POLICY # T-1

TANGIBLE CAPITAL ASSET

Department:	**Administration**		
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PURPOSE AND INTENT

This Capital Asset Policy (Policy) promotes sound corporate management of capital assets and complies with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150 (Appendix I).

Financial Statements prepared for fiscal the year starting January 1, 2009 will require compliance with PSAB 3150 in accordance with ***Canadian Institute of Chartered Accountants*** (CICA) standards and provincial government requirements. Comparative figures for the year 2008 are also required.

SCOPE

All tangible property owned by the Town of Three Hills (Town), either through donation, lease or purchase which qualifies as capital assets are addressed in this policy. In accordance with PSAB 3150, as amended from time to time, tangible capital assets (TCA) are non-financial assets having physical substance that:

i. are held for use in the production or supply of goods or services, for rental to others, for administrative purposes, or for the development, construction, maintenance or repair of other tangible capital assets;
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.

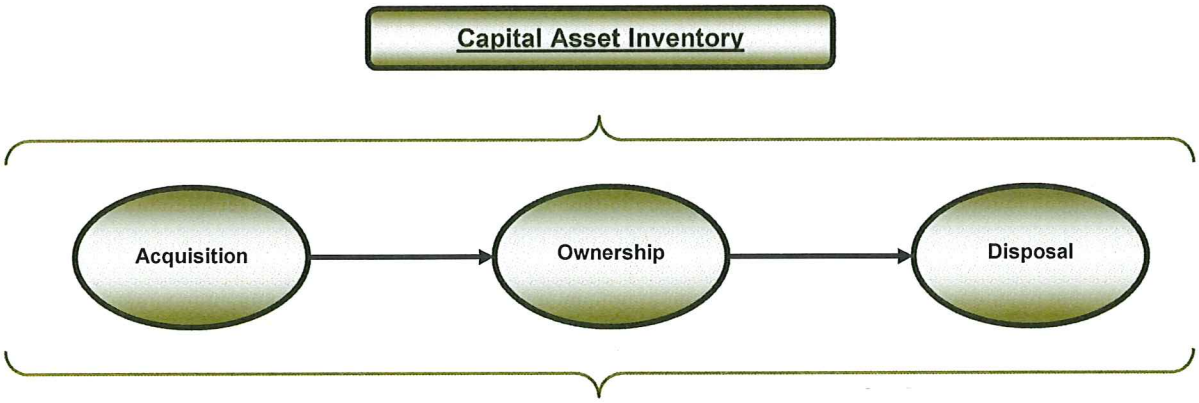
PRINCIPLES

Principles in this policy provide guidance for policy development and assist with interpretation of the policy once applied.

1. This policy is for the benefit of the Town as a whole; for the users of the Town's financial statements and managers of the Town's tangible capital assets.
2. The cost associated with data collection and storage is balanced with the benefits achieved by users of the data and reports.
3. Budgeting follows PSAB 3150, or the equivalent document as amended from time to time. Only capital items meeting the capital asset criteria in this policy will be budgeted as capital.
4. Compliance is with all legislation applicable to municipalities.
5. Financial, operational and information technology system limitations are considered.
6. Materiality is considered.
7. Reporting deadlines are to be met.

POLICY

A framework is established for the management and control of the Town's capital assets. Included in this framework are proper recognition, measurement, thresholds, aggregation, segregation, amortization, reporting, safeguarding and disposal. Additional guidelines relating to the purchase of assets are found in the Town's Purchasing Policy.



TCA Inventory - Acquisition

Tangible Capital Assets (TCA's) are recorded at historical cost when known or determinable. Where necessary or applicable, the Town may utilize reproduction cost, replacement cost or appraised value. TCA's are recognized as assets on the Town's Statement of Financial Position on date of receipt for capital goods or when the asset is put into use for capital projects.

Cost as defined by PSAB 3150, is the gross amount of consideration given up to acquire, construct, develop or better a TCA, and includes all costs directly attributable to acquisition, construction, development or betterment of the TCA, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed TCA, including a TCA 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 TCA.

For assets owned by the Town but not paid for by the Town, including contributions, gifts, and donations, valuation may be assessed by fair value. Fair value is the amount of the consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act.

