12 Tangible Capital Assets

Policy Statements

It is the policy of the Province of Nova Scotia to record, in the accounts of the province, the tangible capital assets controlled by the province.

It is the policy of the Province of Nova Scotia to record, in the accounts of the province, the tangible capital assets under capital lease by the province.

Policy Objectives

This document outlines the accounting policy for tangible capital assets in the accounts of the Province of Nova Scotia. The objective of this policy is to ensure that tangible capital assets are recorded appropriately and accurately.

Tangible capital asset information assists management in fulfilling its responsibility to efficiently manage tangible capital assets.

This policy supports the following corporate objectives:

- consistency throughout government
- fiscal responsibility
- corporate flexibility
- accountability
- compliance with the Public Sector Accounting Board (PSAB)
- need to manage corporate infrastructure
- enhanced measurement of cost of service
- improved information to support long-term planning

Application

This policy applies to the province's departments and public service agencies contained in the Consolidated Fund.

All organizations deemed to be part of the government reporting entity are encouraged to adopt a tangible capital assets policy with appropriate asset classes and threshold amounts for each class and to apply it as soon as is practical.

It is recognized that many entities may already have an appropriate policy in place. As well, threshold amounts should be determined as appropriate for each entity.

All entities to which this policy is applicable are responsible for implementation and operation of an internal control system that ensures that tangible capital assets are accounted for in accordance with this policy.

Policy Directives

INCLUSIONS

The policy applies to the following tangible capital assets:

- land
- land improvements
- buildings including schools and portable classrooms
- leasehold improvements
- furniture, equipment and technology
- utilities
- wharves
- major equipment
- ferries and boats
- computer hardware
- computer software
- customized software
- motor vehicles
- owned ambulances
- buses
- roads and highways
- bridges

Capital leases are recorded as separate tangible capital asset classes for each type of asset (e.g., buildings owned and buildings leased are two separate tangible capital asset classes).

EXCLUSIONS

The following capital assets are excluded:

- intangibles
- land and other assets acquired by right
- works of art and historical treasures
- natural resources such as forests, water, and mineral resources

Accounting

All assets that meet the definition as provided in Appendix 12-A, fall within the classification outlined in Appendix 12-B, as well as meet the threshold values in Appendix 12-C must be recorded in the accounts of the province in accordance with this policy. Bundling or grouping of assets does not make a tangible capital asset–that is, each individual asset must meet the criteria for capitalization.

Tangible capital assets will be capitalized and reported in the financial statements of the Province of Nova Scotia. Assets and betterments will be recorded at cost net of cost sharing or recoveries. Contributed assets will be recorded at a nominal value of $1 if the fair market value meets the thresholds.

A capital leased asset is valued at the net present value of future lease payments. It is recorded as an asset acquisition if the value meets the applicable asset class threshold. If the value does not meet the applicable asset class threshold, it is charged to expenses.

In assessing the threshold for roads, bridges, and highways projects, the total cost of a project would include the road/highway portions as well as any bridges (overpasses are common) along the way from the starting point to the ending point. If the total project cost exceeds the threshold, the project would be capitalized in separate components for the substructure, pavement, and bridges to allow for the different amortization rates.

Interest will not be capitalized as part of the asset cost under this policy.

Salaries will be capitalized as part of the asset cost only if those salaries relate directly to the project and the person has an ongoing mandate to build/construct capital projects.

A down payment/deposit on a capital asset will be recorded as an Advance. When the related asset is available for use, the down payment/deposit will be capitalized at that time.

Amortization of tangible capital assets, with the exception of capital leases and leasehold improvements, will be on the declining balance basis at the rates that reflect estimated useful life, as provided in Appendix 12-C.

Amortization of capital leases and leasehold improvements will be straight line over the remaining term of the lease.

