important to consider how an asset is going to be replaced when considering the single asset vs. component approach. If the asset is not broken down, major rehabilitation could be considered maintenance (operating) instead of replacement (capital).

The decision to account for each component as a separate asset should be determined by the usefulness of the resulting information to the community, versus the benefit of collecting and maintaining the information. It is easier to do the accounting of TCA under the single asset method. The component approach provides better information for the management of TCA. Careful consideration should be paid to the aggregation or grouping of assets in inventory to provide the required granularity for asset management purposes.

### Infrastructure

Infrastructure networks are made up of many components. A water supply system is made up of a network of underground water lines. But it is also made up of tanks, pumps, generators, filtration systems, water treatment systems and meters. Roads are commonly separated into two components, surface and base. Bridges are commonly separated into two components, deck and structure.

### Buildings

Buildings are made up of many components. The following are examples of building components which some communities have chosen to use:

- Site Works – expenditures on the area surrounding the building, i.e. - parking lot, landscaping, etc.
- Interiors – expenditures on the inside of the building, i.e. - walls, ceiling, floors, etc.
- Structure – expenditures between the inside and the outside of the building, i.e. - frame, etc.
- Envelope – expenditures on the outside of the building, i.e. – roof, windows, cladding, etc.
- Electrical – expenditures on the electrical components of the building, i.e. - wiring, lighting, outlets, etc.
- Mechanical – expenditures on the mechanical components of the building, i.e. - boiler, pumps, chillers, plumbing, elevators, etc.
- Specialty Item – expenditures on the items worth tracking separately that are within a building, i.e. – arena score clock, tower clock, etc.

## Effects of Single Asset vs. the Component Approach:

How a community accounts for its infrastructure and building assets will affect the following:

1. What it considers to be a capital replacement versus maintenance and repairs, and
2. The community's future amortization expense.

### Example:

A community can either account for its paved roads as one asset or it can account for the road base (40 years useful life) and the road surface (20 years useful life) as separate components.

After 20 years, the community repaves the road surface. Under the single asset method, the repaving of the street would be maintenance and repairs. Under the component method, the repaving would be a tangible capital asset replacement.

The amortization expense of the road over its useful life will also be different. Under the single asset method, the total cost of the road will be amortized over 40 years. Under the component method, the cost of the surface will be amortized over 20 years in comparison to the 40 years under the single asset method.

For water systems, the effect on amortization expense could even be more significant. The useful life of water mains could be anywhere from 50 to 75 years or more, while equipment like pumps and filtration units may have to be replaced every 5 to 10 years.

## What Approach Should Communities Use?

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

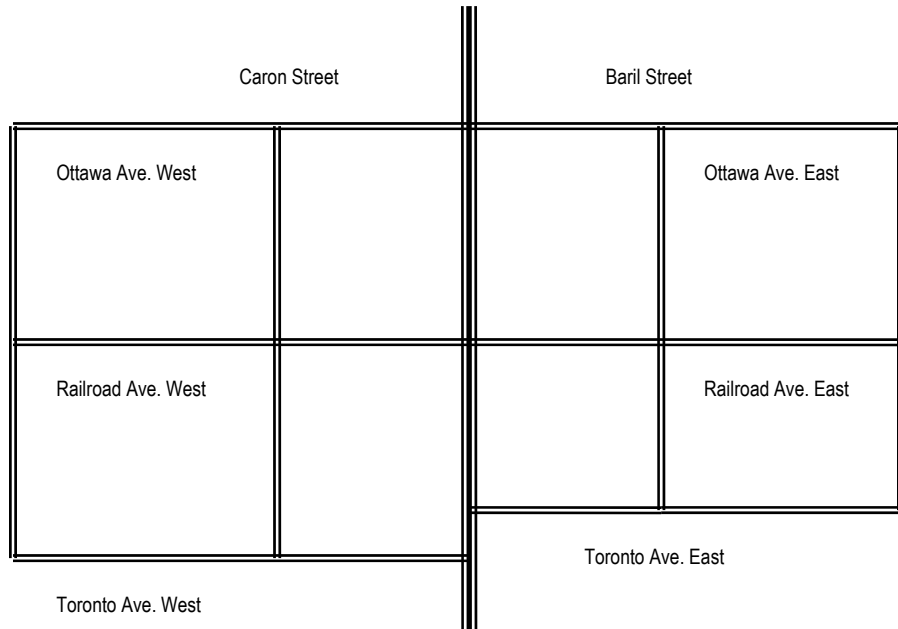
## 2.9 Segmentation of Network Systems

Infrastructure assets, such as roads and water & sewer systems, have linear assets that are arranged into a continuous and connected network. A community should consider breaking down their network systems into segments. Communities will have to decide on how to identify a segment. The level of segmentation will depend on the information required by the community. For ease of use of the asset inventory information and subsequent identification of asset segments, individual segments should be identified where possible by a unique asset identification number and a geographic reference. Many network systems exhibit natural breaks example ie Road (Name, From, To) or in a sewer network from manhole to manhole.