Thresholds

Thresholds are established for a minimum dollar value and number of years of useful life. Thresholds help to determine whether expenditures are to be capitalized as assets and depreciated or treated as a current year expense. For financial reporting purposes thresholds are set fairly high, however, detailed itemization may be useful for the Town's capital asset management program. Therefore, an optimal threshold for each asset category is a balance between the two. ***Items not meeting the threshold limits below may be added should there be a need to identify and depreciate specific assets.***

The Town's threshold levels are set with consideration to:

a) the limits recommended by Alberta Municipal Affairs,
b) the GFOA Recommended Practice for Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets dated January 2002.

Thresholds will be adjusted for inflation using the current established budgeting practice.

Asset Category	Threshold
Land	Capitalize Only
Land Improvements	$5,000
Buildings	$25,000
Machinery and Equipment	$5,000
Vehicles	$5,000
Infrastructure (e.g. water, electrical wastewater, roads etc.)	$25,000
Construction in Progress	Capitalize Only

Thresholds apply to capital goods purchased and capital projects constructed with the total cost of the good or project meeting the threshold criteria. Long term assets not individually meeting threshold limits but when purchased volumes meet the limit are to be capitalized. The useful life threshold is set at two years; if less than this, the asset is not capitalized.

Further refinement to threshold levels will occur as the Town develops an understanding of its asset and reporting needs. Improvements are capitalized when they extend the useful life of the asset.

Pooling of Assets

In cases where assets do not individually meet the thresholds above but cumulatively would, these assets are put into asset pools. The following assets have been put into asset pools:

- Furniture
- Hydrants
- Manholes
- Catch Basins
- Garbage Bins
- In ground Garbage bins
- Benches/receptacles along walking paths
- Street Lights

- Concession Equipment – Arena
- Telephones
- Signage (Street & Tourism/Information)

These assets will be pooled and amortized as opposed to being amortized on an individual asset basis.

Classification, Aggregation & Segmentation

The level of detail required in the capital asset inventory is a balance between cost of data collection, tracking and analysis and the beneficial use of the information gathered. Classification is at the categories shown above for Alberta's TCA Guidelines with infrastructure further segmented by utility type. These utility types include electrical, water, sewer, drainage, and roads.

The full cost of preparing a TCA for its intended use is considered the aggregate cost of the capital asset. The aggregate cost is further segmented into elemental components based on useful life.

LAND

Land owned by the town includes parkland, land for town owned facilities, leased land and land under roads, alleys and sidewalks. All land owned by the town is segmented by each parcel held. Town parkland and the land for town facilities and leased facilities is quantified and included in the town's land database.

For purpose of valuing the road allowances and lanes, the Town was divided into sectors according to purchase of lands or registration of road plans and these amounts were used to determine the value of land under roads (road allowances) and alleys (lanes). All road intersections will be recorded separately. Where exact amounts were undeterminable for the land purchase, value of purchases from similar dates were used.

LAND IMPROVEMENTS

Land Improvements includes outdoor pools, fencing, playgrounds, waste transfer sites, artificial fields and trails that are not within a road plan. Each asset when capitalized is separately recorded with an attached useful life.

BUILDINGS

Buildings owned by the town include the Administration Office; facilities including fire halls, operations buildings, community centers; and third party leased properties. A building is segmented by ***envelope/roof and mechanical equipment*** based on useful life. This treatment provides for capital replacement of each component over the years of ownership.

MACHINERY AND EQUIPMENT

Equipment that is heavy equipment for constructing infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware and software. This class does not include stationary equipment used in the engineered structures class. Pooled assets will include but not be limited to: mobile fire equipment, recreation/lifesaving training apparatus, office furniture and water/lab testing equipment.

VEHICLES

Rolling stock that is used primarily for transportation purposes.

INFRASTRUCTURE

ELECTRICAL

Electrical TCA's include generation systems, substations, feeders, valves, transformers, switches, poles and vaults. All substations are capitalized. Individual feeders are capitalized as segments. Feeders are from the substation to the feeder end and include vaults, transformers, switches, poles and other connected assets.

WATER

The water system components include and are segmented by water mains, valves, hydrants, services, wells, cisterns and storage tanks. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

The water system will be divided into supply/treatment and distribution. Supply/treatment will be segmented into raw water, treatment, main line from plant to the reservoir, the reservoir itself and the pump stations.