It is assumed that the province will hold a tangible capital asset for an extended period of time, and as a result, the residual/salvage value will be immaterial. Amortization will continue to occur and be charged to the department's budget appropriation until the net book value is nil or the tangible capital asset has been disposed of and removed from the accounts of the province.

The net book value of a tangible capital asset is to be written down when conditions indicate that the tangible capital asset no longer contributes to the government's ability to provide services or the future economic benefits are less than the net book value. Write-downs are not to be reversed. The amount of the write-down represents a charge against the department's budget appropriation. On an annual basis, assets that are 95% amortized will be reviewed by a team to determine if the residual unamortized balance should be written down to $1 based on a number of criteria in accordance with generally accepted accounting principles and using judgment in the area of materiality.

Assets will be retired from the accounts of the province when the asset is sold, destroyed, abandoned, or otherwise disposed of. The gain or loss on disposal will be calculated with reference to the proceeds received and the net book value of the tangible capital asset. The proceeds from the sale of the asset are considered revenue of the consolidated fund and not the department.

Policy Guidelines

The following guidelines are intended to facilitate decision making and assist departments in applying this policy. The capital asset module is not designed to be a substitute for inventory management.

Capital investment decisions will have a significant impact on future operations as a result of amortization charges. Departments should recognize the impact that such investment will have on annual departmental costs. Departments should avoid excessive amortization charges, which may impair the department's operational flexibility.

This policy recognizes that amortization charges represent a non-discretionary cost once a capital investment decision is made. As well, amortization charges extend to future years. Capital investment decisions should be supported by a commitment to fund future amortization charges.

Professional judgment is based on an individual's past experiences and training. In the presence of uncertainty, the application of judgment is inevitable. Professional judgment must be used in determining which costs are capitalized.

Departments are to consider the spirit and intent of the policy objectives in situations where professional judgment is required.

Departments are to apply the policy consistently across the department and from year to year.

Departments must have control over those tangible capital assets for which they are held accountable.

Budgeting for tangible capital asset acquisitions should reflect the multi-year nature of capital investment decisions. Departments may prepare capital investment plans based on either a project basis or a program basis, as appropriate.

Where departments provide capital grants to other entities and organizations, the provincial contribution is not considered to be a capital asset of the province. Where capital grants are provided, the appropriation for the contribution is to be supported by a capital plan for the entity even though the contribution is considered to be an operating expense of the contributor.

While this policy sets out the accounting policy for tangible capital assets, it should not be construed by management to be all that is required for appropriate control of tangible capital assets.

An environmental remediation project can include components of both site restoration and betterment. The portion related to restoration of a site to its original state should be expensed as incurred. The portion related to the betterment, as defined in Appendix 12-A, should be capitalized, added to the cost of the asset (as a sub-asset) and amortized accordingly.

Accountability

DEPARTMENTS

Departments are responsible for

- managing capital investment budgets
- accounting for tangible capital assets, in accordance with this policy, for all tangible capital assets they own or lease

- maintaining current and accurate tangible capital asset information
- recognizing the impact of capital investment decisions on current and future operating budgets (i.e., amortization charges) and managing all expenditures accordingly
- analysing lease vs. buy options for asset acquisitions
- recording capital leases appropriately
- ensuring that proper control of tangible capital assets is maintained

DEPARTMENT OF FINANCE

The Department of Finance is responsible for

- providing information as inputs to forecasts and budgets for tangible capital assets
- conducting the month-end close process for the asset management module including the posting of amortization
- reporting tangible capital assets in the financial statements of the province
- monitoring the application of this policy
- updating this policy, periodically, with consultation from departments
- updating the province's debt management plan as a result of differences in the timing of capital investment decisions from that originally planned
- determining the most appropriate means of long-term financing for TCA spending

TREASURY AND POLICY BOARD

The Treasury and Policy Board is responsible for

- assembling and reviewing information for forecasts and budgets for tangible capital assets
- facilitating the approval of capital investment budgets giving due regard to provincial cash flow and debt management
- recognizing the impact of current and future amortization charges on the operating budget of the department and giving this due consideration when facilitating the approval of capital investment budgets

Monitoring

The Department of Finance, Government Accounting Division and the finance divisions of all departments are responsible for monitoring the application and audit of this policy.