Network systems are normally segmented in terms of location, age and type of material. Examples of segmentation include:

- By towns within a rural community
- By date of original construction (original part of town vs. the new subdivision)
- By materials used for water and sewer lines (metal vs. polyethylene)
- Provincial Road Class

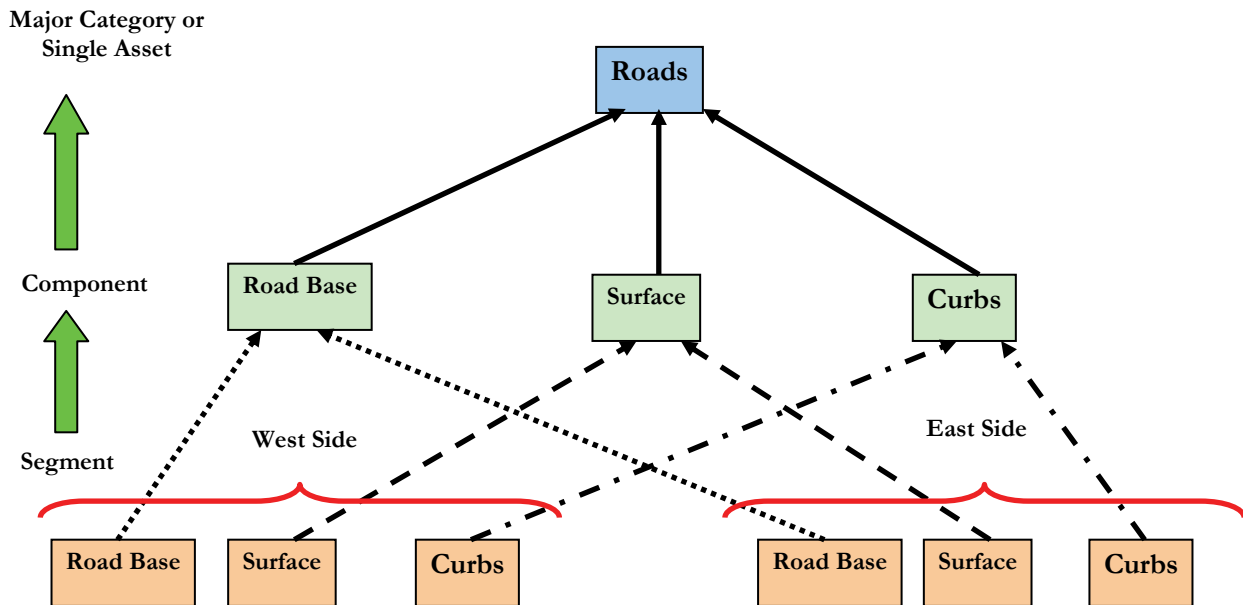
The PSAB recommends that a reasonable amount of segmentation be utilized when accounting for infrastructure networks. Careful consideration should be paid to the segmentation rationale and the use of the information in the context of asset management.



A town's system of streets is an example of a linear asset or network system.

Kings Hwy.

### ILLUSTRATION OF SEGMENTATION



## 2.10 Sources of Information for TCA Listing

Every community should prepare a complete listing of their TCA as at March 31, 2009. Beyond visual inspection, there are sources of information that could help in ensuring that your listing is complete.

- Land & buildings - provincial property records
- Buildings & equipment - insurance policies, engineering assessments
- Vehicles - list of annual licenses
- Network systems - detailed engineering drawings, provincial transportation agencies, infrastructure master plans, water models, pavement condition assessments, etc.

### **Analysis of the Capital Funds:**

Every community should perform an analysis of their capital funds to identify possible TCA. This is a relatively simple way of identifying possible assets while at the same time obtaining information about the cost. However, simply reviewing the general ledger detail of the capital funds will not ensure that your TCA listing is complete or that all entries identified are valid TCA.

- a) Communities may receive contributions of tangible capital assets. For example, tangible capital assets may be transferred from another level of government at no or nominal cost. Frequently, development agreements require developers to provide tangible capital assets such as roads, sidewalks and street lighting.
- b) Not all entries recorded in the capital funds qualify as TCA. Items paid for through debentures are always recorded in the capital funds; however, these expenditures are not always for TCA or betterments. They are often for major repairs and maintenance projects. Although an entry is above the threshold limit and is recorded in the capital funds, the nature of the expenditure must be evaluated to determine if it qualifies for capitalization.

## 2.11 Documentation

### **Keep All Documentation on the Source of the Inventory:**

It is imperative that communities keep copies of all their supporting documentation showing how the inventory record was created. The auditors will need this information to verify the completeness of the opening TCA balances.

## 2.12 Develop a Work Plan

Administrators should begin to develop a work plan for TCA shortly after they have completed reviewing this reference manual.

A TCA work plan is a strategic plan that documents how the TCA are going to be identified and valued. The work plan should consider the:

- TCA classes a community likely owns
- Threshold amounts (dollar amounts to be capitalized) for each class
- Likely locations for each class of TCA
- Individual/department responsible for identifying the TCA (completeness)
- Method for identifying assets in class
- Possible identifiable segments for network systems
- Probability that historical cost information will be available
- Possible alternative valuation methods
- Individual/department responsible for the valuation of the asset
- Resources required, both internal and external
- Documentation requirements

Efforts should be made to document the plan in a manner that clearly outlines expected deliverables, tasks, timelines and individual responsible for production and manipulation of the required information.

## Part 3 - Determining the Value of Your TCA

The valuation of a community's TCA could be significantly more challenging and time consuming than the listing of their TCA at March 31, 2009. This section will provide guidance on how initial asset values can be determined even if a community has incomplete records on the historical cost of its assets.

### 3.1 The Guiding Principles to the Valuation of TCA

#### 1<sup>st</sup> Principle:

The historical valuation of TCA is a balance between making reasonable estimates and assumptions on the original costs to meet audit requirements. Everyone, including the auditors, must understand that the initial valuation process is not an exercise in precision.

