Policy Number No. 42-2009	Approval Date April 15, 2009	Resolution Number 188/09
Supersedes *None*	**Effective Date** April 15, 2009	**Legal Authority** PSAB 3150

TITLE:	Recording and Reporting Tangible Capital Assets

PURPOSE:

The objective of this Policy is to prescribe the accounting treatment for tangible capital assets so that users of financial reports can discern information about the investment in property, infrastructure, plant and equipment and the changes in such investment. The principal issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts and amortization charges and the recognition of any related impairment losses.

As part of this policy, it shall be responsibility of Administration to develop Internal Managerial Guidelines and Procedures to:

a) Protect and control the use of all tangible capital assets.
b) Provide accountability over tangible capital assets.
c) Gather and maintain information needed to prepare financial statements.

POLICY STATEMENT:

The Town of High Prairie is committed to meeting the requirements of Section 3150 – Tangible Capital Assets as directed by the Public Sector Accounting Board and as recommended by Alberta Municipal Affairs and Housing. This policy will enable the preparers and users of the Town of High Prairie financial statements to recognize the investment and economic resources required to acquire and maintain assets of the Town thereby providing information that is necessary to make informed decisions.

SCOPE:

This policy applies to all Town Departments, Boards and Commissions, Agencies and other organizations falling within the reporting entity of the Town of High Prairie.

Internal Managerial Guidelines and Procedures will be developed, in consultation with accounting and audit professionals, to provide greater detail and instruction to maintain consistency and clarity in achieving the goal of this policy, and may be amended from time to time as required at the discretion of the CAO.

Rick Dumont
Mayor

Larry Baran
Town Manager

This policy has been prepared in accordance with the recommendations of the Public Sector Accounting Group of the Canadian Institute of Chartered Accountants (CICA).

DEFINITIONS:

Tangible Capital Assets:

Assets having physical substance that;

a) Are used on a continuing basis in the Town's operations.
b) Have useful lives extending beyond one year.
c) Are not held for re-sale in the ordinary course of operations.

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.

Group Assets:

Assets that have a unit value below the capitalization threshold but have a material value as a group. Normally recorded as a single asset with one combined value. Although recorded in the financial systems as a single asset, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance. Examples could include personal computers, furniture and fixtures, small moveable equipment, etc.

Fair value:

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

Capital Leases:

A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property of 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.

MANAGERIAL GUIDELINES:

The Treasurer shall be responsible for the development, implementation and ongoing maintenance of all aspects of the accounting for tangible capital assets. Responsibility for the management of the condition, use and performance of Town assets will fall to the Director of each applicable department.

Implementation for recording and managing the tangible capital assets must take place by December 31, 2008. Effective January 1, 2009 the recording and managing of the tangible capital assets will be an ongoing accounting requirement to be incorporated into the Town's normal business practices.

The major categories to be covered by Managerial Guidelines are:

1. Classification of Assets
2. Capitalization Thresholds
3. Valuation of Assets
4. Amortization Methods and Rates
5. Write-Downs of Assets
6. Disposals of Assets
7. Asset Recording and Management System

1. Classification of Assets:

Tangible capital assets are to be defined in four classes, major, minor, subclass and capital leases.

- Major – A group of capital assets that is significantly different in design and use.
- Minor – A classification within a major class that has unique characteristics.
- Subclass – A further classification that may be required due to unique tangible capital asset criteria, applications, methodologies and asset lives.
- Capital Leases

Assets to be included in the major category are:

Land – Includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (highways, dams, bridges, tunnels, etc.) and other program use. This category does not include land held for resale.

Land Improvements – All improvements to land of a permanent nature such as parking lots, landscaping, lighting, pathways and fences.
Buildings – Permanent, temporary or portable building structures, such as offices, garages, warehouses, and recreation facilities intended to shelter persons and/or goods, machinery, equipment and working space.
Engineered Structures – Permanent structural works such as roads, bridges, canals, dams, water and sewer, and utility distribution and transmission systems,

including plants and substations.

Machinery and Equipment – Equipment that is heavy equipment for constructing infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware and software. This does not include stationary equipment used in the Engineered Structures class.

Vehicles – rolling stock that is primarily for transportation purposes.

Cultural and Historical assets – These assets are not recognized as tangible capital assets in the financial statements but the existence of such property should be disclosed in the notes to the financial statements. These items consist of works of art and historical treasures that have cultural, aesthetic or historical value that is worth preserving perpetually.

