SECTION 4

ACCOUNTING POLICIES

4.03 TANGIBLE CAPITAL ASSETS

AUTHORITY: *FINANCIAL ADMINISTRATION ACT*

ADMINISTRATION: OFFICE OF THE COMPTROLLER
DEPARTMENT OF FINANCE

EFFECTIVE DATE: MARCH 2025

4.03 TANGIBLE CAPITAL ASSETS

(1) PURPOSE

This document outlines the accounting policy for Tangible Capital Assets in the Public Accounts of the Government of Prince Edward Island. The objective of this policy is to ensure capital assets are recorded appropriately. Capital asset information assists management in fulfilling its responsibility to efficiently manage capital assets.

This policy supports the following corporate objectives:

- consistency throughout Government;
- fiscal responsibility;
- accountability;
- compliance with Public Sector Accounting Board Standards including:
  - PS 3150 – Tangible Capital Assets;
  - PS 3200 – Liabilities;
  - PS 3280 – Asset Retirement Obligations; and
  - PS 3410 – Government Transfers;
- management of capital assets;
- cost of service measurement; and
- information to support long term planning.

(2) DEFINITIONS

Refer to Attachment 4.03-I - Definitions which is an integral part of this policy.

(3) APPLICATION

The application of this policy is referenced to the Schedules of the *Financial Administration Act* (FAA) for which funds are appropriated directly or within a department and applies as follows:

- Schedule “A” - Departments
- Schedule “B” - Crown corporations
- Schedule “C” - Education Authorities
- Schedule “D” - Commissions

Government Business Enterprises adopted International Financial Reporting Standards (IFRS) beginning in the fiscal year ended March 31, 2012. These entities are included in the consolidated financial statements of the Government using the modified equity method which excludes the recognition of any Tangible Capital Assets. In addition, under IFRS, different accounting methods may be used as compared to the Public Sector Accounting Standards for Tangible Capital Assets which have been adopted by the Government. Accordingly, Government Business Enterprises are not required to adopt this policy.

(4) POLICY STATEMENT

It is the policy of the Government of Prince Edward Island to record in the Public Accounts of the Government, the Tangible Capital Assets owned by the Government.

The Deputy Head and their departmental management are responsible for the implementation and operation of control systems to ensure assets are accounted for in accordance with this policy and that assets are properly safeguarded.

This policy is effective for fiscal years beginning on or after April 1, 2024.

(5) POLICY DIRECTIVES

(a) Inclusions

(i) This policy applies to the following asset classes; however, to be recorded as a capital asset, it must be consistent with the guidance in this policy:

- land
- buildings
- leasehold improvements
- roads, bridges and highways
- motor vehicles
- equipment
- computer hardware
- computer software
- parks, golf courses and boats
- parking lots
- asset retirement costs
- other

(ii) Leasing costs are only recorded as a capital asset when they meet the criteria identified in the accounting standards for capital leases as summarized in this policy.

(b) Exclusions

(i) The following items are not recorded as Tangible Capital Assets:

- intangibles;
- works of art and historical treasures; and
- natural resources.

(ii) Interest is not normally capitalized.

(c) Accounting/Budgeting

(i) Tangible Capital Assets are included in the Government's Statement of Financial Position in the year the assets are acquired. Amortization expense is included in the Statement of Operations and Accumulated Deficit. A Schedule of Tangible Capital Assets is provided in the Public Accounts to inform users of the costs, additions, disposals, amortization and net book value of these non-financial assets available for use by the Government.

(ii) All assets that meet the definitions in Attachment 4.03-I and conform with the guidance in this policy shall be included in the Schedule of Tangible Capital Assets of the Government.

(iii) A capital asset is removed from the Schedule of Tangible Capital Assets when:
- it is disposed of and the Government no longer has ownership; or
- it is not being used and is not expected to be used in the future; or
- it is the policy of Government to dispose of the asset when it is fully amortized and a specified time has elapsed, as outlined in this policy.

(iv) Capital assets are recorded at historical cost, or at estimated fair value where historical cost information is not available, including those assets acquired in a non-monetary transaction at nil or nominal value.

(v) Amortization of capital assets is calculated monthly using the straight-line method based on estimated useful life. Leasehold improvements are amortized on the straight-line basis over the remaining term of the lease. The amount of amortization or expense recorded in a fiscal year is a single line item and is not, at this time, allocated to the departments where the assets are used.