#### 2<sup>nd</sup> Principle:

It is much more important to be accurate on a go-forward basis than it is to obtain exact costs for older assets.

#### 3<sup>rd</sup> Principle:

The cost precision required for long lived assets (buildings, infrastructure) decreases proportionately with the length of time the asset has been in use. Communities should be able to obtain detailed and precise cost information for buildings and infrastructure constructed in the recent past. However if an asset has been in use for a lengthy period then the availability of information may be reduced. This is not as critical as the effect of older assets on the statement of operations will be of a short duration. Reasonable assumptions and estimates are sufficient for older long lived assets.

### 3.2 Valuation Methods

The cost of acquiring an asset is the price paid plus the additional costs to put the asset into service. Thus the cost of a new road would include the ROW (i.e. right of way or land), costs of survey and design, as well as the cost of construction. Interest charges during the construction period may also be capitalized.

**Historical cost is the most appropriate method to value TCA because it is the most objective.** Historical cost evaluation requires communities to examine their past financial records; to the extent they exist, in an attempt to match the financial records with their TCA listing.

Because historical cost information may be incomplete there are three alternative methods that can be used to estimate the historical cost of a TCA:

- Deflated reproduction cost
- Deflated replacement cost
- Deflated appraisal value

### 3.2.1 Deflated Reproduction Cost

Deflated reproduction cost is the cost of replacing an asset with a substantially similar one and deflating the value to the date of original construction.

### 3.2.2 Deflated Replacement Cost

In some cases, reproduction cost is either not available or is not a reasonable basis for comparison. There may have been so many changes in technology that it does not make sense to replace an asset in a similar physical form.

Deflated replacement cost is the cost of replacing an asset with one that has substantially the same functionality but has a different physical form or uses the most common current technology. The value of the replacement asset is deflated to the date of original construction.

### 3.2.3 Deflated Appraisal Value

When estimated reproduction or replacement costs are not available communities may ask for a professional appraisal of the asset's value. The appraised value should be deflated to the date of original construction. Communities may already have appraised values for insurance purposes.

## 3.3 Construction Price Indices

The Municipal Finance Officers' Association of Ontario (MFOA) and Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO) released a Deflator Study to help communities estimate original costs as part of the exercise to comply with PS 3150.

<http://www.amcto.com/wb3/db2file.asp?fileid=20876>

The report concludes that the most suitable indices for deflating replacement, reproduction, or appraised tangible capital assets values into estimated historical cost values appear to be the Non-residential Building Construction Price Index (NRBCPI) and the Consumer Price Index (CPI). Both indices are output indices that incorporate factors such as contractor profit and overhead costs that may not be completely accounted for by input indices. They are both government created indices that are well known to the municipal environment and have been in existence since the early 1900's. The NRBCPI tends to follow the trends and price changes of construction related assets, while the CPI index follows the trends and price changes of consumer product related assets.

The NRBCPI index is most appropriate for constructed TCA and the CPI index is most appropriate for other TCA. These two indices have been incorporated into the Excel spreadsheet which accompanies this manual.

#### **Example:**

A community built a road in 1965. The historical cost records are no longer available. The community built a similar class road with the same length in 2003 for \$300,000. Using the NRBCPI, the estimated deflated reproduction cost is shown below

STEP 1: A road with a known replacement cost in 2003 dollars.

STEP 2: The road has a replacement cost of \$300,000.

STEP 3: The road was constructed in 1965.

STEP 4: Based on NRBCPI, the appropriate historical cost index rate is 14.03%.

STEP 5: The roads historical cost = \$300,000 x 14.03% = \$42,090.

### 3.4 Documentation

#### Keep All Documentation of Costs:

It is imperative that communities keep copies of all their supporting documentation and calculations for the costing of their TCA at March 31, 2009. The auditors will need this information to verify the opening TCA balances.

### 3.5 Valuation of Leased Tangible Capital Assets

The value of the leased TCA 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 community.

At the inception of the lease, the estimate of the discount rate used should be reviewed with:

- (i) The present value of the minimum lease payments;
- (ii) The assumed fair value of the property; and
- (iii) The assumed residual value, to ensure that all figures are reasonable and internally consistent.

#### The Cost of the Leased TCA Should Not Exceed FMV

The maximum value recorded for the asset may not exceed the fair market value (FMV) of the leased property.

#### Implicit Interest Rate:

The rate used to discount the 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. Financial calculators are available to discount the minimum lease payments when the implicit interest rate is not disclosed in the lease agreement.