The minor asset classification will further define the major classifications of Engineered Structures and Machinery and Equipment:

Minor classifications will be:

Engineered Structures - Roadway system
Communications system
Water system
Wastewater system
Storm system
Fibre optics
Electricity system
Gas distribution system

Machinery and Equipment – Heavy equipment
Small equipment and tools
Computer hardware and software
Furnishings and fixtures

The subclass system will further define the minor asset classes for Water, Wastewater, Storm, Fibre Optics, Electricity and Gas Distribution in order to better report the cost of transmission and distribution.

The subclasses will consist of – Buildings
Machinery and Equipment

Capital Leases will consist of all leases meeting the definition of a capital lease; in addition these items require note disclosure in the financial statements.

See Appendix A for an example of the Classification of Assets structure.

2. **Capitalization Thresholds:**

Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:

Table 2.1 Initial Capitalization

Asset Description	Class	Minimum Threshold
Land	Major	No minimum
Land Improvements	Major	$5,000 per group
Buildings	Major	$10,000 per unit
Engineered Structures	All classes	$25,000 per unit
Machinery & Equipment		
Heavy equipment	Minor	$5,000 per unit
Small equipment & tools	Minor	$10,000 per group
Computer hardware & software	Minor	$10,000 per group
Furnishings & fixtures	Minor	$10,000 per group
Vehicles	Major	$5,000 per unit
Capital Leases	Major	No minimum

Capitalization thresholds have been established in order to ensure asset records meet materiality requirements and provide for effective asset management, that the value derived from the records exceeds the cost of preparing the records and that the asset cost recovery rates reflect the cost of the asset operation.

Initial capitalization – All initial expenditures that meet the requirements of a tangible capital asset and meet or exceed the minimum thresholds as listed above in Table 2.1 shall be recorded as tangible capital assets.

See Appendix B for recommended maximum useful life and detailed listing of assets per description.

Betterments – Betterments are to be capitalized when the unit cost of the betterment meets the betterment definition criteria and meets or exceeds the minimum threshold limit as listed in Table 2.2.

See the PS Handbook Sections 3150.19-21 for further clarification on betterments vs. maintenance expenditures.

Table 2.2 Betterments

Asset Description	Class	Minimum Threshold
Land	Major	No minimum
Land Improvements	Major	$1,000 per group
Buildings	Major	$5,000 per unit
Engineered Structures	All classes	$10,000 per unit
Machinery & Equipment		
Heavy equipment	Minor	$1,000 per unit
Small equipment & tools	Minor	$1,000 per group
Computer hardware & software	Minor	$1,000 per group
Furnishings & fixtures	Minor	$1,000 per group
Vehicles	Major	$1,000 per unit
Capital Leases	Major	No minimum

3. Valuation of Assets:

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use (historical cost).

Should historical cost be unknown, a reasonable estimate and assumption of the value shall be made. In the instance of unknown actual costs for Roadway Infrastructure, assets shall be valued in accordance with costing formulas provided by the Ministry of Municipal Affairs. In the instance of unknown actual costs for Bridges and Culverts, assets shall be valued in accordance with costing formulas provided by Alberta Infrastructure and Transportation.

1.1 Purchased Assets

Cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc. It is net of any trade discounts or rebates.

Cost of land includes purchase price plus legal fees, land registration fees, transfer taxes, etc. Costs would include any costs to make the land suitable for intended use, such as pollution mitigations, demolition and site improvements that become part of the land.

When two or more assets are acquired for a single purchase price, it is necessary to allocate the purchase price to the various assets acquired. Allocation should be based on the fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

1.2 Acquired, Constructed or Developed Assets

Cost includes all costs directly attributable (e.g., construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, administrative overheads is not allowed.

Capitalization of carrying costs ceases when no construction or development is taking place or when the tangible capital asset is ready for use.

1.3 Capitalization of Interest Costs

Borrowing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use should be capitalized as part of the cost of that asset.

Capitalization of interest costs should commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization should be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

1.4 Donated or Contributed Assets

The cost of donated or contributed assets that meet the criteria for recognition is equal to the fair value at the date of construction or contribution. Fair value may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost. Ancillary costs should be capitalized.

Componentization

Tangible capital assets may be accounted for using either the single asset or component approach. Whether the component approach is to be used will be determined by the usefulness of the information versus the cost of collecting and maintaining information at the component level.

