

---

## Betterment, Replacement, and Repair Guidelines

---

A **betterment** (improvement) is the cost incurred to enhance the service potential of a capital asset (excludes assets owned by DTI). It may or may not increase the remaining useful life of the asset. It constitutes the removal of a major part or component of a plant or equipment and the substitution of a different part or component having **significantly improved** and **superior** performance capabilities. Service potential is enhanced if one of the following occurs:

- a) there is an increase in the previously assessed physical output or service capacity;
- b) associated operating costs are lowered;
- c) the quality of output is improved; or
- d) the original useful life is extended

A **replacement** can be classified as either a betterment or a repair. When a replacement involves the removal of a major part or component of a plant or equipment and the substitution of a new part or component of essentially the same type and performance capabilities, it would be classified as a repair or maintenance and treated as an ordinary operating expense.

When a replacement involves the substitution of a major part or component of a plant or equipment with a new part or component of significantly better quality, it would be classified as a betterment. Only these replacements made **during the asset's life span** will be capitalized with the existing asset.

An expenditure that meets the definition of a betterment must also **meet the threshold** of the related class to be set up as a capital asset.

Age of assets can play a role in the decision-making process. For example, an asset with an anticipated life of 40 years may require a major expenditure (e.g. building with roof replacement) in year 25 of its life. Without this expenditure, the building would not last the expected 40 years. In this example, the roof replacement would not be capitalized as this is a necessary expenditure needed for the building to last 40 years. If the roof replacement occurred in year 39 (or close to the end of the building's estimated useful life), it most likely extended the building's useful life past 40 years. In these situations, a case can be made to capitalize the expenditure.

**Repair and maintenance** costs are necessary outlays to keep the asset doing what it was intended to do (maintain the asset's pre-determined service potential for a given useful life). Examples: replacement of minor parts, labour, related supplies, lubrication, cleaning, painting, and equipment adjustments which are necessary to keep the asset in operating condition. These costs do not:

- a) add materially to the value of the asset nor
- b) prolong its life appreciably

These periodic maintenance costs are required over the life of the asset in order for the tangible capital asset to reach its estimated useful life. The "normal" maintenance schedule of an asset may require maintenance every month or year, whereas others may require maintenance every five years or a combination of both. For some assets, this maintenance may be quite extensive and expensive, but it would not qualify as a betterment due to the nature of the work performed. Repair and maintenance expenditures are charged to an expense account in the period in which they are incurred on the basis that it is the only period benefited.

## Land

Land is the only asset class that is not amortized. However, certain land improvements may be made which should be amortized. These items should be set up in a separate class called Land Improvements. Examples of land improvements are driveways, parking lots and fences. Land improvements should meet or exceed the land improvement threshold.

## Buildings/Campuses

The following would be capitalized as betterments regardless of the age of the buildings (excludes assets owned by the Province of NB):

- a) Addition of floor space to a building in response to changes in program delivery requirements. Examples include construction of a new wing or additional floor to an existing building.
- b) Significant alterations and renovations to a building to address program delivery requirements. This would include alterations and renovations to a complete floor of a building or significant portion thereof to improve the building efficiency, program delivery capacity or space relationships. Examples include the replacement of meeting rooms, attic or basement space with office space, addition of air conditioning system to make space more bearable in the summer.
- c) Comprehensive renovations to one or more services and systems of a building to comply with National Building Code, Fire Code, Environment or ASHRAE standards. Projects include improvements to one or more building services and systems components as a one-time project or by phase. Examples include the installation of a ventilation system, sprinkler system, stairwell enclosures, electrical upgrades, and structural improvements.
- d) Upgrades or enhancements to a building service, system or component to improve building efficiency. Examples include replacement of a building envelope, windows, structure, etc.

The following would be capitalized if the building were greater than 30 years of age:

- a) Major roof replacement with a total cost greater than or equal to \$100,000. A roof replacement prior to 30 years may be considered a betterment if the replaced roofing system is greater than \$100,000 and is an upgrade to the quality of the existing roof and the new roof is expected to extend the life expectancy of the building. Examples include the replacement of a roof with one that includes improved insulation and thermal characteristics, or single paned windows are replaced with double or triple paned windows.
- b) Renovations designed to upgrade the building so that it can be used past its originally estimated useful life. Examples include buildings that undergo renovations to make them last longer in place of constructing a new facility.

Items that would be expensed include:

- a) Repairs, costing less than \$100,000, resulting from the normal wear and tear by building occupants. Examples include floor replacement, fire alarm repairs, roof repairs, washroom renovations, painting, ceiling tile replacement, asbestos inspection and removal, door replacement, etc.
- b) Minor alterations and renovations to accommodate program changes. Examples include removal of a wall, construction of an office, addition of a storage shed, etc.
- c) Roof replacement to buildings under 30 years of age, unless deemed to enhance the life cycle of the building.