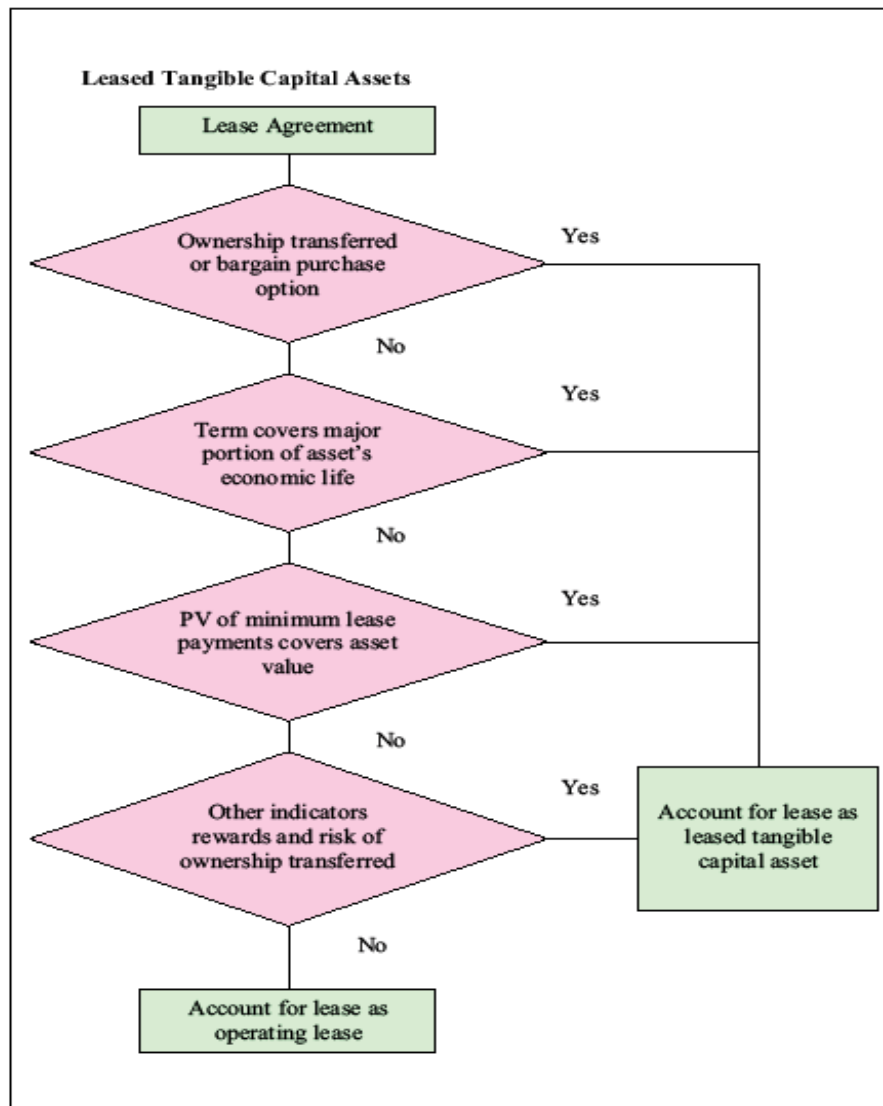
#### **Example:**

A grader with a FMV of \$300,000 is being leased for 4 years at \$70,000 per year. The community will own the grader at the end of the lease. The community traded in their old grader for \$80,000. What is the value of the lease obligation at the start of the lease? What is the value of the leased TCA?

FMV of the grader:	\$300,000
Less trade-in	( \$80,000)
<b>Lease Obligation</b>	<b><u>\$220,000</u></b>
Payments over the lease term	\$280,000
Lease Obligation	(220,000)
<b>Interest Over the Term of the Lease</b>	<b><u>\$ 60,000</u></b>
<b>Value of the Leased TCA</b>	<b><u>\$ 300,000</u></b>

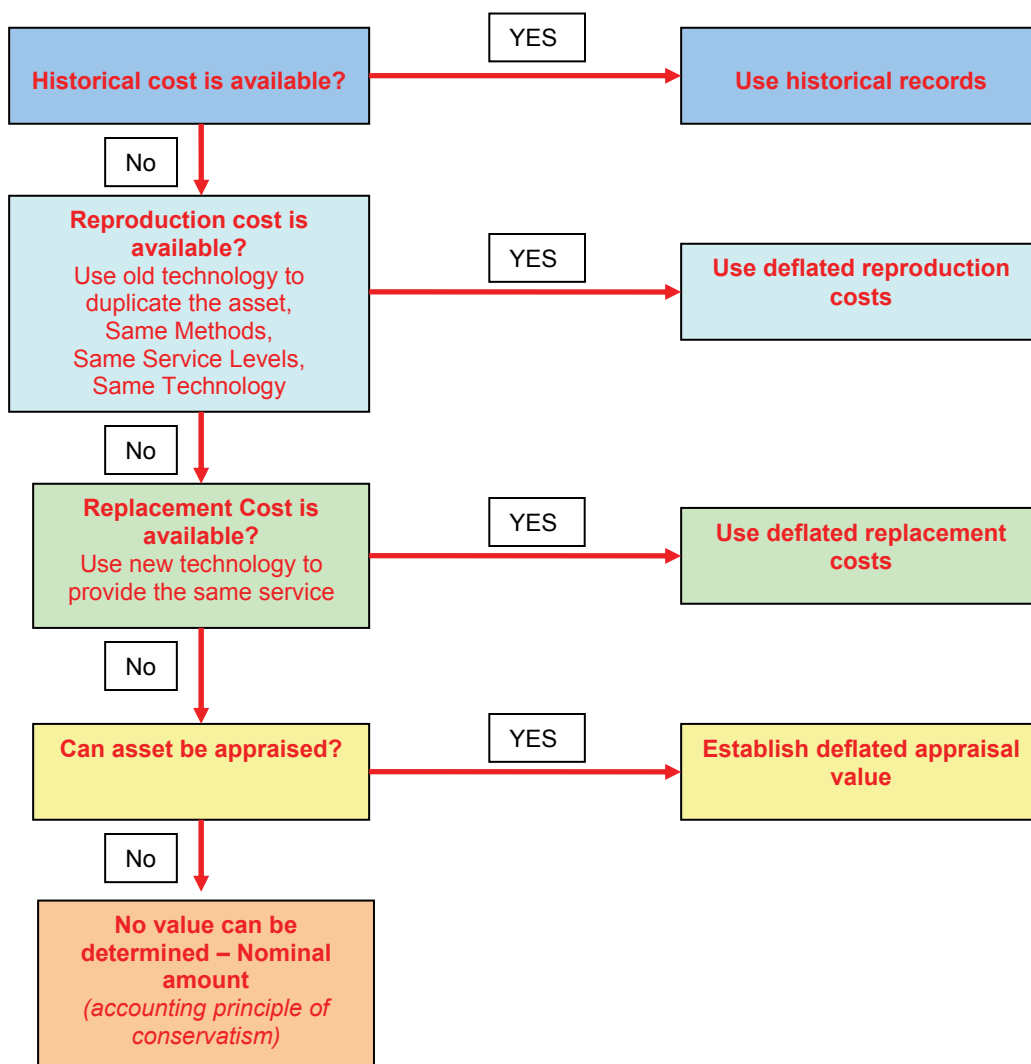
## Operating or Capital Lease Decision Tree

