

Tangible Capital Assets

Guideline 9: Dykeland Systems

Overview

Dykeland systems, by their very nature, have unique characteristics and therefore require specific guidance on the appropriate accounting treatment of all costs related to the construction and betterment of these systems.

This guideline is intended to supplement the Tangible Capital Assets (TCA) Policy and to provide further guidance on its application as it relates to dykeland systems. It should be noted that this guideline is not all-inclusive and professional judgment must be exercised in applying it to individual circumstances.

Definitions

The TCA Policy provides the following definitions:

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; or,
- 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.

COST

Cost is the gross amount of consideration given up to acquire, construct, develop, or better a tangible capital asset and includes all costs directly attributable to acquisition, construction, development, or betterment of capital assets including installing it at the location and in the condition necessary for its intended use. Contributions are not to be netted against the cost of the related tangible capital asset. Salaries will be capitalized as part of the asset cost only if those salaries relate directly to the project.

PROJECT DEFINITION¹

A project may qualify as a betterment under certain circumstances. The key determinants include total cost and purpose of the project. There has been some question as to what constitutes a project in relation to the Tangible Capital Assets Policy, particularly in the area of betterments to buildings. The following criteria have been developed to provide more guidance in this area.

A tangible capital asset project must meet the following criteria.

- I. The project must be related to a specific asset.
- II. The project must meet the criteria associated with betterments.
- III. The project must exceed the relevant threshold level defined in the Tangible Capital Assets Policy.
- IV. The project objective must be specific and the work required to achieve the objective clearly defined. Some examples of project objectives are:
 - o environmental
 - o accessibility
 - o program enhancements
 - o building envelope (often environmental related)
- V. The project work must be continuous in nature but take into account factors that may interrupt the work flow such as:
 - o weather
 - o asset utilization constraints
 - o working conditions
 - o business cycle
 - o seasonal restrictions

¹ From TCA Policy Guideline 3: Maintenance/Repairs versus Betterments.

There may be cases where part of the project is completed and in use prior to the completion of the entire project, particularly where the project is broken into phases to accommodate asset utilization constraints (e.g., school - can only work on project during summer months). In these cases, the costs associated with the completed phase should be transferred to a completed asset category once that phase has been put into use. The remaining project costs would be transferred to the completed asset once the project is complete and available for use.

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.

General Directives

ASSET CLASSES

There are three classes of assets in a dykeland system – dykeland formation, dykeland aboiteau, and dykeland gate. A dykeland system construction or betterment may contain assets in one or more of these asset classes. Each of these classes amortizes at the rate appropriate for its class, reflecting the asset's useful life. There is an individual threshold for each asset class, when purchased, developed or replaced separately. There is a combined project threshold, for a project involving two or more of these three asset classes. This is necessary because dykeland system project work can take various forms. Some projects include all three components. Sometimes a dykeland is significantly elevated or reshaped, without the need of an aboiteau or gate. Additionally, throughout the useful life of a particular dykeland system, one or more replacement gate(s) and/or aboiteau(x) may be required.

Asset class definitions are found in Chapter 14.1 – Tangible Capital Assets – Appendix 14-B. Thresholds and amortization rates are outlined in chapter 14.1 Tangible Capital Assets - Appendix 14-C.

DYKELAND SYSTEM PROJECT COSTS

All system project costs incurred in the construction or betterment of dykelands, aboiteaux, and gates that are considered capital in nature are capitalized, if the project cost meets the appropriate threshold. Capital project costs may include such things as material, construction costs, installation costs, labour, and project-specific design costs. Costs may include internal salaries, to the extent that they meet the criteria in TCA Policy Guideline 4 – Capitalization of Internal Salaries. Capital costs do not include network design costs involved in planning and designing the overall dykeland systems in the Province.

Costs are combined into one project to measure against the threshold if these costs are all necessary in the protection of a defined area of land. To be considered one system or project, the costs incurred for the work done must be interdependent and necessary to meet that project's objective. If work can be done independently for two different marshland areas, they are not combined to assess against the project threshold. Professional judgment is required and project definition should be supported by field experts in determining what work needs to be combined to achieve a specific objective for that particular area.

To ensure appropriate record keeping, project and asset names should be derived using a standard naming convention. Marshland project names from the existing marshland study is an appropriate method to define these projects, realizing that work may need to be done in a continuous area or in multiple areas around a particular marsh.

Even though costs are combined to be assessed against the threshold, project costs that have two or more asset classes are capitalized in their respective asset classes, and will amortize at the defined rate for each class.

If a project includes capital costs that relate only to the dykeland formation itself, it is assessed against the individual class threshold for capitalization. The threshold is set at a level to capture the most significant dykeland betterments. This would normally involve considerable or complete reformation or reshaping of the dykeland e.g. significantly higher elevation to meet new standards.

When a replacement aboiteau or gate is required, each component is capitalized if it meets the individual threshold for capitalization. The old aboiteau and/or gate is retired in SAP, regardless of whether or not the replacement is recorded as capital or as an operating expense.

Repairs and maintenance items related to dykelands include such things as re-seeding or re-grassing to replace what has washed away, and the replacement of gate components (gate arms, pivot lugs, etc.). These items are treated as operating expenses.

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