Distribution will include any assets delivering water outside of the supply/treatment facilities. Fire hydrants will be individually capitalized but pooled as one asset. Each town block will be segmented as follows: all

distribution parts within the road or line that are the same character will be one asset. Each town block will be measured from intersection to intersection and will be one asset unless there is a change in characteristics or size, which would constitute a different asset.

SEWER AND DRAINAGE

The sewer system components include and are segmented by sewer mains, force mains, lift stations, manholes, catch basins, lagoons, blower and associated aeration systems and services. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

Each town block will be measured from intersection to intersection and will be one asset unless there is a change in characteristics or size, which would constitute a different asset.

TRANSPORTATION

Transportation assets include and are segmented by roads, lanes, sidewalks, traffic intersections, street lights, signage, and structures. Structures include bridges, retaining walls, and culverts. Aggregation for threshold purposes is by capital project. Capital projects when complete are recorded as assets by allocating costs to each component part.

Roads will consist of three components: base course, surface and curb/gutter/sidewalk.

Each town block will be measured from intersection to intersection and will be one asset unless there is a change in characteristics or size, which would constitute a different asset.

Railway crossings owned by the municipality will be itemized individually. Assets will also be divided by major intersections. Signage will be pooled into two different assets; street signage and tourism/information signage.

CONSTRUCTION IN PROGRESS

Construction in progress contains capital projects underway but not complete or put to use. These projects are individually segmented and are capitalized if costs exceed threshold limits.

TCA Inventory – Ownership

Ownership of assets requires safeguarding, maintenance, amortization for replacement and possibly write-downs. These requirements are addressed in this section.

It is the responsibility of the director, foreman and staff member to ensure capital assets assigned to his or her custody are maintained and safeguarded.

Amortization is an annual charge to expenditures for the use of a capital asset. The town sets amortization rates on a straight line basis based the on number of years in service less salvage value.

The asset categories are amortized as follows:

Asset Category	Amortization of Cost less Salvage Value
Land	Not amortized
Land Improvements	Straight line over useful life of each asset unit
Buildings	Straight line over useful life of each asset unit
Machinery and Equipment	Straight line over useful life of each asset unit
Vehicles	Straight line over useful life of each asset unit
Infrastructure (e.g. water, electrical wastewater, roads etc.)	Straight line over average useful life of each segment for cost less salvage value
Construction in Progress	Not amortized

Amortization is generally calculated from the month the asset is put into service. In the event the month the asset was put into service was undeterminable, the tenth month was assumed. This assumption is based on the premise that most work is done during the summer and completed in the fall. In the event of roads and/or other infrastructure are provided as a donation or contributed asset, the amortization period shall commence at the date of issue of the Final Acceptance Certificate (FAC). A depreciated value may be recorded for the asset at the time of issue of the FAC if the town believes that the asset has been in service for a sufficient period of time and that it has lost value. Economic useful life is used for amortization rather than physical useful life. Appendix II provides a general guide for useful life.

Salvage/Residual Value is the concept that as long as an asset is still in service, it still has value. Different types of assets have different residual values. The following is a schedule of the Residual Value Limits:

Residual Value Limits

Asset Type	Residual Value	Comments
Engineered Structures (little or no mechanical)	$1	Lagoon
Engineered Structures (with mechanical)	5%	WTP, pump stations, boosters
Water Distribution	$1	Mains, valves, service lines
Sewer Collection	$1	Mains, manhole, service lines
Storm Drains	$1	
Mobile Equipment & Automotive	5%	Heavy Equipment, trucks
Buildings	5%	
Paved Streets (w or w/o deep services)	$1	
Gravel Streets	$1	
Recreation Facilities (no mechanical)	$1	Outdoor rink, playgrounds
Recreation Facilities (with mechanical)	5%	Arena, pool, splash park
Land Improvements	$1	

Leased Assets

A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the town. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met;

a) There is reasonable assurance that the town will obtain ownership of the leased property by the end of the lease term.

b) The lease term is of such duration that the town will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.

c) The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.

A leased tangible capital asset would be amortized over the period of its expected use, on a basis consistent with the amortization policy for similar tangible capital assets. If the lease contains terms that allow ownership to pass to the town, or a bargain purchase option, the period of amortization would be the economic life of the property. Otherwise, the property would be amortized over the lease term. Lease payments would be allocated between repayments of the liability, interest expense and any related executory costs. The total minimum lease payments, less the initial liability recorded, represents the total interest cost of the lease. The interest expenditure/expense would be calculated based on the same discount rate used in computing the present value of the minimum lease payments applied to the outstanding lease liability at the beginning of the lease payment period.