The Public Sector Accounting Group (PSAG) has created a valuation decision tree to guide communities in the process of deciding whether or not a lease should be recorded as a tangible capital asset.



### 3.6 Valuation Method Decision Tree

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



### 3.7 Nominal Values for Fully Amortized Network Assets

Infrastructure for many communities was originally built in the 1950's or earlier. In many cases there has been very little in the way of major capital reconstruction or expansion projects since then. The infrastructure for these communities are still being used but are fully amortized at March 31, 2009. These assets have no NBV remaining to be amortized. Their inclusion or omission from a community's list of infrastructure assets would have no effect on the balance sheet at March 31, 2009 or future income statements. Their inclusion as part of a community's listing of assets may be required in the future for capital planning and investment purposes.

Network assets such as roads, streets, water systems and sewer systems represent significant capital investments and are used to provide essential services for the public. They therefore should be included as part of a community's list of assets at March 31, 2009 even though their inclusion has no effect on the surplus or future operating results.

Communities should assign nominal values for fully amortized network assets that:

1. are still being used by the public and maintained by the community; and
2. historical cost, reproduction cost, replacement cost or appraisal information is not available.

The nominal value (\$1.00) should only be used if a community does not have historical cost information available or cost information on comparable assets to calculate an appropriate reproduction or replacement cost.

### **3.8 Role of the Auditor**

Because every auditor must maintain professional independence there are certain limitations on how the auditor can be involved.

- Your auditor **can** assist in the developing your work plans to implement the requirements.
- Your auditor **cannot** be directly involved in the valuation process or in data gathering.

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. The amount of the audit fee will be affected by the quality and amount of work completed by the community.

### **3.9 TCA Continuity Schedule**

A TCA Continuity Schedule has been incorporated into the Excel spreadsheet which accompanies this manual. The information on the TCA Continuity Schedule can be used to prepare the required note disclosure for the financial statements.

The worksheet will display:

- The accumulated amortization to March 31, 2009
- The NBV at March 31, 2009
- The amortization for 2010 and 2011
- The accumulated amortization at March 31, 2010 and 2011
- The NBV at March 31, 2010 and 2011

The TCA Continuity Schedule will also track your TCA additions and disposals for the years ended March 31, 2010 and 2011.

The worksheet is designed for assets amortized on a straight line basis. The amortization formulas will have to be overwritten if a different amortization method is used.

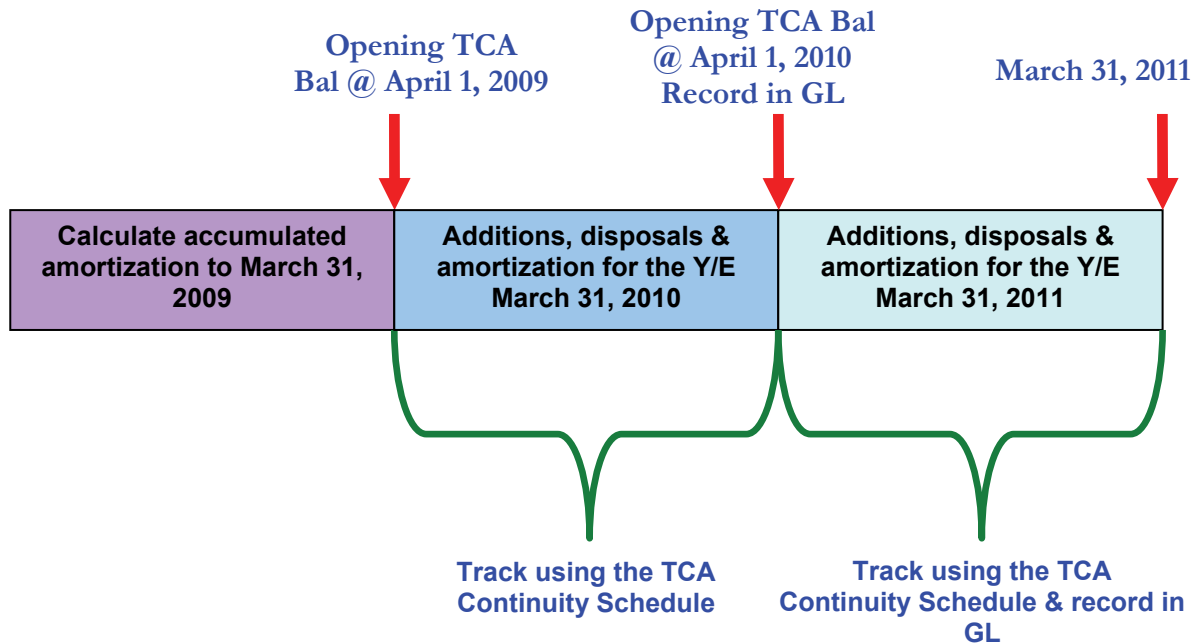
You are not required to use the continuity schedule. You are welcomed to design your own schedule or use someone else's spreadsheet. The TCA Continuity Schedule is available as a tool for all communities that want to use it.