Factors to consider when determining whether to use a component approach include:

a) Major components have significantly different useful lives and consumption patterns than the related tangible capital asset.
b) Value of components in relation to the related tangible capital asset.

Civil infrastructure systems should use the component approach. Major components should be grouped when the assets have similar characteristics and estimated useful lives or consumption rates.

4. Amortization Methods and Rates:

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. The amortization method and estimate of useful life of the remaining unamortized portion should be reviewed on a regular basis by the Finance Department and revised when the appropriateness of a change can be clearly demonstrated.

Useful life is normally the shortest of the asset's physical, technological, commercial or legal life. A listing of the recommended maximum useful life is detailed in Appendix B. Assets will normally be recorded at the recommended maximum useful life as per Appendix B unless the nature of the situation and the asset warrants it. Town departments, boards and commissions, agencies and other organizations are responsible for establishing and utilizing an appropriate estimated useful life and salvage value for assets acquired

Residual, or salvage, value is the net amount that may be realized at the end of the useful life of an asset. The residual value is established according to prices in effect at the time the asset is purchased. As per PS 3150.27 the residual value will only be recorded if it is deemed to be significant.

Generally, the Town uses a straight-line method for calculating the annual amortization. Land is not subject to amortization. Amortization will be recorded at 50% of the annual amortization amount in the year of acquisition and disposal or in the year an asset is put into service.

Basis for amortization:

Network or Single Asset -	Land improvements Roadway systems Fibre Optics Vehicles Heavy Equipment Machinery
Component -	Buildings Communications systems Water systems Wastewater systems Storm systems Storm Water ponds
Pooled Assets -	Small equipment and tools Computer hardware and software Furnishings and fixtures

See Appendix B for recommended maximum useful life

5. Write-down of Assets:

When the value of a tangible capital asset declines due to a permanent impairment a write-down to the value is to be recorded.

A permanent impairment in value occurs when an asset no longer contributes to the provision of goods and services, when the asset is no longer going to be used in its current capacity and there is no other alternative use for the asset, or when the value of the future economic benefits are less than the asset's net book value.

There must be persuasive evidence that the change in condition is permanent in order for a write-down to take place. The ability to objectively estimate the amount of the reduction in value must exist. A write-down is not to be reversed.

As per PS 3150.33 the write-down is to be accounted for in the statement of operations.

Review of the asset values for potential impairment shall be the responsibility of the Finance Department and shall be conducted at a minimum of every second year.

6. Disposal of Assets:

Disposal of tangible capital assets that are moveable personal property is the responsibility of the Manager of Special Projects unless delegated to operating departments. Department heads should notify the Manager of Special Projects when assets become surplus to operations, lost, stolen or destroyed.

Disposal of real property will be the responsibility of the Director of Operations.

When other constructed tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the department head or designate must notify the financial services department of the asset particulars and effective date of change. The financial services department is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

7. Asset Recording and Management System:

The system for the recording of tangible assets is to be integrated with the general ledger financial recording system in place within the Town and the development and maintenance of both systems are the responsibility of the Treasurer. The asset records will provide the basis for all tangible capital asset information included in any and all Town financial reporting and as such will take precedence over any duplicate systems maintained by other Town departments.

Detailed and summary listing of all assets shall be made available to all Town Directors upon the initial compilation of the tangible capital asset records and thereafter will be provided during the preparation of year end working papers. It shall be the responsibility of each Director to review the listings and advise of any updated asset information that would be pertinent to the accuracy of the records.

APPENDIX A

Classification of Assets: *(as per recommended Guideline #1 of the Tangible Capital Asset Project Implementation Toolkit - Alberta Municipal Affairs)*

Major	Minor	Subclass	Capital Lease
Land			
Land Improvements			
Buildings			
Engineered Structures:	Roadway System		
	Communication System		
	Water System:	Buildings	
		Machinery & Equipment	
	Wastewater System:	Buildings	
		Machinery & Equipment	
	Storm System:	Buildings	
		Machinery & Equipment	
	Fibre Optics:	Buildings	
		Machinery & Equipment	
	Electricity System:	Buildings	
		Machinery & Equipment	
	Gas Distribution System	Buildings	
		Machinery & Equipment	
Machinery & Equipment:	Heavy equipment		
	Small Equipment & Tools		
	Computer Hardware & Software		
	Furnishings & Fixtures		
Vehicles			
Cultural & Historical Assets			