Compliance with this policy is subject to audit by internal audit and by the Office of the Auditor General. These auditors are encouraged to coordinate their work effort to avoid duplication.

References

Provincial Finance Act, Sale of Crown Assets, Section 60A
Public Highways Act
Public Sector Accounting Board Handbook

Appendices

Appendix 12-A Definitions
Appendix 12-B Tangible Capital Asset Classes
Appendix 12-C Thresholds and Amortization Rates Classes for Tangible Capital Assets
Note: The attached appendices are an integral part of this policy.

Transitional Provisions

The original policy was implemented effective April 1, 1999 on a retroactive basis. Tangible capital assets owned at that time were recorded at net book value. Where net book value was not easily determinable, reasonable estimates were required.

This policy has been updated for changes made effective April 1, 2003 and applied on a propsective basis, as a result of the first complete policy review process.

Enquiries

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APPENDIX 12-A

DEFINITIONS

ACCUMULATED AMORTIZATION
Accumulated amortization represents the total consumed or used portion of the tangible capital asset. It is the sum of all amortization charges made for a tangible capital asset.

AMORTIZATION
Amortization is the process of allocating the cost of a tangible capital asset over its estimated useful life to match costs with the revenues or public services that it helps provide. The method of amortization used best matches the costs to the associated revenues or services for each tangible capital asset or group of tangible capital assets.

Amortization of tangible capital assets does not commence until they are available for use.

ASSETS
Assets, in general, must have three characteristics:

- They embody a future benefit that involves a capacity singly or in combination with other assets to provide services.
- The government can control access to the benefits.
- The transaction or event giving rise to the entity's right to or control of the benefit has already occurred.

BETTERMENT
The cost incurred to enhance the service potential of a tangible capital asset is a betterment. Service potential is enhanced if one of the following occurs:

- There is an increase in the previously assessed physical output or service capacity.
- Associated operating costs are lowered.
- The original useful life is extended.
- The quality of output is improved.

Betterments and replacements include additions to a tangible capital asset or a substitution of a component part of a tangible capital asset. The distinguishing feature between a betterment and a replacement is that a betterment is the substitution of a better component for the one currently used. A replacement, on the other hand, is the substitution of a similar component.

Betterments are treated as tangible capital assets (set up as a sub-number of the related asset) and amortized accordingly. Replacements are treated as ordinary operating expenditures.

CAPITAL LEASES

A capital lease is defined by the *Canadian Institute of Chartered Accountants (CICA) Handbook,* Section 3065.03 as

> "a lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of property to the lessee."

Section 3065.06 provides further guidance as follows:

> "From the point of view of a lessee, a lease would normally transfer substantially all of the benefits and risks of ownership to the lessee when, at the inception of the lease, one or more of the following conditions are present:
>
> a) There is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term. Reasonable assurance that the lessee will obtain ownership of the leased property would be present when the terms of the lease would result in ownership being transferred to the lessee by the end of the lease term or when the lease provides for a bargain purchase option.
>
> b) The lease term is of such a duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span. Although the lease term may not be equal to the economic life of the leased property in terms of years, the lessee would normally be expected to receive substantially all of the economic benefits to be derived from the leased property when the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased property. This is due to the fact that new equipment, reflecting later technology and in prime condition, may be assumed to be more efficient than old equipment which has been subject to obsolescence and wear.
>
> 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. This condition would exist if the present value, at the beginning of the lease term, of the minimum lease payments, excluding any portion thereof relating to executory costs, is equal to substantially all (usually 90% or more) of the fair value of the leased property, at the inception of the lease.