Betterments

Subsequent expenditures on tangible capital assets that:

- increase previously assessed physical output or service capacity;
- lower associated operating costs;
- extend the useful life of the asset; or
- improve the quality of the output.

Any other expenditure would be considered a repair or maintenance and expensed in the period.

Annual Reviews

General accounting procedures for tangible capital assets will require the following reconciliations and reviews:

- regular reconciliation of the asset register to general ledger balances;
- annual management checks for existence, continuing use, remaining life and obsolescence;
- annual reviews for impairment;
- regular reviews of use lives;
- regular review to ensure that all asset additions have been identified and recorded;
- regular review to ensure that asset sales, write-offs and disposals are managed and recorded.

Write-Downs

A write-down is an adjustment to the cost of an asset. A corresponding adjustment is made to the accumulated depreciation and the net adjustment is reported as an expense in the statement of operations. This new cost should be amortized over the remaining useful life of the asset.

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. (PS 3150.31)

The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations. (PS 3150.32)

A write-down should not be reversed. (PS 3150.33)

TCA Inventory - Disposal

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. Disposals of tangible capital assets in the accounting period may occur by sale, trade-in, destruction, loss or abandonment. Such disposals represent a reduction in a local government's investment in tangible capital assets.

When a tangible capital asset is disposed of, the cost and accumulated amortization are removed from the accounts. Any difference between net proceeds and the carrying amount of the asset is accounted for as a revenue or expense in the statement of operations. The value given for a trade-in is the net proceeds on disposal.

When a component of a complex network is replaced, the removal from service of the old asset is treated as a disposal. ***For example, if a section of a road is resurfaced, the cost and accumulated amortization of the old pavement is removed from the accounts. The difference between the salvage value and the carrying amount, if any, is reported as revenue or expense.***

PROCEDURES

The CAO will be responsible to ensure that:

a. an asset register is maintained;
b. a regular periodic review of the assets is conducted;
c. recommend additional policy to Council as required; and
d. establish appropriate accounting procedures.

ACCOUNTING

The Public Sector Accounting Board expectations regarding transition to PSAB 3150 is provided in PSAB 3150.43 to PSAB 3150.48. PSG-7 provides further guidance on the notes to the Financial Statements.

Preliminary transition steps are as follows:

i. Remove Tangible Capital Assets and Investment in Tangible Capital Assets from the Statement of Financial Position.
ii. Keep long term debt as a financial liability.
iii. Add to the Statement of Financial Position, the recently valued, currently held, tangible capital assets along with related accumulated amortization. The offsetting account is prior year surplus.
iv. Record new additions on the Statement of Financial Position with the offsetting entry to cash, accounts payable or long term debt. Do not expense the cost of capital assets.
v. Record disposals at the time of replacement. Disposals reduce the cost of the asset, accumulated amortization with the residual recorded as either an expense or revenue.
vi. Amortize the assets each year.
vii. Write-downs are an adjustment to the cost of the TCA (PSAB 3150.31) and expense.
viii. Offsetting adjustment for amortization in the budget for the purposes of a balanced budget is a transfer from equity.
ix. Budgeting for capital assets will be for the costs expected on the Statement of Financial Position.

Tangible Capital Assets on the financial statements will result in net capital assets on the balance sheet and expenditures for depreciation and write-downs on the income statement.

PRESENTATION AND DISCLOSURE

In total and for each major category of capital assets, the Town will disclose the following in accordance with CICA Public Sector Guideline 7 (PSG-7):

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 depreciation for the period;
f. Accumulated amortization at the beginning and end of the period;
g. Net carrying amount at the beginning and end of the period;

Also in accordance with PSG-7 disclosure will include:

a. The method used to determine the cost of each major category of TCA;
b. The amortization method used, including amortization period or rate for each major capital category of TCA;
c. The net book value of TCA's not being amortized because they are under construction or development or have been removed from service;
d. The nature and amount of contributed TCA's received in the period;
e. The nature and use of tangible capital assets disclosed at nominal value;
f. The nature of the works of art and historical treasures held by the municipality ; and
g. The amount of interest included in the cost in the period.