APPENDIX B

Recommended Maximum Useful Life
(as per recommended Guideline #2 of the Tangible Capital Asset Project Implementation Toolkit - Alberta Municipal Affairs

ASSET CLASSES	MAXIMUM USEFUL LIFE
LAND	**Infinite**
Right-of-way	**Infinite**
Undeveloped right-of-way	**Infinite**
Parks	**Infinite**
General	**Infinite**
CULTURAL AND HISTORICAL	**Infinite**
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**

ASSET CLASSES	MAXIMUM USEFUL LIFE
Soccer pitch – outdoor	**20**
Bike/jogging paths	
Gravel	**15**
Asphalt	**20**
Landfill	
Pits	**Volume**
Pads	**Volume**
Transfer stations	**25**
BUILDINGS	
Permanent Structures	
Frame	**50**
Metal	**50**
Concrete	**50**
Portable Structures	
Metal	**25**
Frame	**25**
Leasehold Improvements	**Variable**
ENGINEERED STRUCTURES	
Roadway Systems	
Bridges	**Variable**
Overpass/interchange	**60**
Curb & Gutter	**30**
Parkades	**50**
Roads & Streets	
Lanes/alleys	
ACP-hot mix	**20***
Gravel	**15***
Non-conforming	**20***
Local/Collector/Arterial/Major Arterial Surface	

ASSET CLASSES	MAXIMUM USEFUL LIFE
Concrete	30*
ACP – hot mix	20*
ACP – cold mix	10*
Chip seal	10*
Oil	5*
Gravel	25*
Subsurface	40*
Road Signs	
Traffic control	30
Information	30
Lights	
Decorative	30
Street	30
Traffic	30
Guard rails	30
Ramps	30
Sidewalks & para-ramps	30
	(*subject to revision for weather conditions)
Water Systems	
Distribution system	
Mains	75
Services	75
Pump/lift/transfer stations	45
Plants & Facilities	
Structures	45
Treatment equipment	
Mechanical	45
Electrical	45
General	45
Pumping equipment	45
Hydrants/fire protection	75

ASSET CLASSES	MAXIMUM USEFUL LIFE
Reservoirs	45
Wastewater systems	
Collection system	
Mains	75
Services	75
Pump/lift/transfer stations	45
Plants & Facilities	
Structures	45
Treatment equipment	
Mechanical	45
Electrical	45
General	45
Pumping equipment	45
Lagoons	45
Storm Systems	
Collection system	
Mains	75
Services	75
Pump/lift/transfer stations	45
Catch basins	75
Outfalls	75
Wetlands	75
Retention ponds	75
Treatment facility	45
Fibre Optics	30
Electrical System	
Electrical generation	
Boilers	30

Recommended Maximum Useful Life (continued)

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ASSET CLASSES	MAXIMUM USEFUL LIFE

Turbo generators	**30**
Combustion turbines	**20**
Condensate tanks	**10**
Gas compressors	**20**
Other	**10**
Generation/wind turbine	**30**
Electrical transmission	
Structures & improvements	**35**
Station & line equipment	
Transformers	**40**
Switchgear	**35**
Protection systems	**20**
Insulators	**60**
Other	**35**
Towers and fixtures	**38**
Poles and fixtures	**38**
Overhead conductors and Devices	**35**
Underground conductors and Devices	**40**
Underground conduit	**40**
Underground cable	**40**
Electrical Distribution	
Site development	**35**
Station & line equipment	
Transformers	**40**
Switchgear	**35**
Protection systems	**20**
Insulators	**60**
Towers and fixtures	**38**
Poles and fixtures	**38**
Overhead conductors and Devices	**35**
Underground conductors and Devices	**40**
Underground conduit	**40**

Recommended Maximum Useful Life (continued)

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ASSET CLASSES	**MAXIMUM USEFUL LIFE**
General plant – Electrical	

Site development	**80**
Electrical substations	
Site development	**35**
Station & line equipment	
Transformers	**40**
Switchgear	**35**
Protection systems	**20**
Other structures & equipment	**35**
Towers and fixtures	**38**
Poles and fixtures	**38**
Overhead conductors and Devices	**35**
Underground conductors and Devices	**40**
Underground conduit	**40**
Underground cable	**40**
Gas Distribution System	
Structures	**75**
Transmission	**75**
Services	**75**
Medium pressure	**36**
High pressure	**36**
Measurement	**35**
Communication Systems	
Towers and fixtures	**38**
Radios	**5**
Radio console	**10**
Portable radios	**7**
Communication links	**20**