> In view of the fact that land normally has an indefinite useful life, it is not possible for the lessee to receive substantially all the benefits and risks associated with its ownership, unless there is reasonable assurance that ownership will pass to the lessee by the end of the lease term."

In addition to the standard "math tests," PSAB Guideline PSG-2 *Leased Tangible Capital Assets* focuses on an assessment of whether "substantially all of the benefits and risks incident to ownership are, in substance, transferred to the government without necessarily transferring legal ownership."

COST

Cost is the 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 capital assets including installing it at the location and in the condition necessary for its intended use. Salaries will be capitalized as part of the asset cost only if those salaries relate directly to the project and the person has an ongoing mandate to build/construct capital projects. For purposes of this policy, the capitalization cost is calculated net of recoveries from others (e.g., federal cost sharing).

DECLINING BALANCE METHOD

The declining balance method is an approach of amortizing a tangible capital asset where amortization is considered as a function of usage instead of a function of time. The periodic charge is a constant percentage of the unamortized cost so that the depreciated cost approaches zero by the retirement date. This method reflects a higher amortization charge in the early years of use, since the amortization is calculated by applying the identified rate to the annually declining net book value.

DISPOSALS

Disposals result when the ownership of a tangible capital asset is relinquished. Disposals reduce the cost of tangible capital assets and accumulated amortization to zero.

NET BOOK VALUE

The net book value represents the difference between the cost of a tangible capital asset and both its accumulated amortization and the amount of any write-downs. The net book value is, therefore, the unconsumed cost of a tangible capital asset attributable to its remaining service life.

REPAIRS AND MAINTENANCE

The cost incurred in the maintenance of the service potential of a tangible capital asset is a repair, not a betterment.

Ordinary repairs are expenditures made to maintain assets in operating condition; they are charged to an expense account in the period in which they are incurred on the basis that it is the only period benefitted. Replacement of minor parts, lubricating and adjusting of equipment, repainting, and cleaning are examples of the type of maintenance charges that occur regularly and are treated as ordinary operating expenses.

STRAIGHT LINE METHOD

The straight line method is an approach of amortizing a tangible capital asset where amortization is considered as a function of time instead of a function of usage. The major assumptions are that the asset's economic usefulness is the same each year and the repair and maintenance expense is essentially the same each period. Therefore, the periodic charge is the same in each year of the useful life of the asset.

TANGIBLE CAPITAL ASSET

A tangible capital asset is a non-financial asset that is purchased, constructed or developed and

- is held for use in the production or supply of goods and services, for rental to others, for administrative purposes, or for development, construction, maintenance, or repair of other capital assets
- requires operating and maintenance expenditures and may need to be replaced in the future
- has a useful life extending beyond an accounting period and is intended to be used on a continuing basis
- is not intended for sale in the ordinary course of operations

THRESHOLD AMOUNT

Generally, the threshold amount for each category represents the minimum cost an individual asset must have before it is to be treated as a tangible capital asset and added to the proper asset class balance. The threshold amount is to be used as a guide in addition to professional judgment.

APPENDIX 12-B

TANGIBLE CAPITAL ASSET CLASSES

Information respecting tangible capital assets is grouped by tangible capital asset classes. For each category, an amortization rate and a capitalization threshold have been determined. See Appendix 12-C for a summary of this information.

The following describes the types of tangible capital assets included in each category.

LAND
Land includes land purchased for parks and recreation, building sites, and other program use. It does not include land acquired by right of the province. It also does not include land held for resale.

LAND IMPROVEMENTS
Only those land improvements not associated with a building on-site are to be set up in this asset class. An example would be a parking lot on vacant land. Any other land improvements are to be set up as a sub-asset of the related building.

BUILDINGS
In addition to basic buildings, complex structures such as fish hatcheries, greenhouses, and forest lookout towers are included. Any betterments to buildings are also included. Items to furnish the buildings, such as chairs, desks, filing cabinets, photocopiers, etc., are not considered part of the building costs and are not to be capitalized, unless it is determined that these costs meet the criteria of the Furniture, Equipment and Technology category. In which case, the costs will be capitalized in the FE&T category.