### 3.10 Amortization and Entry for Opening Balances

After you have listed and valued all your TCA, you must:

1. For each TCA, calculate the accumulated amortization to March 31, 2009
2. Track TCA additions and disposals for the year ended March 31, 2010
3. For each TCA, calculate the amortization expense for the year ended March 31, 2010
4. Enter the opening TCA balances into your accounting records as of April 1, 2010
5. For each TCA, calculate then record the amortization expense for the year ended March 31, 2011 in your GL accounts

#### Timeline for Tracking and Recording TCA:



#### Calculate the Accumulated Amortization to March 31, 2009:

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

**Example:**

A community's office building was put into use on April 1, 1982. The community calculated the deflated 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 \$168,750 ( $\$6,250 \times 27$  yrs).

A TCA Continuity Schedule has been designed and made available for your use. You are only required to input a limited amount of information which is required for calculation purposes.

The TCA Continuity Schedule will calculate the accumulated amortization for each TCA to March 31, 2009. The TCA Continuity Schedule will also provide the NBV of each asset and asset class at March 31, 2009.

**Track Additions & Disposals for the year ended March 31, 2010:**

You will need to track your TCA additions and disposals during 2010 just as if PSAB was already implemented. **Do not record your 2010 TCA additions and disposals into your GL.** You should continue to use the current accounting practices during 2010.

The TCA Continuity Schedule can be used to track your 2010 additions and disposals. For additions, simply input the description of the asset and the date acquired or put into use during the year. The TCA Continuity Schedule will include the asset as an addition of 2010.

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

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

**Calculate the Amortization Expense for the year ended March 31, 2010:**

For each TCA, you must calculate the amortization expense for the year ended March 31, 2010. **Do not record the 2010 amortization expense into your 2010 GL.**

The TCA Continuity Schedule can be used to calculate the 2010 amortization expense for all your TCA at March 31, 2010 and all your additions and disposals during 2010. The TCA Continuity Schedule will total the 2010 amortization expense for each class.

The TCA Continuity Schedule will provide the cost, accumulated amortization and NBV at March 31, 2010 for each individual asset and asset class.

The March 31, 2010 cost and accumulated balances by class are very important. These are the numbers that you will enter into your GL records at April 1, 2010

**Example (cont'd):**

The amortization expense for the building in 2010 was \$6,250 ( $\$250,000/40$ ).

The accumulated amortization for the building at March 31, 2010 would be \$175,000 ( $\$168,750$  at March 31/09 + \$6,250 for 2010).

The NBV of the building at March 31, 2010 would be \$75,000 ( $\$250,000 - \$175,000$ ).

## Enter TCA Balances at April 1, 2011 into GL:

Before you can enter the TCA balances at April 1, 2011 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 TCA asset class that your community 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 TCA that your community uses

### **Example (cont'd):**

The community's GL showed a "Fixed Asset" balance of \$157,000 at April 1, 2011.

The administrator first reversed the "Fixed Asset" balances in the GL:

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

The administrator then created a cost account "Buildings" and an accumulated amortization account "Accm Amort – Buildings". He then created an amortization account called "Amortization Expense". These 3 accounts were all created in the general ledger

The entry to record the opening TCA at April 1, 2011 would be:

Dr. Buildings	\$250,000	
Cr. Accm Amort – Buildings		\$175,000
Cr. Surplus (i.e. the NBV)		\$ 75,000

In the above example, the community owned only 1 building. You would not enter your opening TCA balances at April 1, 2011 on an asset by asset basis. In situations where you have more than 1 TCA in the class, you would simply enter the class total.

## Record Your Amortization Expense for the year ended March 31, 2011 into your GL:

For each TCA, you will need to calculate the amortization expense for the year ended March 31, 2011 into your GL. An example is shown on the following page.

### **Example (cont'd):**

The amortization expense for the year ended March 31, 2011 would be \$6,250 ( $\$250,000/40$ ).

The entry for recording the 2011 amortization expense would be:

Dr. Amortization Expense	\$6,250	
Cr. Accm Amort – Buildings		\$6,250

The accumulated amortization at March 31, 2011 would be \$181,250 ( $\$175,000 + \$6,250$ ) and the NBV would be \$68,750 ( $\$250,000 - \$181,250$ ).

The TCA Continuity Schedule can calculate the amortization expense for each TCA and TCA class. The TCA Continuity Schedule will also track your TCA additions and disposals during 2009. Finally the TCA Continuity Schedule will provide the cost, accumulated amortization and NBV for each TCA and TCA class.

## Appendix A

### CICA Public Sector Accounting Handbook Section PS 3150 - Tangible Capital Assets

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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.

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

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

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

#### DEFINITIONS

.05 For the purposes of this Section:

- (a) **Tangible capital assets** are non-financial assets 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 not 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 PUBLIC SECTOR GUIDELINE PSG-2, Leased Tangible Capital Assets.