Recommended Maximum Useful Life (continued)

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ASSET CLASSES	**MAXIMUM USEFUL LIFE**
MACHINERY & EQUIPMENT	

Heavy construction equipment	**Variable**
Fire equipment	**12**
Police/Bylaw special equipment	**10**
Ferry/Boats	**25**
Aircraft	**Variable**
Food services	**10**
Fitness and wellness	**10**
SCADA systems	**10**
Fueling stations	**15**
Laboratory	**10**
Scales	**15**
Bins	**15**
Tools/shop/garage equipment	**15**
Meters	
Electrical	**20**
Cumulative	**20**
Internal	**20**
Water	**40**
Parking meters and splitters	**20**
Turf equipment	**10**
Ice re-surfacer	**10**
Office Furniture & Equipment	
Furniture	**20**
Office equipment	**10**
Telephone systems	**10**
Audio-visual	**10**
Photocopiers	**5**
Computer equipment	
Hardware	**5**
Software	**10**

Recommended Maximum Useful Life (continued)

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ASSET CLASSES	MAXIMUM USEFUL LIFE
VEHICLES	

Light duty	10
Medium duty	10
Heavy duty	10
Transit buses	20
Fire trucks	25
Light rail transit cars	40

APPENDIX C

Glossary of Terms

Amortization is the accounting process of allocating the cost less the residual value of a tangible capital asset to operating periods as an expense over its useful life in a rational and systematic manner appropriate to its nature and use. Amortization expense is an important part of the cost associated with providing local government services, regardless of how the acquisition of tangible capital assets is funded. Depreciation accounting is another commonly used term to describe the amortization of tangible capital assets.

Assets are economic resources controlled by a local government as a result of past transactions or events and from which future economic benefits may be obtained. Assets have three essential characteristics:

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

Asset impairment occurs when conditions indicate that a tangible capital asset no longer contributes to a local 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.

Betterment is a cost incurred to enhance the service potential of a tangible capital asset. 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 tangible capital asset's cost.

Capitalization threshold (recognition threshold) is the value above which assets are capitalized and reported in the financial statements.

Carrying amount is the amount at which a tangible capital asset is recognized after deducting any accumulated amortization and accumulated impairment losses.

Carrying costs are costs directly attributable to an asset's acquisition, construction or development activity where, due to the nature of the asset, it takes a long period of time to get it ready for its intended use. Typical carrying costs could include:

- Technical and administrative work prior to commencement of and during construction;
- Overhead charges directly attributable to construction or development; and
- Interest.

Component is a part of an asset with a cost that is significant in relation to the total cost of that asset. Component accounting recognizes that each part might have a different useful life and requires separate accounting for each component that has a different useful life than the whole asset does.

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 the asset's acquisition, construction, development or betterment, 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.

Depreciation is the expense in an accounting period arising from the application of depreciation accounting.

Depreciation accounting is the accounting procedure in which the cost or other recorded value of a fixed asset less any estimated value on disposal is distributed over its useful life in a systematic and rational manner. It is a process of allocation, not valuation.

Directly attributable overhead costs refers to direct incremental expenses incurred for technical and administrative activities related to the construction of a tangible capital asset. These costs could include the salaries and benefits for internal staff doing design work related to the construction project. It would not include an allocation of fixed costs incurred by the local government such as occupancy costs for the design department or an allocation of the costs of corporate departments such as human resources, legal, purchasing and accounting. These latter costs are incurred whether or not the construction project is undertaken and, therefore, would not be incremental overhead expenses directly attributable to the cost of the project. Refer also to the definitions of direct costs and indirect cost.

Direct costs are incremental costs incurred by a local government for the acquisition, construction or development of a tangible capital asset. Direct costs would not have been incurred other than to acquire, construct or develop the tangible capital asset. For example, directly related employee salary and benefits, materials and supplies, equipment, temporary site buildings, legal and other professional fees, etc., could be considered direct costs.

Expenses, including losses, are decreases in economic resources, either by way of outflows or reductions of assets or incurrence of liabilities, resulting from the operations, transactions and events of the accounting period. Expenses include transfer payments due where no value is received directly in return. Expenses include the cost of economic resources consumed in, and identifiable with, the operations of the accounting period. For example, the cost of tangible capital assets is amortized to expenses as the assets are used in delivering local government programs. Expenses do not include debt repayments or transfers to other local governmental units in a local government reporting entity.