AMENDMENTS

A record of policy amendments will be maintained in the format as provided in Appendix III.

APPENDIX I

2.2 PSAB Handbook Section 3150 – Tangible Capital Assets

Purpose and Scope

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

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

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

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

Definitions

.05 For the purposes of this Section:

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

(i) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;

(ii) have useful economic lives extending beyond an accounting period;

(iii) are to be used on a continuing basis; and

(iv) are not for sale in the ordinary course of operations.

(b) **Cost** is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a

developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset. The cost of a leased tangible capital asset is determined in accordance with 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 Government's 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.3

.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.[4]

.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.[5]

.23 The amortization of the costs of tangible capital assets should be accounted for as expenses in the statement of operations.[67]

.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.8

.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.9

.32 The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations.

.33 A write-down should not be reversed12.

.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.[1314]

.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.[15]

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

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

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

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

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

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

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

(f) the amount of interest capitalized in the period.

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[17], 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.

APPENDIX II

ASSET USEFUL LIFE – General Guidelines

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

Buildings	
Permanent Structures	
Frame	**50**
Metal	**50**
Concrete	**50**
Portable Structures	
Metal	**25**
Frame	**25**
Leasehold improvements	**Variable**
Construction in progress	
Engineered Structures	
Roadway system	
Bridges	**Variable**
Curb & gutter	**30**
Roads & streets	
Lanes/alleys	
ACP - hot mix	**20***
Gravel	**15***
Nonconforming	**20***
Local/Collector/Arterial/Major Arterial	
Surface	
Concrete	**30***
ACP hot mix	**20***
ACP cold mix	**10***
Chip seal	**10***
Oil	**5***
Gravel	**25***
Subsurface	**40**
Lights	
Decorative	**30**
Street	**30**
Traffic	**30**
Guard rails	**30**
Ramps	**30**
Sidewalks & para-ramps	**30**
Construction in progress	**30**
(* subject to weather conditions)	
Water system	
Distribution system	
Mains	
AC pipe	**60**
CI pipe	**60**
DI pipe	**60**
PVC pipe	**75**
CU pipe	**60**
Steel pipe	**75**
HDPE pipe	**75**
Services	**75**
Pump, lift and transfer stations	**45**
Plants and facilities	
Structures	**45**
Treatment equipment	

Mechanical	45
Electrical	45
General	45
Pumping equipment	45
Hydrants/fire protection	75
Reservoirs	45
Construction in progress	
Wastewater system	
Collection system	
Mains	
CONC pipe	50
PVC pipe	75
VCT pipe	50
AC pipe	60
HDPE pipe	75
Steel pipe	75
Services	75
Pump, lift and transfer stations	45
Plants and facilities	
Structures	45
Treatment equipment	
Mechanical	45
Electrical	45
General	45
Pumping equipment	45
Lagoons	45
Construction in progress	
Storm system	
Collection system	
Mains	
Plastic pipe	75
PVC pipe	75
CMP pipe	30
Ultra-rib pipe	75
G1 pipe	75
CONC pipe	50
Perf pipe	75
Services	75
Pump, lift and transfer stations	45
Catch basins	75
Outfalls	75
Wetlands	75
Retention ponds	75
Treatment facility	45
Construction in progress	
Fibre optics	30

Machinery and Equipment	
Heavy construction equipment	**Variable**
Stores	**25**
Food services	**10**
Fire equipment	**10**
Boats	**25**
Fitness and wellness	**10**
Control systems	**5**
Communication links	**20**
SCADA system	**10**
Communications	
Radios	**10**
Telephone systems	**10**
Tools, shop and garage equipment	**15**
Scales	**15**
Bins	**15**
Water Meters	**40**
Turf equipment	**10**
Ice re-surfacer	**10**
Office Furniture & Equipment	
Furniture	**20**
Office equipment	**10**
Audiovisual	**10**
Photocopiers	**5**
Computer Systems	
Hardware	**5**
Software	**10**
Construction in progress	
Vehicles	
Light duty	**10**
Medium duty	**10**
Heavy duty	**10**
Fire trucks	**25**
Construction in progress	

Date Approved: Motion No.:

Date Amended: Motion No.:

CAO _____ Mayor _____

Rescinds Policy No.

* - Denotes change
Motion No.