(vi) Capital asset expenditures shall be made from the Government's Capital Budget which is submitted for approval by the Legislative Assembly during the Fall session and covers the fiscal period beginning on April 1st of the next year.

During year-end preparation, the Office of the Comptroller shall identify capital additions which are consistent with this policy in consultation with departments and prepare any required adjustments. Departments should provide their approval of the adjustments prior to completion of the Public Accounts.

Expenditures which are not capital in nature shall be included under the responsible department in the operating accounts and a Special Warrant request will be submitted, if required.

(vii) Contributions received for the acquisition of capital assets are recorded as operating revenue unless there are transfer stipulations which create an obligation that meets the definition of a liability.

This change in policy was implemented effective April 1, 2012, to comply with the Public Sector Accounting Standard PS 3410 - *Government Transfers*, which links revenue recognition to whether or not a liability is created. If no liability is created, the revenue is recognized immediately.

Where a liability exists, the revenue is deferred and recognized in future periods.

A liability must have three characteristics:

- a duty or responsibility exists to others with little or no discretion to avoid settlement of the obligation;
- the duty or responsibility to others entails a future economic settlement at a specified date or event occurrence; and
- the transaction or event obligating government has occurred.

Reporting entities should carefully examine the stipulations of any capital revenue transfers and assess whether or not the three essential characteristics for defining a liability have been met in order to determine how the capital revenue should be recorded.

(d) Records

The Office of the Comptroller shall maintain a record of asset additions, disposals and annual amortization for all Tangible Capital Assets. Departments having the primary responsibility for use of an asset shall notify the Office of the Comptroller of any additions or betterments to an existing asset. In addition, Departments shall advise the Office of the Comptroller if an asset is disposed of or otherwise taken out of service.

(e) Insurance

There is a significant investment by government in Tangible Capital Assets and the protection of these assets through insurance, where appropriate, is essential. For a comprehensive description of coverages and procedures refer to Treasury Board Policy Section 11 - Risk Management and Insurance.

(6) CAPITAL ASSET CLASSES

Tangible Capital Assets are grouped by asset categories in order to calculate amortization expense over their expected useful lives. For most asset classes, an amortization period (in years) and a minimum threshold amount has been established as indicated in Section 7. The guidance throughout this policy should be reviewed and consistently applied when determining whether an expenditure is operating or capital in nature.

(a) **Land** includes all properties owned by the Government which may be used for parks, recreation, building sites, construction of roads and bridges, parking lots or golf courses. It does not include land held for resale. When land and a building are acquired together in one transaction, the value of the land component shall be determined and capitalized separately from the building. The building cost is amortized over its useful life. The land value is not amortized.

(b) **Buildings** include the purchase price of the asset and other acquisition costs such as design or engineering fees and site preparation costs. The cost of a constructed asset includes direct costs such as labour and materials and overhead directly attributable to the development activity.

Building additions and betterments which exceed the $10,000 threshold and are consistent with the guidance in Section 8 are capitalized.

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

(d) **Roads Construction and Resurfacing of Highways** includes all direct costs of construction including labour, materials, survey costs and project-specific design costs such as for environmental assessment. The cost of land acquired for road construction is included in the land category.

Road construction shall be amortized over 20 or 10 years based on its classification as a major or minor project. Major road construction is expected to last 20 years without full depth rehabilitation or reconstruction. Minor road construction projects are expected to maintain the roads for a 10-year period without major asphalt maintenance such as a single lift or thin asphalt surface treatment.

Bridges include all direct costs of construction including labour, materials, survey costs and project-specific design costs. New construction will include betterments where there is an increase in service capacity of an existing structure with an estimated useful life of at least 40 years. If the betterment does not result in at least a 40-year useful life, it will be considered a major repair rather than new construction and amortized over 20 years. The cost of land acquired for bridge construction is included in the land category.

Additions are assessed on a project basis which is identified as a section of road, a bridge, or the Provincial Paving Program. The Provincial Paving Program of PEI strengthens the roadbed of provincial roads by adding fresh asphaltic concrete over the existing structure. Including the benefits of strengthening the roadbed, the program has decreased asphaltic costs associated with pavement due to this increased strength. The Provincial Paving Program is a capital asset with allocated expenditures from the Program’s work across provincial highways.