SCHOOLS
Provincially owned schools are capitalized under this class. Any betterments to schools are also included. Items to furnish the school, such as chairs, desks, photocopiers, etc., are not considered part of the building costs and are not to be capitalized, unless it is determined that these costs meet the criteria of the Furniture, Equipment and Technology category. In which case, the costs will be capitalized in the FE&T category.

PORTABLE CLASSROOMS
Portable classrooms are modular buildings or trailers that are placed on a school site to provide additional classroom space.

LEASEHOLD IMPROVEMENTS

Leasehold improvements are additions, improvements, or alterations made by the lessee to leased property that cannot be removed upon termination of the lease because they are attached to, or form, part of the leased premises.

CAPITAL LEASES

A capital lease is valued as the net present value of the stream of future lease payments. Separate classes for capital leases will be established as needed: e.g., capital lease–buildings; capital lease–P3 schools.

FURNITURE, EQUIPMENT AND TECHNOLOGY (FE&T)

Furniture, equipment and technology may be capitalized in the following situations:

- construction of a new building
- construction of a new building which is a replacement for a currently existing building
- construction of a building addition which includes new FE&T
- major renovation of a building in which new FE&T is included to replace the existing items
- construction of certain major complex network systems

The furniture, equipment and technology to be capitalized should meet all of the following criteria:

- total costs exceed threshold of $250,000
- will not be consumed in the normal course of operations in the short term
- intended to have a useful life over one year
- appropriate security and inventory procedures are in place to protect assets.

In the case of a complex network system, FE&T must be an integral part of the functionality of the complex network system. A complex network system consists of an assembly of inter-dependent assets which perform a coordinated function. Recording the component parts into various classes would be difficult and not very meaningful. The useful life is very long as compared to regular assets. Examples include waste treatment facilities, water utilities, and radio networks.

In the case of a building project, FE&T are reasonable items required to furnish and equip a building. FE&T are not to be removed from the facility for an extended length of time.

FE&T will be recorded as lump sum assets (e.g., Building ABC FE&T).

UTILITIES
All items, except land and building, associated with a water utility such as piping (transmission lines), steel storage tanks, dams, wells, water meters, hydrants, and pumps are included in the Utilities category. The land and building associated with a water utility will be set up in the respective Land and Building category.

WHARVES
A wharf includes all direct costs of construction including labour, materials, land, survey costs, and project-specific design costs.

MAJOR EQUIPMENT
The equipment category includes all major equipment with a value of $50,000 or more. Examples include back-hoes, front-end loaders, trucks, tractors, forklifts, welding machines, utility trailers, diesel/electric generators, and Bailey Bridges.

FERRIES AND BOATS
Ferries and boats include all passenger and vehicle ferries as well as boats.

COMPUTER HARDWARE
Computer hardware consists of all equipment that can be considered a component of, is typically attached to, or communicates with an information system. The term encompasses processing units, memory apparatus, input and output devices, storage devices and connectivity equipment.

A computer hardware system or subsystem, or computer component with single-unit costs of $25,000 or more, should be capitalized.

A computer is an aggregation of potentially interchangeable, reusable, and independently operable components, thus the determination of whether its costs meets the capitalization threshold can be problematic. The unitary approach should be used. If a computer, through an assemblage of separate components, is intended to be used as a unit, it should, for capitalization purposes, be treated as a single asset.

The unitary approach should be extended to computers, file servers, and similar devices. It should not be extended to peripheral devices (workstations and printers) attached to local or wide area networks since each workstation or printer, though attached to and communicating with the network can, and is intended to be, operated independently.

COMPUTER SOFTWARE

The computer software category includes off-the-shelf software and any related upgrades and licences for this software.