(c) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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

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

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

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

## ACCOUNTING

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

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

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

## Measurement

### Cost

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

.10 The cost of a tangible capital asset includes the purchase price of the asset and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties. The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. The activities necessary to prepare a tangible capital asset for its intended use encompass more than the physical construction of the tangible capital asset. They include the technical and administrative work prior to the commencement of and during construction.

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

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

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

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

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

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

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

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

.19 Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. In general, for tangible capital assets other than complex network systems, service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, the useful life of the property is extended or the quality of the output is improved.

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

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

(a) Maintenance and repairs maintain the predetermined service potential of a tangible capital asset for a given useful life. Such expenditures are charged in the accounting period in which they are made.

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

### **Amortization**

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

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

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

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

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

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

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

- (a) expected future usage;
- (b) effects of technological obsolescence;
- (c) expected wear and tear from use or the passage of time;
- (d) the maintenance program;
- (e) studies of similar items retired; and
- (f) the condition of existing comparable items.

.29 The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated. [SEPT. 1997]

.30 Significant events that may indicate a need to revise the amortization method or the estimate of the remaining useful life of a tangible capital asset include:

- (a) a change in the extent to which the tangible capital asset is used;
- (b) a change in the manner in which the tangible capital asset is used;
- (c) removal of the tangible capital asset from service for an extended period of time;
- (d) physical damage;
- (e) significant technological developments;
- (f) a change in the demand for the services provided through use of the tangible capital asset;  
and
- (g) a change in the law or environment affecting the period of time over which the tangible capital asset can be used.

## Write-downs

.31 When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. [SEPT. 1997]

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

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

.34 A government would write down the cost of a tangible capital asset when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:

- (a) a change in the extent to which the tangible capital asset is used;
- (b) a change in the manner in which the tangible capital asset is used;
- (c) significant technological developments;
- (d) physical damage;
- (e) removal of the tangible capital asset from service;
- (f) a decline in, or cessation of, the need for the services provided by the tangible capital asset;
- (g) a decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition; and
- (h) a change in the law or environment affecting the extent to which the tangible capital asset can be used.

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

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

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

## **Disposals**

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

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

## **PRESENTATION AND DISCLOSURE**

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

- (a) cost at the beginning and end of the period;
- (b) additions in the period;
- (c) disposals in the period;
- (d) the amount of any write-downs in the period;
- (e) the amount of amortization of the costs of tangible capital assets for the period;
- (f) accumulated amortization at the beginning and end of the period; and
- (g) net carrying amount at the beginning and end of the period. [APRIL 2005]

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

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

- (a) the amortization method used, including the amortization period or rate for each major category of tangible capital asset;
- (b) the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;
- (c) the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements;
- (d) the nature and use of tangible capital assets recognized at nominal value;
- (e) the nature of the works of art and historical treasures held by the government; and
- (g) 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 PUBLIC SECTOR GUIDELINE PSG-7, Tangible Capital Assets of Local Governments.

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

.47 When a government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets. It may be possible to derive information for recording tangible capital assets from records of government departments that manage those assets. A government would apply a consistent method of estimating the cost of the tangible capital assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset.

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

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### Footnotes

1. The term "financial statements" refers to the summary financial statements prepared by a government to report on its financial condition and results of operations.

2. For the purposes of this Section, tangible capital assets are defined to include computer software.

## Appendix B

### Tangible Capital Asset Policy Template Community of \_\_\_\_\_

Name: Tangible Capital Assets Accounting

Policy: # \_\_\_\_\_

Applies to: All Departments

Responsibility: Treasurer

Approved by Council: Date: \_\_\_\_\_ Resolution #: \_\_\_\_\_

#### **Purpose**

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

#### **Tangible Capital Asset**

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

- a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;*
- b) have useful economic lives extending beyond one year;*
- c) are used on a continuing basis; and*
- d) are not for resale in the ordinary course of operations. (PS 3150.05)*

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

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

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

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

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

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

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

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

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

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

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

### **Threshold**

Only TCA that exceed the asset class threshold will be capitalized. The following are the thresholds that are being used to develop the initial TCA listing.

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

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

### **Capitalization of Interest Costs**

The community does not capital interest costs incurred during the construction or development of TCA.

## **Estimated Useful Life**

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

## **Amortization**

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

Amortization begins in the year after acquisition as it will be after year end that the full cost of putting the asset into service will be known.

## **Transfers of Assets**

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

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

## **Disposal of Assets**

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

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

## **Capital Leases**

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

## **Write Downs**

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

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

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

## **Transition**

All TCA in the community will be inventoried and valued as of March 31, 2009. The TCA Continuity Schedule will be used to track 2010 additions and disposals. The accounting for TCA is effective April 1, 2011 at which time TCA will be recorded in the community's financial system.