The Provincial Paving Program assets, as minor road construction projects, have a 10-year useful life. Due to the nature of these assets, it is difficult and not very meaningful to determine when these assets are no longer in use. As a result, these assets will be retired within one year of becoming fully amortized.

(e) **Motor Vehicles – Light** include those vehicles licensed for highway travel, such as automobiles, small trucks (less than 1-ton) and vans.

Motor Vehicles – Heavy include vehicles 1-ton or heavier and "self-propelled rolling stock". Examples include trucks, fire trucks, snow-clearing equipment and earth-moving equipment.

(f) **Equipment** includes, but is not limited to:

- office equipment such as furniture (desks and modular filing systems);
- field or shop equipment and household furnishings or appliances used for programs and providing services;
- golf course equipment such as power carts and mowers;
- hospital or laboratory equipment;
- audio visual equipment including sound systems;
- highway equipment for maintaining roads, highways and bridges; and
- Computer Hardware and Computer Software, as outlined below.

Computer Hardware includes network servers and other components purchased for a computer software system or as part of a government-wide program such as Technology Asset Management.

Computer Hardware assets include Chromebooks, Laptops, Desktops, Printers and Peripherals with useful lives of 3-5 years. Due to the nature of these assets, it is difficult and not very meaningful to determine when they are no longer in use. As a result, these assets will be retired for accounting purposes within two years of becoming fully amortized.

Computer Software includes program software, development, implementation and upgrade costs. License fees, such as for an enterprise-wide arrangement, may be capitalized if the amount is significantly higher than the normal annual license fees and it provides a future multi-year benefit. Salary costs may be capitalized as part of the asset cost only if those salaries relate directly to the development of the asset, including staff reassigned to work on system development or staff hired by contract.

Service contracts for annual maintenance are not normally considered to be a capital asset. However, service contracts for the initial implementation or development of a system may be considered a capital asset. The relative cost of such implementation or development agreements in comparison to the regular annual maintenance agreements should be considered when deciding whether to capitalize or not.

(g) **Other assets** include any expenditures which meet the definition of a capital asset in Attachment 4.03-I but do not fit into any of the other capital asset classes described in this section. Examples include golf courses, parking lots, parks and boats. The land portion of any asset is recorded separately in the land category.

Other assets also include non-depreciable golf course design and construction costs. These are costs incurred to prepare the land for its intended use, typically related to the design and construction of the various holes and tees on the course. Depending on the nature of the costs incurred, there may be both depreciable and non-depreciable elements involved, and as such, the costs must be analyzed and allocated accordingly to ensure the appropriate amortization is applied.

The asset number assigned in the Fixed Asset Module will be used to track the costs of any related projects and to apply the correct amortization rates.

(7) THRESHOLDS AND AMORTIZATION RATES

Asset Class	Cost Threshold	Amortization Method	Amortization Period
Land	All	n/a	n/a
Buildings – Original Cost	$75,000	Straight Line	40 Years
Minor Building Improvements	$10,000	Straight Line	10 Years
Major Building Improvements	$75,000	Straight Line	10-40 Years
Leasehold Improvements	$75,000	Straight Line	Remaining Lease Term
Roads Construction	$75,000	Straight Line	20 Years
Resurfacing of Highways	$75,000	Straight Line	10 Years
Bridges – New Construction	$75,000	Straight Line	40 Years
Bridges – Major Repairs	$75,000	Straight Line	20 Years
Motor Vehicles – Light	All	Straight Line	5 Years
Motor Vehicles – Heavy	All	Straight Line	10 Years
Equipment	$10,000	Straight Line	5-15 Years
Computer Hardware	$10,000	Straight Line	3-15 Years
Computer Software	$75,000	Straight Line	5-20 Years
Paving – Parking Lots	$10,000	Straight Line	10 Years
Parks or Golf Courses	$10,000	Straight Line	5-20 Years
Other – depreciable assets	$75,000	Straight Line	5-40 Years
Other – non-depreciable assets	$75,000	n/a	n/a

Amortization will be applied using the straight-line method for the time periods listed above. Amortization will be pro-rated on a monthly basis starting with the date the asset is placed in service. Amortization will end when the total accumulated amortization of the asset equals the cost, or on the date of disposal, whichever comes first. When the asset is sold or otherwise taken out of service, amortization ends, and a disposal is recorded.