CUSTOMIZED SOFTWARE

Customized software includes customized software systems that were developed "in house" or with the assistance of private-sector partners. Customized software systems are usually designed for a unique specific purpose.

Costs incurred to design, develop, and implement a computer system include direct costs. Direct costs include external costs (i.e., hiring an external consultant) and internal government costs (i.e., salary and ancillary costs related to the development of a system).

MOTOR VEHICLES

Vehicles that are used primarily for transportation purposes are included here. This includes passenger vehicles, such as automobiles, trucks, and vans. It also includes snowmobiles, boats, and motorcycles.

OWNED AMBULANCES

Provincially-owned ambulances are capitalized under this asset category.

BUSES

Provincially-owned school buses are capitalized under this asset category.

ROADS, BRIDGES, AND HIGHWAYS

Roads and highways includes all direct costs of construction including labour, materials, survey costs, project-specific design costs (e.g., route location, pavement, interchanges, environmental assessment and design, inspection costs, tendering costs, and tender construction costs).

Network design costs are excluded. Network design costs consist of the costs involved in planning and designing the overall highway system in Nova Scotia and are not considered to be tangible capital assets. Once the proposed highway has been determined, the costs involved in developing that highway would be capitalized under this policy.

Roads and highways are divided into three components to allow for different amortization rates as certain components of a highway have differing useful lives. New construction will include two components–substructure and paving. The third component will be repaving, which is tracked separately in its own class.

Bridges are structures of three or more metres in length that span and give passage over a waterway, deep valley, depression, or some other obstacle such as another transportation route. Some special bridges are defined according to function. An overpass allows one transportation route to cross over another without traffic interference between the two routes. A viaduct carries a railroad or highway over a land obstruction. Bridges include all direct costs of construction including labour, materials, survey costs, project-specific design costs (e.g., location, approaches, environmental assessment and design, inspection costs, tendering costs, and tender construction costs).

In certain instances, bridges are required to be replaced as stand-alone projects. In these situations, the Bridges (complete bridge replacement) category will be used.

ASSETS UNDER CONSTRUCTION

Some assets go through a period of construction before they are ready to be put into use. Costs related to assets under construction are accumulated in the asset under construction class and transferred to a regular asset class when the asset is ready for use. Assets under construction are not amortized. Separate asset under construction classes will be established as needed to correspond to the related asset class.

APPENDIX 12-C

Tangible Capital Assets
Accounting Policy - Thresholds and Amortization Rates
Classes

Class	Cost Thresholds*	Amortization Rate **
Land	0	n/a
Land Improvements (not associated with a building on-site)	250,000	5%
Buildings (Intital Purchase)	250,000	5%
Building Betterments (Renovations)	150,000	5%
Schools (Intital Purchase)	250,000	5%
School Betterments (Renovations)	150,000	5%
Portable Classrooms	50,000	30%
Leasehold Improvements	250,000	Lease Term (SL)
Capital Leases (various classes)	as per related class	Lease Term (SL)
Furniture, Equipment & Technology	250,000	30%
Utilities	250,000	15%
Wharves	250,000	5%
Major Equipment	50,000	20%
Ferries and Boats	250,000	15%
Computer Hardware	25,000	50%
Computer Software	250,000	50%
Customized Software	250,000	25%
Motor Vehicles	15,000	35%
Owned Ambulances	15,000	35%
Buses	15,000	20%
Road, Bridges, and Highways	combined threshold of 500,000	
- substructure		5%
- pavement		15%
- bridges		5%
Bridges (complete bridge replacement)	250,000	5%
Roads and Highways		
- Re-paving	500,000	15%
Assets under Construction (various classes)	as per related class	n/a

* The cost thresholds apply to the initial acquisition or construction costs, that is, the gross cost of the asset before any related cost-sharing recoveries.

** In the year of acquisition, amortization will be prorated from the month of purchase or the month in which the constructed asset is available for use.