Fair value is defined in accounting standards as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction who are under no compulsion to act.

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash, investments, accounts receivable, inventory held for resale, etc.

Full accrual basis of accounting recognizes the financial effects of transactions in the period(s) in which they occur irrespective of when the cash has been received or paid. It requires that tangible capital assets be reported on the balance sheet (statement of financial position) at historical cost and expensed (amortized) in the annual results of operations over their estimated useful lives.

Gains can arise from peripheral or incidental transactions and events affecting a local government. Such transactions and events include the disposition of assets purchased for use and resale, and the liquidation or refinancing of debt.

Group assets are homogenous in terms of their physical characteristics, use and expected useful life. Group assets are amortized using a composite amortization rate based on the average useful life of the different assets in a group. These items are to be recorded as a single asset with one combined value.

Local government reporting model describes the set of rules, parameters and content requirements that prescribe what must be presented in the summary financial statements. It prescribes the number, type and format of the financial statements, what information those financial statements should report, when it should be reported and how, as well as the notes required to explain what has been reported in the financial statements. It dictates the basis of accounting used in compiling a local government's accounting records.

Indirect costs are costs incurred for a common or joint purpose and, therefore, can not be identified readily and specifically with an activity related to the acquisition, construction or development of a tangible capital asset. For example, executive management, occupancy costs for general administrative buildings, corporate services (account, payroll, legal, technology, etc.), general local government, etc., would be considered indirect costs.

Liabilities are present obligations of a local government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. Liabilities have three essential characteristics:

a) They embody a duty or responsibility to others, leaving a local government little or no discretion to avoid settlement of the obligation;
b) The duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and
c) The transactions or events obligating the local government have already occurred.

Losses can arise from peripheral or incidental transactions and events affecting a local government. Such transactions and events include the disposition of assets purchased for use and not for resale, and the liquidation or refinancing of debt.

Market value is defined as the estimated amount for which a property would be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion.

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.

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

Non-financial assets include tangible capital assets and other assets such as prepaid expenses and inventories of supplies. Non-financial assets are acquired, constructed or developed assets that are normally employed to deliver local government services, may be consumed in the normal course of operations and are not for sale in the normal course of operations.

Prospective application: A new accounting policy is applied only to events and transactions occurring after the date of the change and to any outstanding related balances existing at the date of the change. No cumulative catch-up adjustment is made to such balances.

Recognition threshold (capitalization threshold) is the value above which assets are capitalized and reported in the financial statements.

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

Responsibility cost is allocating costs to a particular unit. It is similar in nature to activity-based cost where costs are allocated to activities rather than responsibility.

Retroactive application with no restatement of prior periods. A new accounting policy is applied to events and transactions from the date of origin of such items and a cumulative adjustment representing the effect of the change in an accounting policy on prior periods is made in the period in which the change is made. Two different treatments of the cumulative adjustment have been followed: an item reflected in annual results or an adjustment of the opening balance of the accumulated surplus/deficit.

Retroactive application with restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items. The financial statements for each prior period presented for comparative purposes are restated to reflect the new policy. The balance of the accumulated surplus/deficit at the beginning of the earliest period presented is restated to reflect the cumulative effect of the change on periods prior to that date.

Revenues, including gains, can arise from: taxation; the sale of goods; the rendering of services; the use by others of local government economic resources yielding rent, interest, royalties or dividends; or receipt of contributions such as grants, donations and bequests. Revenues do not include borrowings, such as proceeds from debt issues or transfers from other local government units in a local government reporting entity.

Tangible capital assets are nonfinancial assets having physical substance that:

- Are held for use in the productions or supply of goods and service, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- Have useful economic lives extending beyond an accounting period;
- Are to be used on a continuing bases; and
- Are not for sale in the ordinary course of operations.

Service potential is tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

Straight-line amortization allocates the cost less estimated residual value of a capital asset equally over each year of its estimated useful life.

Useful life is the estimate of either the period over which a local government expects to use a tangible capital asset, or the number of production or similar units that it can obtain from the tangible capital asset. The life of a tangible capital asset may extend beyond its useful life. 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.

Write-down is a reduction in the cost of a tangible capital asset to reflect the decline in the asset's value due to a permanent impairment.