Motor vehicles are considered a capital asset addition regardless of their cost. In most cases, the purchase will be for a new vehicle. These vehicles are purchased and managed under the guidance of Treasury Board Policy Section 18 - Government Vehicles.

Some Agencies, Boards, and Crown corporations prepare separate financial statements and use accounting policies that have different thresholds than those listed above but are appropriate for their operations. For example, a lower or higher threshold might be used for equipment, new buildings, or building improvements to enable management to track their capital investment in a park, golf course, seniors housing unit, or a specific segment of the health sector. This treatment is acceptable provided they have a documented policy in compliance with generally accepted accounting principles. The items which are capitalized must be consistent with the guidance in Section 8.

The Office of the Comptroller retains discretion over capitalization of items that meet only partial criteria for capitalization.

(8) OTHER GUIDANCE

(a) Component Asset Additions

Some capital additions involve related components which may be treated as a single acquisition. Component asset additions must be for one type of asset such as golf carts, printers or air conditioners, or for a project such as the development of a management information system, construction of roads for the Provincial Paving Program, or improvements or upgrades to a laboratory, building or seniors complex.

Where expenditures relate to more than one category of assets, the amount for each category must be identified and capitalized separately to ensure the appropriate amortization rate is applied. The minimum amount per category is $5,000. Any portion of the project which does not meet these criteria shall be treated as an operating expenditure.

The individual components of a component asset addition must be related to each other, and the total project costs must exceed the minimum asset capitalization threshold for the type of project being undertaken.

The following guidance is provided to assist in defining “related components”:

- Projects must be related to a single location such as a building, park or golf course.
- The project must be clearly defined. For example, renovations to a building must be for a specific area (e.g., a specific room or rooms or an entire floor), as opposed to a collection of unrelated expenditures made in various parts of the same building. However, related expenditures such as window or flooring replacements made in various parts of a building would be acceptable.
- Components must be clearly related to a project. For example, the inclusion of an air conditioner in the costs of installing a security system would not be acceptable.

All additions must meet the definition of a capital asset as laid out in this policy and have a useful life which is equal to or exceeds the minimum amortization period for the relevant asset category in Section 8.

(b) Component Asset Disposals

Partial disposals for these component asset additions may occur. Departments are required to notify the Office of the Comptroller when an individual component of a grouped asset is sold or otherwise disposed of. When it can be reasonably estimated that all components of a grouped asset have been sold, or are no longer in service, the remaining asset group will be treated as a disposal.

(c) Building Improvements – Minor

New buildings are estimated to have a 40-year useful life, however certain components may need to be replaced or renovated before the end of the 40-year life cycle. Recording the various building components in separate asset categories (with different amortization periods) would be difficult and not very meaningful. However, renovations may be required prior to the end of the useful building life that are betterments because they may lower operating costs or improve the output quality. Accordingly, the following types of renovation projects for a building may be capitalized and amortized over a 10-year period: roofing, plumbing, HVAC, electrical, fire protection, elevators, cabinetry, windows, exterior siding and flooring.

If the project includes furnishings, the cost of such furnishings should be identified and capitalized separately in order to apply the appropriate amortization rate for equipment. The project as a whole must exceed the $10,000 capitalization threshold including the furnishings and building improvement components.

(d) Building Improvements – Major

Effective April 1, 2013, the Tangible Capital Assets of the Public Schools Branch and the French Language School Board were transferred to the Operating Fund. School buildings were included and some of them had had major improvements or betterments work done since the original date of construction. Prior to this transfer, no building improvement assets existed that were expected to have a useful life exceeding 10 years. The school building improvements have been recorded in this new category and have a remaining useful life of up to 40 years.

Building Improvements or betterments that are recorded in this asset class would have a useful life of at least 10 years and up to 40 years. Attachment 4.03-I contains a definition of “betterment”. In general, a betterment should include significant improvements, beyond the original construction specifications, to either the building envelope or its services. The building envelope includes the walls, floors,

ceilings, roof, windows and doors, while its services include heating, energy supply, lighting, ventilation and fire detection equipment.

(9) INTERPRETATION

In cases where an interpretation is required, such should be referred to Office of the Comptroller, who will make the interpretation or refer the matter to Treasury Board, if a Treasury Board decision is deemed necessary.