## Appendix C

### Table of Useful Life Estimates from the Alberta Toolkit

**APPENDIX A:  
RECOMMENDED MAXIMUM USEFUL LIFE**

Major <i>Minor</i> Sub-class One Sub-class Two Sub-class Three	Asset Classes	Maximum Useful Life
	<b>Land</b> <i>Right-of-way</i> <i>Undeveloped right-of-way</i> <i>Parks</i> <i>General</i>	
	<b>Cultural &amp; Historical Assets</b> <i>Public art</i> <i>Historical</i> <i>Heritage site</i>	
	<b>Land Improvements</b> <i>Parking lot</i> Gravel 15 Asphalt 25 <i>Playground structures</i> 15 <i>Landscaping</i> 25 <i>Fences</i> 20 <i>Sprinkler systems</i> 25 <i>Golf courses</i> 45 <i>Tennis courts</i> 20 <i>Fountains</i> 20 <i>Lakes/ponds</i> 25 <i>Retaining walls</i> 20 <i>Running tracks</i> 15 <i>Outdoor lighting</i> 20 <i>Airport runways</i> 10 <i>Soccer pitch - outdoor</i> 20 <i>Bike/jogging Paths</i> Gravel 15 Asphalt 20 <i>Landfill</i> Pits Pads Transfer stations <i>Construction in progress</i>	Volume Volume 25
	<b>Buildings</b> <i>Permanent Structures</i> Frame 50 Metal 50 Concrete 50 <i>Portable Structures</i> Metal 25 Frame 25 <i>Leasehold improvements</i> <i>Construction in progress</i>	Variable

Major Minor Sub-class One Sub-class Two Sub-class Three	Asset Classes	Maximum Useful Life
	<b>Engineered Structures</b>	
	<b>Roadway system</b>	
	Bridges	Variable
	Overpass/interchange	60
	Curb & gutter	30
	Parkades	50
	Roads & streets	
	<b>Lanes/alleys</b>	
	ACP - hot mix	20*
	Gravel	15*
	Nonconforming	20*
	<b>Local/Collector/Arterial/Major Arterial</b>	
	<b>Surface</b>	
	Concrete	30*
	ACP - hot mix	20*
	ACP - cold mix	10*
	Chip seal	10*
	Oil	5*
	Gravel	25*
	<b>Subsurface</b>	40*
	Road signs	
	<b>Traffic control</b>	30
	<b>Information</b>	30
	<b>Lights</b>	
	<b>Decorative</b>	30
	<b>Street</b>	30
	<b>Traffic</b>	30
	Guard rails	30
	Ramps	30
	Sidewalks & para-ramps	30
	Light rail system	65
	Construction in progress	
	(* subject to weather conditions)	
	<b>Water system</b>	
	Distribution system	
	Mains	75
	Services	75
	Pump, lift and transfer stations	45
	Plants and facilities	
	<b>Structures</b>	45
	<b>Treatment equipment</b>	
	Mechanical	45
	Electrical	45
	General	45
	<b>Pumping equipment</b>	45
	Hydrants/fire protection	75
	Reservoirs	45
	Construction in progress	

Major Minor	Asset Classes Sub-class One Sub-class Two Sub-class Three	Maximum Useful Life
	<b>Wastewater system</b>	
	Collection system	
	<i>Mains</i>	75
	<i>Services</i>	75
	Pump, lift and transfer stations	45
	Plants and facilities	
	<i>Structures</i>	45
	<i>Treatment equipment</i>	
	Mechanical	45
	Electrical	45
	General	45
	<i>Pumping equipment</i>	45
	Lagoons	45
	Construction in progress	
	<b>Storm system</b>	
	Collection system	
	<i>Mains</i>	75
	<i>Services</i>	75
	Pump, lift and transfer stations	45
	Catch basins	75
	Outfalls	75
	Wetlands	75
	Retention ponds	75
	Treatment facility	45
	Construction in progress	
	<b>Fibre optics</b>	30
	<b>Electrical System</b>	
	Electrical generation	
	<i>Boilers</i>	30
	<i>Turbo generators</i>	30
	<i>Combustion turbines</i>	20
	<i>Condensate tanks</i>	10
	<i>Gas compressors</i>	20
	<i>Other</i>	10
	<i>Generation Wind/Turbine</i>	30
	<i>Construction in progress</i>	
	Electrical Transmission	
	<i>Structures &amp; improvements</i>	35
	<i>Station &amp; line equipment</i>	
	Transformers	40
	Switchgear	35
	Protection systems	20
	Insulators	60
	Other structures & equipment	35
	<i>Towers and fixtures</i>	38
	<i>Poles and fixtures</i>	38

Asset Classes		Maximum Useful Life
Major	Minor	
	Sub-class One	
	Sub-class Two	
	Sub-class Three	
	<i>Overhead (O/H) conductors &amp; devices</i>	35
	<i>Underground (U/G) conductors &amp; devices</i>	40
	U/G conduit	40
	U/G cable	40
	<i>Construction in progress</i>	
	Electrical Distribution	
	<i>Site development</i>	35
	<i>Station &amp; line equipment</i>	
	Transformers	40
	Switchgear	35
	Protection systems	20
	Insulators	60
	<i>Towers and fixtures</i>	38
	<i>Poles and fixtures</i>	38
	<i>O/H conductors &amp; devices</i>	35
	<i>U/G conductors &amp; devices</i>	40
	U/G conduit	40
	<i>Construction in progress</i>	
	General Plant - Electrical	
	<i>Site development</i>	80
	Electrical substations	
	<i>Site development</i>	35
	<i>Station &amp; line equipment</i>	
	Transformers	40
	Switchgear	35
	Protection systems	20
	Other structures & equipment	35
	<i>Towers and fixtures</i>	38
	<i>Poles and fixtures</i>	38
	<i>O/H conductors &amp; devices</i>	35
	<i>U/G conductors &amp; devices</i>	40
	U/G conduit	40
	U/G cable	40
	<i>Construction in progress</i>	
	Gas distribution system	
	Structures	75
	Transmission	75
	Services	75
	Medium pressure	36
	High pressure	36
	Measurement	35
	<i>Construction in progress</i>	

